

Global Views

Weekly commentary on economic and financial market developments

September 28, 2012

Economics >	Corporate Bond Research	Emerging Markets Strategy >	Fixed Income Research	Fixed Income Strategy	Foreign Exchange Strategy >	Portfolio Strategy
Economic Statistics >	Financial Statistics >	Forecasts >	Contact Us >			

2-8 Economics

- 2-3 • Only The Beginning For A Very Active Global CalendarDerek Holt
- 4-5 • Global Forecast Update: Awaiting Short- And Long-Term Economic Pain Relief.....Aron Gampel
- 6-7 • Risk Off — Due To A Packed Global CalendarDerek Holt & Dov Zigler
- 8 • The Provinces — Still Working Towards Balanced BooksMary Webb

9-11 Emerging Markets Strategy

- Effects Of A Potential Mexican Upgrade Araceli Espinosa, Joe Kogan & Leonor López

12-14 Foreign Exchange Strategy

- Monthly FX: EUR & JPY To Struggle; While CAD & MXN's Outlook Is Brighter Camilla Sutton
- USD Remains The Reserve Currency Of Choice; CAD Benefits Camilla Sutton & Eric Theoret

15-16 Guest Column

- China's 18th National Congress: The Two-Step Transition Na Liu

A1-A12 Forecasts & Data

- Key Data Preview.....A1-A2
- Key Indicators A3-A4
- Global Auctions Calendar A5
- Events Calendar A6-A7
- Global Central Bank Watch..... A8
- Forecasts A9
- Latest Economic Statistics A10-A11
- Latest Financial Statistics..... A12

Only The Beginning For A Very Active Global Calendar

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

European markets will lead much of the global market tone next week. The conclusion of the latest round of stress tests on Spanish banks found a cumulative €9 billion capital shortfall. This may further tee up market rumours that Spain is poised to submit a formal broader request for aid into the weekend while the credibility of the stress tests will be debated following a remarkably well orchestrated set of announcements including by the ECB in the wake of results that matched weeks of political guidance. The EU has noted that recapitalization of Spanish banks will commence in November, but this stands in contrast to Germany's insistence that recapitalization efforts be delayed until much further progress toward a banking union has been achieved. This may also lead to further talk of conditional bond buying by the ECB that may be getting closer. Next week's ECB meeting and ensuing press conference will therefore be expected to further address the key twin topics of the conditional bond buying program and banking union. As we comment in our article on pages 6-7, however, it is not clear that events have not migrated beyond the ability of the ECB to contain the crisis in light of regional revolts. There is the possibility of further fireworks in this regard when Spanish Regional Presidents meet in Madrid on Monday evening (ET). At week's end, leaders from a cross section of beleaguered countries including Italy, France, Spain, Malta, Portugal, Morocco, Algeria, Libya, Tunisia and Mauritania meet in Malta. Spain also auctions debt next week, alongside France and the UK. If that's not enough, Greece presents its annual budget on Monday and this will intensify debate over whether Greece is able to meet the troika's bail-out terms and conditions. Had enough yet? Wait! Italy also presents a year-to-date budget update on Monday. Consensus is unanimous in expecting no policy change to either rates or the asset purchase target when the Bank of England meets. Finally, data risk will be relatively light and focused upon German factory orders, EC unemployment and retail sales, Spanish unemployment and factory output, and PMI readings in the UK and Italy.

The market tone in the **United States** will be heavily driven by events abroad, but there are key forms of domestic risk on top of this. Federal Reserve Chairman Ben Bernanke has chosen the first day of the US government's new fiscal year to deliver a speech titled "Five Questions About The Federal Reserve And Monetary Policy." There will also be audience Q&A so there is considerable scope for market influences. One might expect one of those five questions to be something along the lines of whether QE3 is working given market skeptics who point to a waning risk appetite in the wake of the Fed's announcements on September 6th. This is overly hasty and harsh judgement in our view. We have emphasized that the case for QE3 was in terms of providing supports *relative* to what would happen in the absence of a continued easing bias. We're quite comfortable with interpreting the post-QE3 aftermath as being more favourable to markets and the economy than would have been a more neutral bias. Bernanke may take this approach by reinforcing his argument that monetary policy is by no means a panacea. Minutes to the September 6th FOMC meeting will then be released on Thursday. They will be parsed for signs of exactly how open-ended this round of QE will be. Of particular interest will be any discussion on why Treasuries were left out for now, and whether Treasury purchases may be added at the next FOMC meeting or later as we think may occur. When operation 'twist' expires in December and cannot be extended further in its current form, the Fed might have to replace its selling of short securities and buying of longer dated ones with non-sterilized purchases of Treasuries. St. Louis Fed President James Bullard (alternate 2012, voting 2013) also speaks on the economy, and Federal Reserve Governor Elizabeth Duke speaks on "neighbourhood stabilization." US data risk will also be elevated but primarily book-ended on the week. Monday coughs up the ISM print for September and we expect it to remain around the dividing line between expansion and contraction as a soft reading. Jobs will be the more important metric when ADP lands on Wednesday and nonfarm arrives on Friday. Generally disappointing growth data, apprehension ahead of a full calendar of upcoming risks including the 'fiscal cliff', and higher average initial jobless claims in September over August have us playing it very cautious via a nonfarm call of 100k. Factory orders also land, but we already know about half of the report in the form of the 13% drop in durable goods orders so expect a bleak number on total orders. The U.S. Farm Bill expires on Sunday but there are adequate funds to keep it effective until expected passage of an extension after the elections.

Canadian markets will be swung around by the global market tone at least until Friday when material jobs data lands. We have gone above consensus on our jobs call by expecting a gain of 25k following the prior month's 34k rise. The dominant reason for this is that we think there could be a powerful influence through the

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education sector. Statistics Canada has had difficulty adjusting for the changed nature of contracts in the education sector over recent years. It used to be that teachers' contracts seamlessly carried over the full year. That changed a few years ago when school boards began shifting toward contracts that expired at the end of the school year and then new contracts were granted at the start of the next school year. Technically, that leaves teachers unemployed over the summer insofar as answering the Labour Force Survey is concerned. The seasonal adjustment factors have not kept up with this change and probably won't until much more data smoothes out the influences. Thus, while the exact month and magnitude of the effect differs from year to year, a pattern of education sector job losses toward the end of the school year and then out-sized hiring come the start of the next school year has settled in. It is by no means a precise relationship, however, and we are speaking to general tendencies. A high base effect through the prior month's creation of 34,000 jobs could put downward pressure on the July call, all else equal. An Okun's Law approach would also dictate a soft jobs print since we are tracking 1% annualized GDP growth in Q3 and it would be somewhat unusual for hiring to accelerate while the economy is softening. With growth coming in at 1% in annualized terms in Q3 compared to the BoC's last forecast for 2% Q3 growth in the July Monetary Policy Report, we continue to think the BoC will turn somewhat more neutral to dovish in the October 23rd statement and the next day's MPR by revising growth forecasts lower, signaling more apprehension toward pending global developments, revising higher its current estimate of spare capacity, and pushing out closure of the output gap. This dovish slant will nonetheless probably be accompanied by retaining the statement's final paragraph that provides loose rate guidance to hike rates modestly at some point over the medium term should the BoC's forecasts pan out.

Also, Canadian GDP revisions on Monday will stretch back 30 years in time and the aim is to align Canadian national accounts with new international standards. Scotia's Adrienne Warren believes that most of the impact is likely to be upon levels of activity over growth rates, though growth revisions are nonetheless possible. The level of household income may be revised higher as Statistics Canada is better able to capture unincorporated business income, and when balance sheet figures then get revised on October 15th, household net worth could be revised higher because the revisions include a full shift toward market value based accounting. Therefore, measures like debt-to-income may be revised lower, and household finances may appear to be sounder than previously judged with implications for the Bank of Canada's concerns. R&D will also shift from being expensed to being capitalized, and this should positively impact corporate incomes and balance sheets and may assist Canada's unimpressive R&D track record. Measures of government finances may be impacted as some assets are capitalized rather than expensed, such as some types of military expenditures. The inflation-adjusted figures will also be re-benchmarked to 2007 prices from the existing 2002 base year, and changes to price deflators will make it likely that nominal measures will be more impacted than real, or inflation-adjusted measures.

Asian markets will kick off the week with what's largely a re-hash of PMI data that we've already seen. The final print on a prominent private sector Chinese manufacturing PMI for September will be released over the weekend while the official National Logistics Federation puts out its PMI on Sunday night (both were weak on the initial flash prints). Manufacturing surveys (or rehashes thereof) will continue to provide fodder for markets in the form of Japan's influential Tankan surveys before the open on Monday, final manufacturing PMI data out of India on Monday and South Korea on Tuesday, and China's non-manufacturing PMI on Tuesday as well. Markets are not expecting miracles here as manufacturing has slowed throughout the region in concert with the cool-down in the pace of Chinese growth. We'll get further color on the related fall-off in Asian trade volumes via India's and Indonesia's trade numbers (Monday), Australian trade data on the 2nd, and Malaysian trade on the 5th. CPI numbers are also due out of Indonesia before the open on Monday and South Korea on Tuesday. Also of relevance to Asia-Pacific markets: Will the RBA cut, or won't it? The RBA is one of the few global central banks with room to move its benchmark interest rate lower, and it is in the midst of a rate-cutting cycle. Weak economic numbers out of China have OIS markets anticipating continued cuts over the remainder of this year, with a quarter of the contributors to Bloomberg's consensus anticipating a 25bps drop in the Cash Rate when the RBA sets policy before North American markets open on Wednesday. That said, the RBA has justified its policy in terms of domestic economic developments, and markets won't get data on new home sales and trade (Thursday) or retail sales (Friday) until after the RBA decision. The BoJ will make a policy announcement on the 5th, but we don't expect much action there after the BoJ's addition to its QE program at its Sept. 18 meeting failed to have much market impact.

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Awaiting Short- And Long-Term Economic Pain Relief

The global economy continues to underperform, with the September purchasing managers' reports from around the world remaining on the soft side. From a North American perspective, there was little evidence of any renewed downward shift in the indices, though they point to more of the same for the four key 'macro' trends shaping the international economy in recent months.

First, recessionary conditions in the euro zone persist, reinforced by intensifying fiscal austerity and rising unemployment. Weakness is becoming more evident in the larger economies, with economic conditions softening further in France, and business confidence moving decisively lower in Germany alongside the reduction in European trade.

Second, U.S. business activity is being undermined by the intensifying problems around the world, with confidence also dampened by the approaching year-end 'fiscal cliff'. The dearth of new hiring remains a major soft spot in the expansion, limiting income gains and spending power.

Third, the sharper-than-expected slowdowns in the faster-growing emerging economies of China, India and Brazil have yet to bottom out. The marked reduction in trade, particularly with Europe, has triggered steep production slowdowns to limit inventory accumulations.

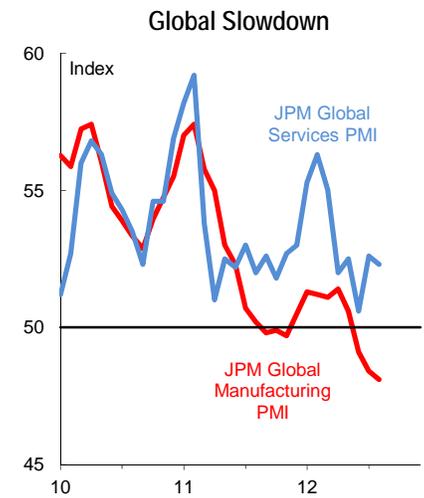
And fourth, even countries with better underlying fundamentals such as Canada, Australia, South Korea, and many of the core members of the euro zone, are being sideswiped by the fallout from reduced global demand. In the case of Canada, eroding external trade fundamentals have pushed the nation's trade and current account deficits to record levels, increased the drag from net exports, and led to some pullback in the rate of expansion in some sectors and regions that are most affected.

Importantly, there are few signs pointing to an imminent or meaningful rebound in global manufacturing output, suggesting that the lingering softness in second-half activity will provide a weak economic springboard for next year's performance. Service-related activity remains in low gear as well, especially in some of the developed countries where significant fiscal restraint is taking hold.

Business caution is being reinforced by the pervasive fiscal retrenchment underway through most of the developed economies, and by the higher-than-expected inventories in many emerging economies that have triggered production cutbacks. In some countries such as Canada, Australia and Mexico, and others through much of Latin America, strengthening currencies are putting additional cost pressures on local output and exports. Package and freight carriers are adjusting their delivery capabilities in response to the reduced level of activity, and a renewed shift to lower-cost modes of transportation. Furthermore, escalating geopolitical tensions in both the Middle East and Far East could crimp growth even further if any potential confrontation puts sharp or sustained upward pressure on the price of oil and other sensitive commodities.

The spreading economic weakness is also reflected in the stagnation in labour markets and the increasing social strains in many countries and regions. There are economies that have continued to be relative outperformers, in large part because their competitive strengths and comparatively stronger domestic fundamentals have enabled them to maintain reasonable momentum despite the problems internationally. Mexico and other countries in Latin America such as Colombia, Chile and Peru fall into this category, as do Singapore, Malaysia and Thailand in the Asia-Pacific region, and Norway, Sweden and Denmark in Scandinavia. The strength of output and investment in the large commodity sectors in Canada, Australia and Russia continue to give these countries a performance edge.

Nevertheless, the stress points are very evident in the euro zone where unemployment rates are continuing to move higher. The problem is especially acute in the countries that have been implementing the long-term



Source: JP Morgan, Scotia Economics.

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structural fiscal, product and labour market reforms required to put their economies on an eventual path to revitalization, as well as to receive the much-needed short-term relief funds. The euro zone's aggregate jobless rate of 11.3% — at the high end of trends in the developed world — is held down by Germany's comparatively low 5½% rate. Unemployment rates have moved above 10% in Italy and France, to around 15% in Portugal and Ireland, and have jumped to roughly 25% in Greece and Spain, while the jobless rate for youths has ratcheted up to almost 23% in the euro zone. Chronic longer-term labour and demographic issues throughout the region will only serve to lengthen the economic adjustment process. The European Central Bank announced earlier this month that it would purchase as much of a country's sovereign debt as needed, with conditions, to support the euro.

There are also signs in emerging economies that the robust employment gains of recent years will be harder to come by. In China, for example, reports suggest that the squeeze on the profitability of many exporters facing reduced demand and rising inventories has triggered a ripple effect through the domestic supply chain. For the time being, the reduced pace of job creation will keep China's growth at a historically subdued pace in the 7-8% range until rebalancing efforts to promote stronger domestic-led activity, in conjunction with more stimulative monetary and fiscal measures, are successful. The focus on massive infrastructure projects in Brazil and fiscal support for selected industries should help reboot economic growth.

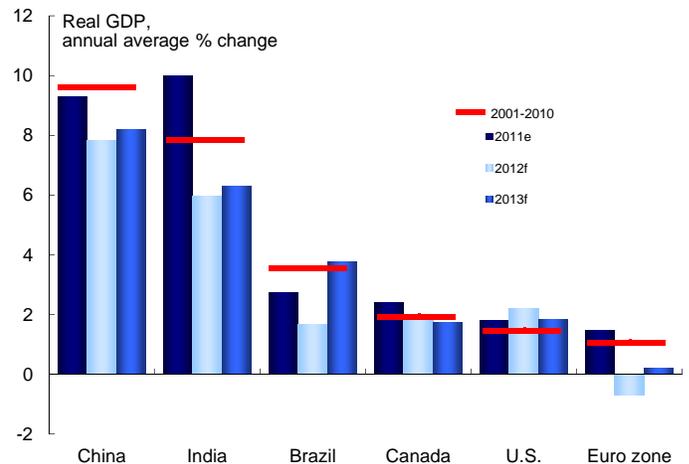
In the United States, a renewed slowing in the pace of job creation has resulted in the plateauing of the unemployment rate above 8%, with the clear risk that the jobless situation will not materially improve during this period of expanding global economic weakness and the absence of a credible long-term plan to resolve its fiscal problems. Without the slide in labour force participation over the past couple of years of economic underperformance — a reflection of the labour fallout when an economy is unable to generate sufficient jobs and match the skills imbalance — the U.S. unemployment rate would be closer to 12%.

The negative implications of a lengthy period of high unemployment for the U.S. economy prompted the Federal Reserve Board to announce that it would again purchase mortgage-backed securities, and consider other asset purchases as well, for as long as it takes to kick-start and sustain the improvement in job creation. In general, investors have responded favourably to this latest and potentially most significant round of central bank easing by the ECB, the Fed, and most recently, the Bank of Japan.

The 'risk on' trade has witnessed stock market valuations move higher in anticipation of a renewed strengthening in economic activity, increased job creation, and stronger revenue generation for governments against the backdrop of historically low borrowing costs and a weaker U.S. dollar. The Fed expects that rising stock and home prices will spur household purchases that will translate into increased business production, hiring and a stronger growth profile.

Although we expect that the U.S. will regain much-needed economic traction in 2013, the pace of growth could still be grudgingly slow. America faces a multi-year period of federal fiscal restraint, and must eventually deal with its longer-term entitlement commitments. Many U.S. households directly affected by the financial crisis and the significant loss of personal wealth are likely to continue to favour paring down debt. And many financial institutions can be expected to remain more cautious after implementing more stringent lending criteria.

Global Outlook



Source: Bloomberg, BEA, Statistics Canada, Eurostat Scotia Economics.

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Risk Off — Due To A Packed Global Calendar

- The global events calendar is so chock-full of significant risks to markets that it would seem prudent to embrace a defensive strategy.

While predicting the interplay between political events and fiscal policy can be a futile minefield, the very uncertainty surrounding how they can unfold merits caution by investors. That is particularly true with times like now when the global event risk calendar is so chock-full of key risks through to at least early 2013 (see table at right). We therefore think it's advisable to maintain a bias in favour of the safe havens including U.S. Treasuries, bunds, Canadas, gilts, gold, higher-quality and -yielding blue chips, and the USD until further clarity may emerge toward year-end and into early 2013. Trading opportunities will abound given the sheer volume of critical events over coming months.

Europe's Calendar Focused On Spain & Greece

We start with Europe's event risk calendar that holds significant potential for disrupting the global risk trade. Spain — or rather its single biggest region of Catalonia — recently threw a wrench into the neatly laid plans of the troika (ECB-EC-IMF). The region's decision to call elections two years ahead of schedule on November 25th comes after being snubbed by Madrid in the latest regional push for a greater share of revenues. It is very possibly going to be a referendum on separation and that could well stop European progress dead in its tracks. This will have markets drawing parallels to other past debates regarding the financial market implications of a separatist government. The bottom line is such that markets have cause to be concerned about default risk regardless of what the troika does. With 1.5 million people demonstrating in favour of independence on September 11th, the odds seem to be supportive of a decent chance at a 'yes' vote. Whether they ultimately prove to be reasonable or not, the questions to markets now include: Will Catalonia separate? If so, will it repudiate its proportionate share of national debt and take all or a chunk of its revenue stream with it? Will it default on its own debt? Could it introduce its own currency and central bank? How will Spain be able to apply better stewardship to its finances and economy if it now has to contend with the risk that the country's political union dissolves? Would it matter if this development expedites Spain's request for aid, or is it possible the troika just simply cannot save Spain? If Spain does face greater odds of having to

<u>Global Events</u>	
Spain	
28-Sep	Bank stress test results to be released
29-Sep	Spanish budget to be presented to Parliament
4-Oct	ECB meeting
21-Oct	Regional election in Basque
21-Oct	Regional election in Galicia
30-Oct	Spanish budget balance YTD
30-Oct	Q3 Spanish GDP
31-Oct	Possible general strike
8-Nov	ECB meeting
25-Nov	Regional election in Catalonia
November	Initial but now unlikely target for commencing ESM bank bail-out
27-Nov	Spanish budget balance YTD
6-Dec	ECB meeting
20-Dec	Spanish budget balance YTD
U.S.	
1-Oct	Start of FY2013
3-Oct	Obama vs. Romney Debate On Domestic Policy
10-Oct	Congress reconvenes
23-Oct	FOMC
26-Oct	Q3 GDP
2-Nov	Nonfarm
6-Nov	Election
13-Nov	Congressional Session Begins (so-called "lame duck" session)
7-Dec	Nonfarm
12-Dec	FOMC including projections
14-Dec	Congress To Adjourn
31-Dec	Fiscal cliff part 1 hits - Bush tax cuts
4-Jan	Fiscal cliff part 2 hits
4-Jan	Congress Begins 114th Session
Greece:	
30-Sep	Troika inspectors re-enter Greece
1-Oct	Greek Budget
Eurozone:	
7-Oct	EU issues economic forecasts
8-Oct	Eurozone finance ministers meet in Luxembourg
10-Oct	EU Parliament panel debates banking union proposals
Oct 18-19	EU Leaders Summit in Brussels
Nov 3-4	G20 Finance Ministers and Central Bankers meet in Mexico
China	
8-Nov	Leadership change at Communist Party Congress

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apply for aid, will the concomitant conditions heighten political and economic tensions within an even weaker economy particularly as a vicious cycle of further downsides to growth and missing fiscal targets gets aggravated? Will markets simply move on to increasing their bets that Italy's far bigger bond market is next? In evaluating these questions, it is possible that Catalonians may view themselves as having the financial flexibility to go it alone given that on net it sends supporting payments to other poorer regions of Spain. Catalonia may believe that retaining a greater share of its own revenue stream would more than compensate for the €5 billion in assistance it has requested from Spain's regions fund. Madrid still has the flexibility, however, to offer Catalonia a Basque-style agreement to share in a greater proportion of revenues or collect their own revenues. The yardstick for such a step by Madrid is changing, however, as the regional election in Basque on October 21st is itself partly focused upon efforts to secure greater autonomy.

It also bears noting that the calendar on the first page includes three regional elections with the other one being in Galicia, a possible general strike on Halloween, and the now unlikely start of the ESM bank bail-out given German-led opposition to starting bank bail-outs before a European banking union is more advanced, several monthly budget updates, and potentially key ECB meetings. All the while Spain is posing intensified risk, so may Greece as the troika (ECB-EC-IMF) inspectors re-enter the country amid uncertainty over Greece's ability to adhere to agreed upon timelines for fiscal repair. Greece's Budget on Monday October 1st and speculation over its ability to hit fiscal targets on the troika's timeline will contribute to near-term market sentiment. These issues will weigh heavily upon the meeting of eurozone leaders on October 18th in Brussels and a G20 Summit in Mexico on November 3rd.

US Politics And The Fiscal Cliff

The US calendar is no less packed with event risk through to early 2013 and dominated by the Presidential Election and the so-called 'fiscal cliff'. US\$607 billion in revenue and spending measures are all poised to simultaneously expire on December 31st and January 4th. Any agreement prior to the US Presidential Election on November 6th is unlikely, and the outcome of the election is unclear. While President Obama maintains a lead over GOP contender Mitt Romney in the polls, at least as interesting will be the composition of the Senate and House. The Republicans appear likely to hold on to the House of Representatives, but may take the Senate away from the Democrats in which case the scenario of a lame duck President could well emerge. Cautious optimism is still defined in the context of a 1-2% hit to GDP stemming from the expiration of some measures. Gridlock through pitting a Democrat in the Oval Office against the two chambers raises the risk of the more extreme outcome that would be marked by a hit to GDP of 4% or more in light of automatic sequestration cuts to spending that would be triggered in the event that no agreement on a more moderate package is achieved. Even a more benign outcome that carries the status quo of a Democrat President and Senate against a GOP led House of Representatives would continue the bipartisanism that led to the market uncertainty surrounding the last debt ceiling debate.

China's Leadership Transition

Finally, China holds its Communist Party Congress on November 8th at which the leadership transition will occur. Normally, this event is held in the back half of October and so the change in timing is potentially interesting. One theory may posit that China has timed its leadership transition to occur just two days after the US Presidential election as the Communist Party may wish to know what kind of U.S. leadership it may be facing. Republican contender Mitt Romney has noted that he intends to label China as a currency manipulator and many think this would spark rising trade tensions. Another theory could be that the Bo Xilai issue has delayed the process and because the first week of October is a holiday in China, it may be too late to organize a Congress for the second half of October as per the usual practice. An argument against this is that the Communist Party has been running Bo Xilai's faction out of town for weeks if not months, the Congress is a long-planned event, and why choose to hold it immediately following the US elections instead of giving some distance? Regardless, this issue of *Global Views* includes Na Liu of CNC Asset Management Ltd. as a guest columnist and he addresses the mechanics of China's leadership transition at the upcoming Congress, who is likely to emerge as the new crop of leaders, and implications for policy including the debate over timing any additional stimulus. Please see pp. 14-15.

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The Provinces — Still Working Towards Balanced Books

- Encouraging FY12 final results pace challenges in FY13.

For fiscal 2011-12 (FY12, ending this past March 31st), the Provinces are once again outperforming their bottom line forecasts. With *Public Accounts* still expected from four Provinces, the Provinces' aggregate FY12 shortfall has now shrunk to \$18.7 billion, equivalent to 1.1% of provincial GDP, similar to the FY11 experience. Moreover, because of Alberta's modest final deficit of just \$23 million, the FY12 aggregate provincial deficit before transfers is not substantially wider than the combined published bottom line. Although stronger-than-projected revenues in FY12 were a significant factor limiting the final red ink, savings on program spending also contributed in some jurisdictions, in several instances underlining the results from restructuring.

Conservative forecast assumptions, plus several jurisdictions' use of contingency funds and forecast allowances should provide some insurance for the Provinces' aggregate bottom line in FY13. Narrowing this year's combined shortfall to less than one percentage point of GDP may prove a tall order, but it is not impossible. The global economic expansion has lost some momentum, financial market volatility remains pronounced, legislative compromises may not mitigate the U.S. fiscal cliff and Canada's extended housing boom appears to be slowing. Alberta and British Columbia both widened their projected FY13 deficits in their Q1 updates because of the soft start for oil & natural gas prices and lower revenues from land sales. To stay on track, British Columbia, for example, is undertaking some immediate measures to limit its operating deficit, such as a public service hiring freeze, referencing additional initiatives over the next three years if necessary. To ensure that its taxpayer-supported debt stabilizes at just over 18% of provincial GDP, adjustments to its capital spending plans will be implemented as necessary. Fortunately, petroleum prices appear to have firmed since the early months of FY13.

The debt service should remain a key source of saving for the Provinces this year, largely due to borrowing costs remaining lower-than-projected, though downsized FY12 deficits also have helped. As the Provinces continue to focus on 10-year and longer-term issuance, Ottawa announced further measures to advantageously lock in additional long-term funding at attractive rates. In March, the federal debt

management strategy for FY13 outlined a reduction in treasury bills outstanding and a greater reliance on 10-year bonds with an additional auction in Q1 of FY13. This week, the federal government confirmed that with the 30-year auction this month when none was scheduled for Q2, the government will proceed with four such auctions in FY13 plus an additional 10-year auction in Q4 of FY13 for a total of six.

	FY12			FY13f			% of GDP	
	2011 Bud. Est.	2012 Revised	Ch.	2012 Bud. Est.	Rev.	Ch.	FY12r	FY13r
NL	59	776	717	-258	-	-	2.5	-0.8
PE	-42	-79	-37	-75	-	-	-1.5	-1.4
NS	-390	-248 +	141	-211	-249	-38	-0.7	-0.6
NB	-449	-261 +	188	-183	-	-	-0.9	-0.6
QC	-3,800	-3,300	500	-1,500	-	-	-1.0	-0.4
ON	-16,316	-12,969 +	3,347	-14,820	-14,820	0	-2.0	-2.2
MB	-438	-1,120	-682	-460	-	-	-2.0	-0.8
SK**	383	352 +	-30	48	6	-42	0.5	0
AB**	0	0 +	0	0	0	0	0	0
BC	-925	-1,840 +	-915	-968	-1,141	-173	-0.9	-0.5
All	-21,918	-18,688	3,229	-18,428	-18,680	-253	-1.09	-1.06
Federal	-32,300	-23,500	8,800	-21,100	-20,000	1,100	-1.4	-1.1

* As reported by the Provinces. Ontario's FY13 Budget estimate includes April 2012 adjustments.
 ** After transfers from reserves. + Final FY12 results. Source: Government documents; Finance Canada; Statistics Canada; federal government and nominal GDP forecasts: Scotia Economics.

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Effects Of A Potential Mexican Upgrade

Recent statements by Moody's suggest that a rating upgrade for Mexico is possible, especially if Mexico implements economic reforms. The other ratings agencies are looking for the same reforms. After statistically controlling for global financial variables that affect Mexican asset prices, we find that on average the immediate impact of a ratings upgrade is only 4 bp, both in CDS and in 10Y Mbonos. The long-term impact in local bonds could be larger, however.

Mexico's sovereign ratings

Mexico's sovereign rating was last modified during the global financial crisis, which coincided with an increase in drug-related violence in the country. On December 14, 2009, S&P lowered its rating from BBB+ to BBB with a stable outlook. Fitch had made the same rating change one month earlier, also leaving its outlook unchanged at BBB. Prior to the onset of the global financial crisis, however, Mexico's sovereign debt rating had been unambiguously trending upward since the beginning of the millennium. Moody's was the first to give the country an investment grade rating when it announced, on March 7, 2000, an upgrade from Ba1 to Baa3. Additional upgrades from Moody's and the other ratings agencies followed. This upward trend coincided with the changeover in ruling political parties from the old-guard PRI, which had been in power for 70 years, to the PAN, led by President Fox. Currently, the ratings for Mexico are BBB, according to S&P and Fitch, and Baa1 according to Moody's.

The rating agencies have 3 requirements in common for granting Mexico additional upgrades: (1) structural reforms in the areas of labor, energy, social-security, and fiscal accounts; (2) a higher GDP growth rate; and (3) lower government dependency on oil revenue, in light of an expected decline in shallow-waters crude production.

Mexico has already made some progress with regards to structural reforms, most notably the energy reform of 2008 which approved incentive contracts, opening up Pemex to joint ventures with the Mexican private sector and with foreign investors. President Calderon's Labor Reform bill was recently approved by the Chamber of Deputies' Labor and Social Welfare Committee. Since the bill was given a preferential status, the full Chamber has until September 30th to approve it or turn it down. If the President's bill becomes law, it should help companies to lower labor costs by giving employers greater flexibility to hire and fire workers, to contract workers by the hour, and to outsource certain jobs. Under the administration of Mexico's new President, who takes office on December 1st of this year, important new reforms are expected that could make Mexico's business environment competitive with that of other countries. If implemented, those reforms should also boost GDP growth, satisfying the agencies' second requirement. Meanwhile, Peña Nieto has placed priority on reforming Pemex (see our article, "Privatizing Pemex"), lowering the risks related to the third requirement.

Moody's was the first to highlight Mexico's progress. At their annual conference held in Mexico City on September 12th, the rating agency's sovereign-risk analyst said that Mexico meets practically all the requirements for obtaining a higher rating than its current Baa1. He cited Mexico's sound macroeconomic fundamentals, good federal-debt management and low fiscal deficit as factors that partially justify an upgrade. It seems that Moody's is not deterred by the fact that their current rating for Mexico is already one notch above that of its competitors; the agency is probably pleased with its decision to not downgrade Mexico during the financial crisis as its competitors had done, a decision that seems correct in retrospect. We believe that a rating "Positive Outlook" could come soon, especially if the President's labor bill is approved.

The effect of ratings on fixed income markets

The question that investors are asking, of course, is not just if the upgrade will occur, but rather if an upgrade will matter. A look at the historical relationship shown in Figure 1 does not support the idea that markets rally once they learn about an upgrade.

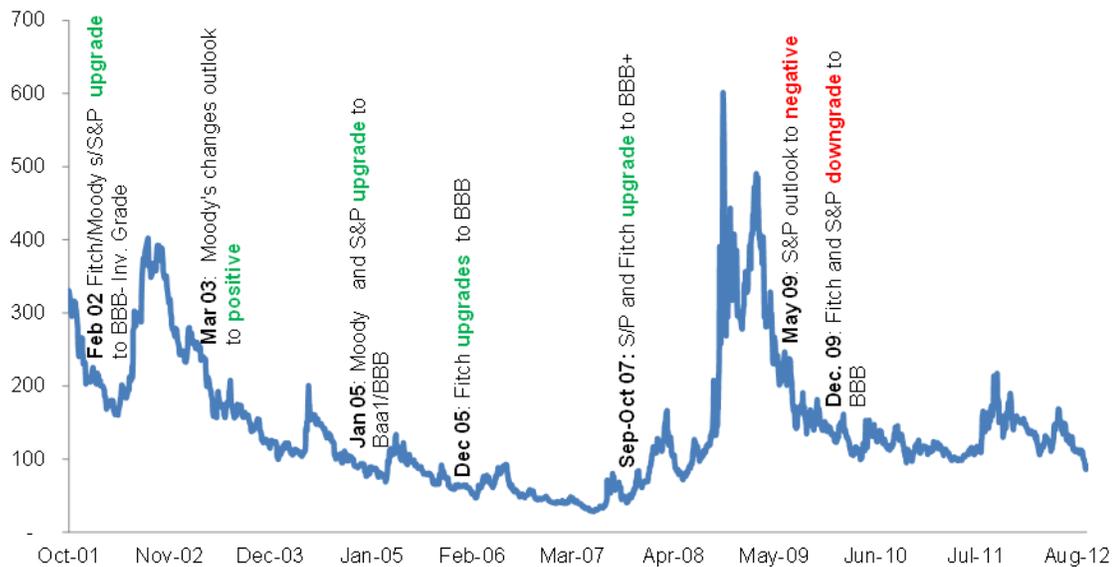
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Figure 1. Mexico 5Y CDS vs. Mexican Sovereign Rating Events



Source: Bloomberg, Rating Agency Websites, Scotiabank GBM. As of September 26, 2012.

Instead, markets seem to rally significantly several months prior to the upgrade, but then often sell-off afterwards. While the second part of the effect is probably due to global factors that have nothing to do with the upgrade, we can think of several explanations for the first part of the effect. First, it could be that investors predict upgrades and markets rally in anticipation. Rating agencies could help this process by signaling what it takes to achieve an upgrade. Second, both market prices and ratings could respond to the evolution of the same economic fundamentals, with the rating agencies responding at a slower pace to new developments. Third, rating agencies could take into account market movements and respond to those movements by adjusting ratings; we view this third explanation as the least likely, however.

Actually disentangling cause and effect is quite difficult. Certainly many cross-country studies have examined the relationship between ratings and spreads, and they even try to control for differences in fundamentals. (See IMF working paper WP/11/44 for a recent study with references to previous works.) While these studies often find correlations between the two, it is much more difficult to establish causation. The studies tend to address external spreads rather than local yields, even though these days investors may care more about the latter. Moreover, the effect of rating actions may vary depending on the country, the year, and the spread.

For this article, we took an event study approach, searching for an immediate effect around the time of every rating action on Mexico over the past decade. By choosing a short window around the time of the rating action, we limit the effects of fundamental country developments that could affect both ratings and spreads. We also control for the effects of other financial variables in the following way: We calculate a beta of Mexican assets to global assets with a regression based on a sample of data six-months prior to the rating action. More specifically, we use other Latin American CDS to predict movements in Mexico CDS, and we use US Treasuries to predict movements in Mexican 10Y yields. We then attribute any change in Mexican yields or spreads that was not predicted by global variables as having been caused by the rating action. For example, suppose that, in the five-day period following an upgrade, Mexico CDS tightens by 10bp. In the same period, Brazil CDS tightens by 8bp, and the beta of Mexico to Brazil is 0.5. Then we could calculate the effect of an upgrade on Mexican spreads as $10 - 8 * 0.5 = 6bp$.

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We implemented this analysis with windows of 5, 10, 15, and 20 days, both before and after the rating actions. Figure 2 shows just a small portion of these results:

Figure 2. Main results of regressions (effect within 5 days of rating action)

Date	Event	5Y CDS	10Y Mbono
5-Jan-02	Fitch upgrades to BBB-	-11	-28
6-Feb-02	Moody's upgrades to Baa2	-4	-6
7-Feb-02	S&P upgrades to BBB-	4	-1
12-Mar-03	Moody's changes outlook to positive	-14	-2
6-Jan-05	Moody's upgrades to Baa1	-3	-19
31-Jan-05	S&P upgrades to BBB	-6	30
7-Dec-05	Fitch upgrades to BBB	5	-21
2-Jul-07	S&P changes outlook to Positive	-1	1
19-Sep-07	Fitch upgrades to BBB+	-6	14
8-Oct-07	S&P upgrades to BBB+	-5	-6
11-May-09	S&P changes outlook to negative	21	7
23-Nov-09	Fitch downgrades to BBB	1	3
14-Dec-09	S&P downgrades to BBB	-3	-5
Average effect of positive news		-4	-4
Average effect of negative news		6	1

Source: Scotiabank and Bloomberg

On average, rating agency upgrades have caused both CDS spreads and Mbono yields to tighten by only 4 bp. Downgrades cause spreads to widen 6bp and local yields to widen 1bp. In other words, we found the immediate impact of an upgrade to be small. We found no evidence that markets anticipate a rating action a few days prior to that action when we applied a similar methodology to the window prior to the rating action. We think the rating agencies generally protect the integrity of their rating action by not disclosing it selectively a few days in advance. Increasing the window from 5 days to 20 days did not significantly alter our results.

Conclusion

The historical analysis suggests almost no immediate effect around the time of a potential upgrade. In time periods spanning months rather than days, past rating upgrades have been accompanied by large tightenings in CDS of 20bp to 50bp, but those occurred many months prior to the upgrade. Thus, in CDS, much of the potential long-run effect, if there is one, is probably already priced in. At 100bp, Mexico CDS is already below that of all other countries with the same rating; the average CDS spread for BBB countries is 170bp. In fact, Mexico's CDS spread is already lower than that of single A-countries, where the average spread is currently 120bp.

In contrast, we would look to the local bond market for potential long-run effects that could be much larger than the 4bp we have estimated here. As we explained in our article, "Interest rate convergence in emerging markets," Mexican default-adjusted real yields are a couple of percentage points higher than those in the US. As Mexico's rating moves towards that of developed countries, it will become increasingly difficult for global investors to resist this opportunity. Although half of local bonds in Mexico are already owned by foreign investors, we think upgrades over the next year could lead to even faster inflows from abroad.

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Monthly FX: EUR & JPY To Struggle; While CAD & MXN's Outlook Is Brighter

A deceleration in global growth, progress but uncertainty in Europe and diverging central bank policy paths are the key themes that are driving markets. Artificially low volatility suggests that tail risks are low; however, rapidly shifting sentiment is fueling uneven patterns in financial markets. The outlook is for slow progress in Europe, a soft landing in China, loose G4 central bank policy and modest global growth. The most significant concerns from here are: 1) a further deceleration in the global growth outlook; 2) an escalation in the European crisis; 3) a drop in investor and business confidence; and 4) interventionary and reactive central bank policy. Our base case is more encouraging than these risks suggest.

The USD impact resulting from the Federal Reserve's (Fed) third round of quantitative easing in an uncertain fiscal environment, while complicated by low and slowing global growth, lays the foundation for an interesting debate. On a relative basis the US economy is encouraging; however, it continues to be marked by a weak labour market, fragile consumption, only a stabilization (as opposed to a recovery) in housing, and soft business confidence. Meanwhile, progress on the fiscal side has halted pending the November election, while another debt ceiling limit looms later in the fall. The lack of a credible fiscal plan and the expansion of already loose monetary policy are not conducive to a sustainably strong USD, outside of temporary spikes in risk aversion. However in currency markets, it is the relative story that matters. In this context, the USD is likely to strengthen against the euro (EUR) and Japanese yen (JPY), but weaken against the Canadian dollar (CAD), the Mexican peso (MXN), the Australian dollar (AUD) as well as a host of others.

CAD is expected to remain historically strong. Slowing global growth is not typically the environment for a strong CAD; however, this is offset by relative central bank policy, with the Bank of Canada maintaining a far more hawkish stance than its US counterpart. In addition to a strong natural resource sector, Canada's triple-A rating, and bullish investor sentiment are all supporting CAD through parity.

In Latin America, appreciating pressure on the MXN is likely building in a response to global central bank policy and Mexico's hesitation to move towards intervention. Much of the fundamental outlook is similar to CAD's and the two currencies should move in tandem. Brazil, through FX swap auctions, is keeping the real (BRL) close to 2.00 per USD. Colombia is fighting strong inflows through USD purchases while Peru, which faces similar inflows, has warned that intervention might become unpredictable. Finally, the outlook for the Chilean peso is more uncertain with slowing copper exports pushing the trade balance into deficit.

For Europe, material progress has been made, providing the foundation for a slight increase in our year-end EUR target to 1.26, but no change to our 2013 year-end forecast of 1.21. The ECB's bond-buying program has decreased the risk of a monetary union breakup, while developments on the banking union front have relieved some fears over bank solvency. The major concerns from here are the political ability to build a framework for a fiscal union and how a decelerating growth profile will impact stabilization in the EMU. The EUR and the associated economies are likely to struggle. The Scandinavian currencies are well positioned, which should help to support the Norwegian krone (NOK) and Swedish krona (SEK); however, strength from here is likely to come in 2013. Fundamentally weak, the British pound (GBP) benefits from its triple-A status and positive sentiment; nonetheless, we do not expect material gains from levels achieved in late September.

The Asian backdrop is diverse. JPY has benefitted from the depth of its bond market and an ongoing demand for safe haven assets; US — Japanese two-year spreads suggest a clear catalyst for yen weakness. Japanese policymakers are concerned about appreciation, but have yet to move towards intervention. Japanese fundamentals, including loose Bank of Japan policy, are a weight. We expect yen strength to be limited and a weakening trend to develop into year-end. The majority of currencies in the emerging Asian FX space have overshot fundamental valuations, as central banks are moving towards looser policies and the region's economies are under pressure from a deceleration in trade. Accordingly, we expect some modest weakening into year-end for INR, MYR, SGD, PHP and THB, with most returning to an appreciation trend in 2013.

• *This is an excerpt from the FX Monthly Outlook — see the full report at: www.scotiafx.com.*

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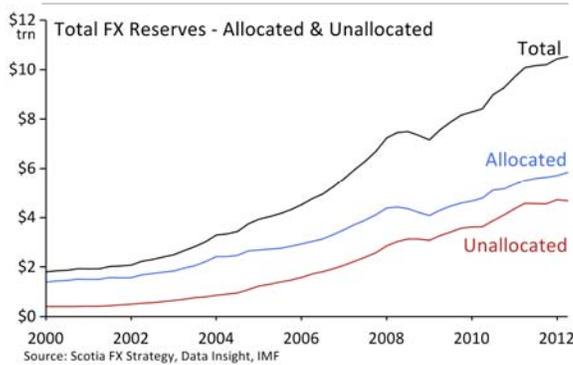
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USD Remains The Reserve Currency Of Choice; CAD Benefits

All data is from the IMF and released September 28, 2012, reflecting positions at the end of Q2 2012.

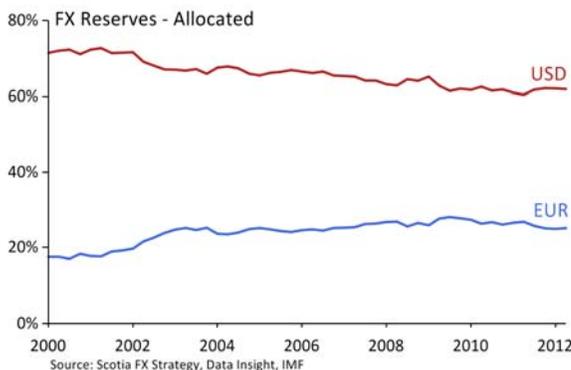
- Total FX reserves increase to \$10.5trn, with most of the growth coming from advanced economies.
- USD positive — as it remains the reserve currency of choice, with allocations at 61.9%, or \$3.6tn.
- EUR neutral to negative — 25% allocation is encouraging; however EM shedding is a concern.
- CAD & AUD positive — allocation to ‘other’ currencies, including CAD, at new high of 5.3% (\$310bn).

TOTAL FX RESERVES RISE TO \$10.5 TRILLION



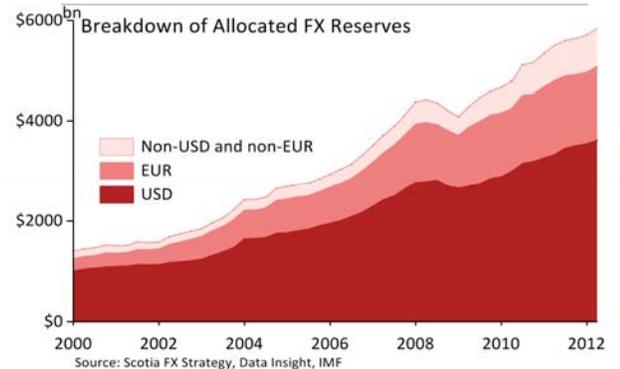
- Total FX reserves are \$10.5trn, a \$90bn q/q increase.
- Allocated FX reserves increased by 2.3% m/m, whereas unallocated reserves fell by 0.1%.
- Allocated reserves are composed of 139 countries that report; China is the largest who does not report to the IMF. See page 2 for further details.

ALLOCATION TO USD INCREASES



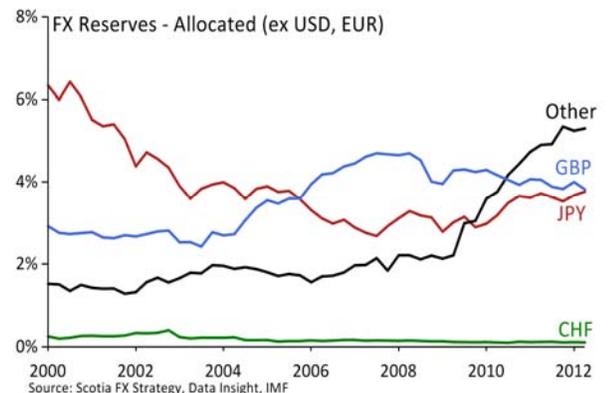
- Fears over Europe are not having a material impact on reserve holdings. Allocation to EUR increased by \$45.4bn this quarter.
- Allocation to USD was flat in percentage terms, but increased by \$73bn q/q in dollar terms.

BULK OF RESERVES STILL HELD IN USD



- The bulk of reserves are still held in USD, which now total \$3.62trn or 61.9% of allocated reserves. Unallocated reserves (which includes China) would likely also show a large percentage held in USD.
- EUR is the second largest reserve currency, with \$1.5trn or 25.1% of allocated reserves held in it.

OTHER CURRENCIES ARE IMPORTANT FOR RESERVES



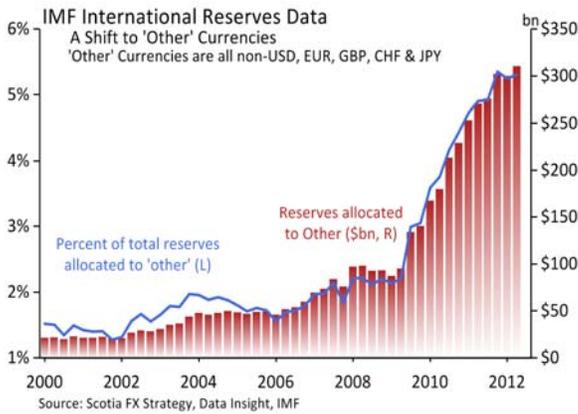
- Allocation to GBP & CHF continues to fall (now at 3.8% and 0.11%, respectively); whereas allocations to JPY increased (3.8%).
- FX reserve managers increased the allocation to ‘other’ currencies (includes CAD) by \$10.4bn. See next chart for details.

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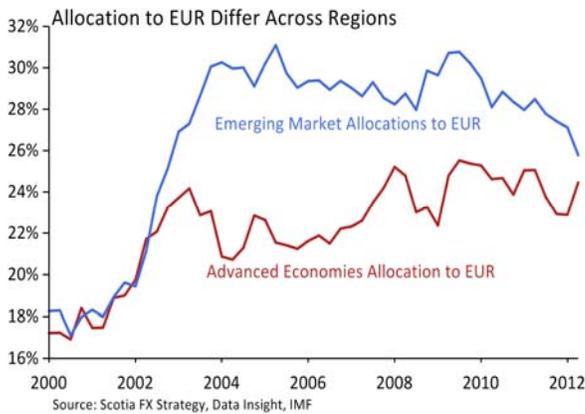
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ALLOCATION TO 'OTHER' JUMPS TO 5.3%



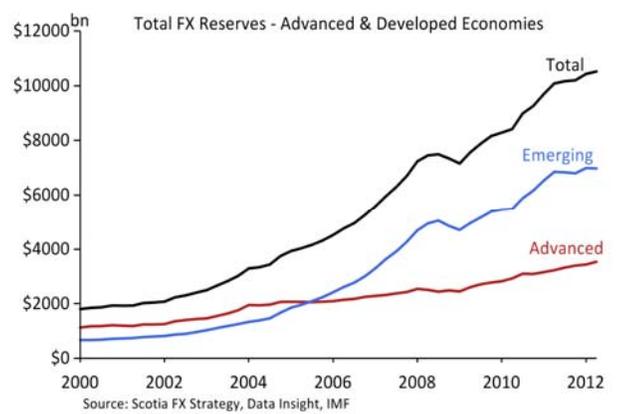
- The allocation to 'other' currencies (which includes all reserves held in non-USD, EUR, GBP, CHF and JPY; therefore includes CAD and AUD) increased to 5.3%, a q/q \$10bn increase. Since the data only includes allocated FX reserves, we suspect that total reserves allocated to 'other' currencies grew as well, supporting currencies like CAD and AUD; anecdotal evidence supports this view as well.

ALLOCATION TO EUR RISES IN DM, DECLINES IN EM



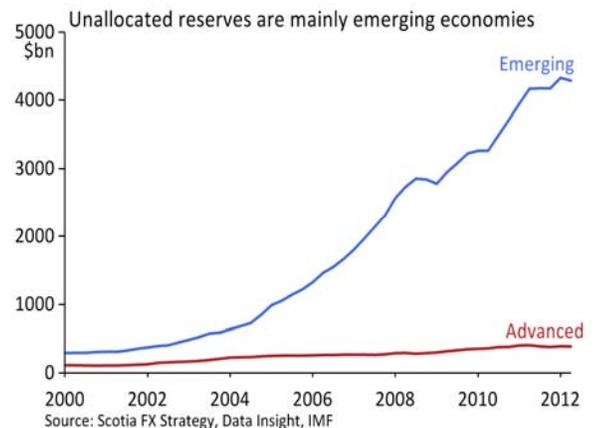
- Emerging markets hold a larger percentage of FX reserves in EUR (26% versus 25% for advanced market countries) but by only a marginal degree.
- This quarter emerging market countries continued to shed EUR exposure, while developed markets continued to accumulate EUR.

EMERGING ECONOMIES HOLD BULK OF RESERVES



- The bulk of reserves are still held by emerging market countries, making their FX reserve decisions the most important.
- However it is noteworthy there was a drop in EM reserve accumulation, (the trade weighted USD gained 2.8% in Q212) suggesting that as the USD rose there was less intervention by EM central banks and governments.

UNALLOCATED RESERVES MAINLY FROM EM



- The bulk of unallocated reserves are from emerging market countries that do not report their reserve positions (with China being the largest of these countries).
- Globally, there are 34 advanced economies that report to the IMF and 105 emerging economies.

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The Two-Step Transition

The following article by Na Liu appeared in the September 26, 2012 issue of “China Investment Strategies”, published by CNC Asset Management Ltd.

- **Many clients have asked us about the impending transition of power in China’s top leadership and its implications for near-term economic policy.**

The Transition Process

- Let’s start with some background. In China, the real power at the very top level of China’s ruling hierarchy resides with the Standing Committee of the Politburo (SCP) of the Chinese Communist Party, which usually has seven to nine members. These seven to nine members, after they are determined by the Party, take state and governmental posts as follows. The person who ranks number one in the SCP becomes State President; number two becomes Congress Chairman; and number three becomes Premier of the State Council.
- The once-in-a-decade leadership transition process has two steps. First, presumably in October 2012 (exact dates yet to be announced),¹ the real change of power will take place, as the seven to nine new members of the SCP will be elected right after the Communist Party’s 18th National Congress. And then second, the nominal change of power at the central government level will take place in March 2013 when the National People’s Congress is expected to adopt the nominations from the ruling Communist Party, i.e., to “elect” the number one-ranked in the SCP as President, the number two-ranked as Congress Chairman, and the number three-ranked as Premier of the State Council. (This year, we think the number two-ranked could become Premier.)
- It appears as though the Party has reached clear consensus for the heir-apparents for the two most powerful jobs (President and Premier), in our view. Xi Jinping, currently Vice State President, and Li Keqiang, currently Executive Vice Premier, are members of current nine-person SCP, and they are the only two who are expected to be re-elected into the new SCP in October 2012 (the other seven members of the current SCP are set to retire, including President Hu and Premier Wen.) Xi Jinping is expected to rank number one in the new SCP and become the General Secretary of the Party. Li Keqiang is expected to rank either number two or number three in the new SCP.
- Then in March 2013, in a full session of the National People’s Congress, Xi Jinping is expected to replace Hu Jintao as the new State President, and Li Keqiang is expected to replace Wen Jiabao as the new Premier.
- We make two observations on this process. First, there should be some near-term policy continuity. As mentioned above, Xi is currently Vice State President and Li is currently Executive Vice Premier. Both men have already been key policy makers for the past five years and have been taking on increasing responsibility and influence since last year, as it has become very apparent to provincial officials that Xi and Li will soon become their new bosses.
- And, second, from October 2012 to March 2013, Hu and Wen will remain State President and Premier, respectively, but will no longer sit on the SCP. Some observers worry that there could be transitional issues during this period, but in our view the real transfer of power will take place this October at the Party level. After Xi and Li have been elected into the new SCP and Hu and Wen have quit the SCP, starting in October, the Xi-Li era will begin and the Hu-Wen era will end.

¹ On September 28, 2012, the Party announced that the 18th Congress will be held on November 8, 2012.

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Near-Term Policy Implications

- It will take months, if not quarters, for any China observer to appreciate the true philosophy of the Xi-Li era. Our current bias is that both leaders might be liberal and reform-oriented, but we are not certain yet. In the near term, investors in the global raw materials sectors are keen to know whether the new leadership will take a more aggressive approach to stimulating the Chinese economy after October.
- To decipher the near-term policy implications, it is important to understand why the Chinese government has taken a pause in stimulus efforts since May, when the People's Bank of China (PBOC) last cut the reserve ratio.
- One school of thought suggests that, since May, the top leadership in China might have been engaged in power struggles and that, in addition, there may have been debate between the outgoing and the incoming leaderships about "who is spending whose money". We have doubts about this view. First of all, there has been very little doubt that Xi and Li will secure their seats on the SCP and become the top two leaders. In our view, the "power struggle" — if any — is for the remaining seats on the SCP. In addition, "who is spending whose money" is a lesser issue, as the ammunition is ample for both the outgoing and incoming leaderships if they both choose to stimulate the economy. Compared with their western counterparts, there is a lot of room for the PBOC to cut interest rates and reserve ratios and for the central government to spend more of its fiscal surplus.
- In our opinion, the real reason for the stimulus-pause since May is that the Chinese policy makers seem willing to let the "creative destruction" process last longer in this cyclical downturn. To be fair, most economic theories conclude that the economy behaves in cycles and that a down-cycle serves its own purpose of reallocating resources to new growth engines. Therefore, heavy doses of counter-cyclical measures, such as the RMB 4 trillion stimulus package in 2008–2009, could have many side effects. This time, the Chinese government seems to want to let the economy heal most of its pain by itself, especially as the pain has not been severe in the employment area so far in this down-cycle.
- If this is the reason why there has been a stimulus pause since the summer, and if Xi and Li are also on board with this judgment, then odds of an outright stimulus campaign after the October Party Congress is still slim, unless the economic growth slips further.

Investment Implications

- Our current positive stance on the global raw materials sectors is not based on a new round of stimulus measures after Xi-Li takes over the steering wheel. As we have argued since the summer, our positive stance is based on three beliefs: First, we believe that the Chinese economy has run the course of the majority of the down-cycle. Inventory has been cleared and green shoots have begun to emerge in areas such as land sales and new project launches. Second, over the summer, prices of many cyclical commodities have retreated to the high end of the Chinese production cost curve and have found initial support at these levels. And third, sentiment on the Chinese economy has run to extreme pessimism, reminiscent of the low points of previous down-cycles. For instance, this year so far, the Chinese equity market has significantly underperformed the Greek equity market.

For important disclosures, please refer to pages listed at the end of this report.

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Key Data Preview

CANADA

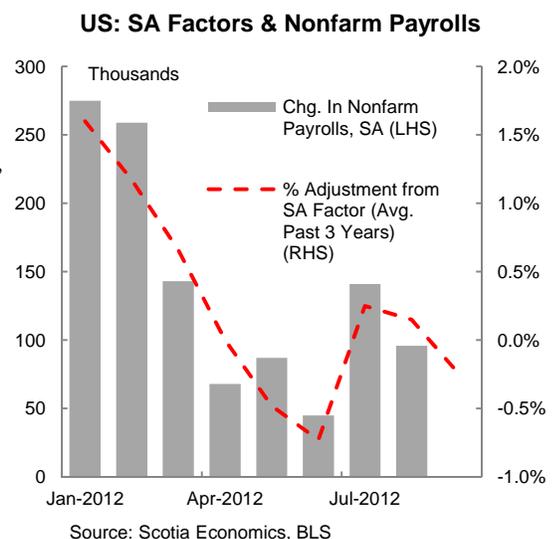
Canada **jobs** data will be released on October 5, and Scotia expects a solid +25k job gain. September is back-to-school month not only for students, but for teachers too. In recent years, net hiring in the educational services sector during September has come in at +27k, -21k, +22k — in short, unusually volatile numbers. We think that this is a result of new trends in education employment whereby an increasing percentage of teachers are hired on annual contracts for a given school year and therefore they drop in and out of employment as their contracts expire and are renewed over the summer months. If we see this process unwind again this year... expect significant swings in the jobs numbers. One risk is that the Quebec elections, which were held on September 4, could result in workers disappearing from the rolls in September. We think that this is fairly unlikely for a number of reasons including, a) the likelihood that most election-related hiring and firing occurred between the mid-month survey reference weeks, and therefore simply was not registered by Statscan, b) many election workers have other jobs already, and therefore their election jobs didn't change net employment, and c) some election workers are in all likelihood people who are typically not registered in the labor force (i.e. retirees, stay-at-home parents, etc.). Another risk is that last month's surge in part-time jobs (+46.7k) reverses itself. We would also flag the fact that the participation rate, which is essentially at a multi-year low at 66.6%, could shoot up — with negative ramifications for the overall unemployment rate (see chart).



Building permits data for September will be released on October 5th, and while we don't expect this to be a market mover, permits fell by 2.3% in August as Toronto's and Vancouver's real estate boards reported marked slowdowns in condo sales. We'll be watching to see how the permit issuance story evolves.

UNITED STATES

In the wake of the Fed's efforts to stimulate the labour market via QE3, **jobs** data for September (October 5th) will be watched especially closely. The Fed committed to "continue its purchases of agency mortgage-backed securities, undertake additional asset purchases, and employ its other policy tools as appropriate" if "the outlook for the labor market does not improve substantially," so from the perspective of monetary policy, jobs data have become probably *the* key metric. What do we expect? Initial jobless claims trended higher during the first two weeks of September compared to the comparable period during the prior month, which bodes poorly for nonfarm payrolls. We anticipate a fairly soft 100k print. One risk is that September is a month in which seasonal adjustment will detract from the NSA number and, as shown on the chart, seasonal factors have been a solid predictor for the trajectory of non-farm payrolls changes through 2012. The participation rate hit a multi-decade low of 63.5% in August, and a slight rebound there could have negative ramifications for the unemployment rate assuming muted job growth on the more volatile household survey.



The **ISM manufacturing** index for September will be released on October 1, and Scotia anticipates a largely flat reading of 49.8 vs. 49.6 in August after results on regional Fed indices were fairly mixed.

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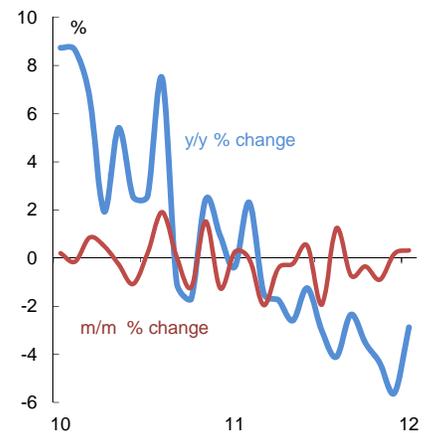
EUROPE

The central bank of Russia will meet sometime between October 1st and 10th, and we expect no policy changes following the quarter-point rate hike implemented after the last meeting on September 13th. The rate increase lifted the benchmark refinancing rate to 8.25%. The surprise decision was precipitated by concerns of rising inflationary pressures, and especially, inflation expectations. The headline rate rose to 5.9% y/y in August, just shy of the upper end of the bank’s 5-6% target for the year, and was largely the result of temporary, non-fundamental factors, including a weak grain harvest and regulated price increases. However, the core rate also picked up, to 5.5% y/y from 5.3% in the prior month. With evidence of slowing economic activity already visible amid a weakened global environment (GDP growth slowed from 4.9% y/y in the first quarter to 4.0% in the next three months), further monetary tightening is unlikely before 2013, unless there emerges further evidence of pass-through from temporary cost factors to underlying inflation expectations.

LATIN AMERICA

After incipient signs of recovery in the Brazilian industrial sector since the end of the second quarter, industrial production (IP) and the PMI report for August and September, respectively, will attract investor attention next week. In July, IP posted a second consecutive month of positive growth on a month-over-month basis, while on a 12-month basis it showed the slowest contraction in four months. Government stimulus packages to the industrial sector, particularly to the auto sector, together with extremely loose monetary conditions, favourable employment conditions and decelerating inflation, have supported the country’s economic performance. We maintain our view that IP will rebound in the coming months; however, the recovery will be gradual. In August, the leading PMI data suggested that the manufacturing sector remains subdued (below the neutral 50 point mark); however, it has rebounded somewhat from previous lows, signaling a less negative outlook for the third quarter.

Brazilian Industrial Production

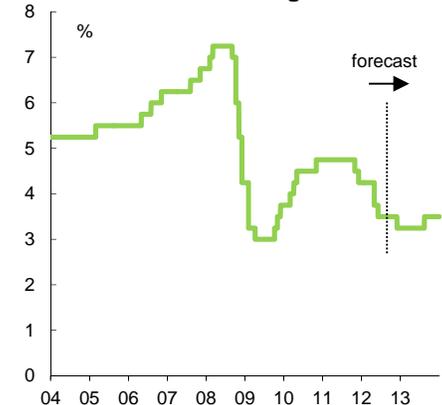


Source: Thomson Reuters.

ASIA

Monetary conditions in Australia will likely remain unchanged following the Reserve Bank of Australia’s (RBA) policy meeting on October 2nd. Nevertheless, we anticipate a 25 basis point reduction in the benchmark interest rate towards the end of the year from the current level of 3.5%. This will likely mark the end of the current easing cycle — the rate has been cut by 125 basis points since November 2011 — with a monetary tightening bias possibly emerging in the third quarter of 2013. Australia is one of the fastest growing economies among the developed world, with the resources sector continuing to be the key economic motor. The nation’s public finances are healthy, with public debt at a modest level and the administration aiming to reach a budget surplus in the current fiscal year (July-June). Furthermore, the International Monetary Fund assesses Australia’s financial system to be sound, resilient and well-managed, adding another favourable element to the country’s overall outlook. With inflation comfortably within the RBA’s target range of 2-3% and the benchmark interest rate being the highest among major advanced economies, monetary policy space adds another tool to the Australian authorities’ kit for dealing with any potential external shocks (i.e. a major slowdown in China and/or a significant drop in commodity prices) to which the economy is vulnerable, given its large current account imbalances and high household debt. The Australian dollar continues to be supported by strong economic fundamentals, wide interest rate differentials between Australia and other advanced economies, and portfolio investment inflows.

RBA Cash Target Rate



Source: Bloomberg, Scotia Economics.

Key Indicators for the week of October 1 - 5

North America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	10/01	08:30	IPPI (m/m)	Aug	--	-0.2	-0.5
CA	10/01	08:30	Raw Materials Price Index (m/m)	Aug	--	1.2	0.9
US	10/01	10:00	Construction Spending (m/m)	Aug	0.4	0.5	-0.9
US	10/01	10:00	ISM Manufacturing Index	Sep	49.8	50.0	49.6
US	10/02	17:00	Domestic Vehicle Sales (mn a.r.)	Sep	11.5	11.4	11.5
US	10/02	17:00	Total Vehicle Sales (mn a.r.)	Sep	14.6	14.4	14.5
US	10/03	07:00	MBA Mortgage Applications (w/w)	SEP 28	--	--	2.8
US	10/03	08:15	ADP Employment Report (000s m/m)	Sep	110	140	201
US	10/03	10:00	ISM Non-Manufacturing Composite	Sep	53.5	53.2	53.7
US	10/04	08:30	Continuing Claims (000s)	SEP 22	3300	--	3271
US	10/04	08:30	Initial Jobless Claims (000s)	SEP 29	370	370	359
US	10/04	10:00	Factory Orders (m/m)	Aug	-7.6	-2.5	2.8
CA	10/05	08:30	Building Permits (m/m)	Aug	--	-2.0	-2.3
CA	10/05	08:30	Employment (000s m/m)	Sep	25	11.0	34.3
CA	10/05	08:30	Unemployment Rate (%)	Sep	7.3	7.3	7.3
US	10/05	08:30	Average Hourly Earnings (m/m)	Sep	--	0.2	0.0
US	10/05	08:30	Average Weekly Hours	Sep	--	34.4	34.4
US	10/05	08:30	Nonfarm Employment Report (000s m/m)	Sep	100	111	96
US	10/05	08:30	Household Employment Report (000s m/m)	Sep	--	--	-119.0
US	10/05	08:30	Unemployment Rate (%)	Sep	8.2	8.2	8.1
US	10/05	15:00	Consumer Credit (\$ bn m/m)	Aug	--	7.5	-3.3

Europe

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
IT	10/01	03:45	Manufacturing PMI	Sep	44.5	44.0	43.6
FR	10/01	03:50	Manufacturing PMI	Sep F	42.6	42.6	42.6
GE	10/01	03:55	Manufacturing PMI	Sep F	47.3	47.3	47.3
EC	10/01	04:00	Manufacturing PMI	Sep F	46	46.0	46.0
UK	10/01	04:30	Manufacturing PMI	Sep	50.5	49.0	49.5
EC	10/01	05:00	Unemployment Rate (%)	Aug	11.4	11.4	11.3
UK	10/01	06:59	Halifax House Price (3 month, y/y)	Sep	-1.1	-0.9	-0.9
RU	10/01	07:59	Russia Refinancing Rate (%)	Oct 1-10	8.25	8.25	8.25
IT	10/01	13:00	Budget Balance (€ bn)	Sep	--	--	-6.0
IT	10/01	13:00	Budget Balance YTD (€ bn)	Sep	--	--	-33.5
UK	10/02	02:00	Nationwide House Prices (m/m)	Sep	0.0	0.0	1.3
UK	10/02	04:30	PMI Construction	Sep	--	49.9	49.0
EC	10/02	05:00	PPI (m/m)	Aug	--	0.6	0.4
IT	10/03	03:45	Services PMI	Sep	--	44.1	44.0
FR	10/03	03:50	Services PMI	Sep F	46.1	46.1	46.1
GE	10/03	03:55	Services PMI	Sep F	50.6	50.6	50.6
EC	10/03	04:00	Composite PMI	Sep F	46.0	45.9	45.9
EC	10/03	04:00	Services PMI	Sep F	46.0	46.0	46.0
UK	10/03	04:30	Official Reserves (£ bn)	Sep	--	--	732.0
UK	10/03	04:30	Services PMI	Sep	54.0	53.0	53.7
EC	10/03	05:00	Retail Trade (m/m)	Aug	--	-0.1	-0.2
UK	10/04	07:00	BoE Asset Purchase Target (£ bn)	Oct	375	375	375
UK	10/04	07:00	BoE Policy Announcement (%)	Oct 4	0.50	0.50	0.50
EC	10/04	07:45	ECB Announces Interest Rates (%)	Oct 4	0.75	0.75	0.75
SP	10/05	03:00	Industrial Output NSA (y/y)	Aug	--	--	-2.6
GE	10/05	06:00	Factory Orders (m/m)	Aug	-1.3	-0.5	0.5

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

Key Indicators for the week of October 1 - 5

Asia Pacific

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
JN	09/30	19:50	Tankan All Industries Index	3Q	--	5.0	6.2
JN	09/30	19:50	Tankan Manufacturing Index	3Q	--	-4.0	-1.0
JN	09/30	19:50	Tankan Non-Manufacturing Index	3Q	--	6.0	8.0
SK	09/30	20:00	Exports (y/y)	Sep	-5.0	-5.5	-6.2
SK	09/30	20:00	Imports (y/y)	Sep	-9.0	-9.5	-9.7
SK	09/30	20:00	Trade Balance (US\$ mn)	Sep	--	2760.0	1996.0
CH	09/30	21:00	Manufacturing PMI	Sep	50.0	50.1	49.2
ID	10/01	00:00	Exports (y/y)	Aug	--	-12.6	-7.3
ID	10/01	00:00	Imports (y/y)	Aug	--	7.6	0.8
ID	10/01	00:00	Trade Balance (US\$ mn)	Aug	--	-61.5	-176.5
JN	10/01	01:00	Vehicle Sales (y/y)	Sep	--	--	7.3
IN	10/01	01:30	Exports (y/y)	Aug	--	--	-14.8
IN	10/01	01:30	Imports (y/y)	Aug	--	--	-7.6
JN	10/01	07:59	Official Reserve Assets (US\$ bn)	Sep	--	--	1273.2
JN	10/01	19:50	Monetary Base (y/y)	Sep	--	--	6.5
AU	10/02	00:30	RBA Cash Target Rate (%)	Oct 2	3.50	3.50	3.50
AU	10/02	21:30	Trade Balance (AUD mn)	Aug	--	-685.0	-556.0
AU	10/03	21:30	Building Approvals (m/m)	Aug	--	4.7	-17.3
AU	10/03	21:30	Retail Sales (m/m)	Aug	--	0.4	-0.8
MA	10/05	00:01	Exports (y/y)	Aug	--	-1.0	-1.9
MA	10/05	00:01	Imports (y/y)	Aug	--	9.0	9.5
MA	10/05	00:01	Trade Balance (MYR bn)	Aug	--	5.6	3.6
JN	10/05	01:00	Coincident Index CI	Aug P	--	93.6	93.8
JN	10/05	01:00	Leading Index CI	Aug P	--	93.5	93.0
JN	10/05	01:00	New Composite Leading Economic Index	Aug P	--	93.5	93.0
JN	10/05	06:59	BoJ Target Rate (%)	Oct 5	0.10	--	0.10

Latin America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
PE	10/01	07:00	Consumer Price Index (m/m)	Sep	--	0.4	0.5
PE	10/01	07:00	Consumer Price Index (y/y)	Sep	--	3.6	3.5
BZ	10/01	09:00	PMI Manufacturing Index	Sep	--	--	49.3
BZ	10/01	14:00	Trade Balance (FOB) - Monthly (US\$ mn)	Sep	--	2600.0	3227.0
BZ	10/02	08:00	Industrial Production SA (m/m)	Aug	--	2.0	0.3
BZ	10/02	08:00	Industrial Production (y/y)	Aug	--	-1.4	-2.9
CL	10/05	07:30	Economic Activity Index SA (m/m)	Aug	--	--	0.4
CL	10/05	07:30	Economic Activity Index NSA (y/y)	Aug	--	5.7	5.3
BZ	10/05	08:00	IBGE Inflation IPCA (m/m)	Sep	--	0.6	0.4
BZ	10/05	08:00	IBGE Inflation IPCA (y/y)	Sep	--	5.3	5.2
CO	10/05	20:00	Consumer Price Index (m/m)	Sep	--	0.2	0.0
CO	10/05	20:00	Consumer Price Index (y/y)	Sep	--	3.0	3.1

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

Global Auctions for the week of October 1 - 5

North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	10/01	11:30	U.S. to Sell 3-Month Bills
US	10/01	11:30	U.S. to Sell 6-Month Bills
US	10/02	11:30	U.S. to Sell 4-Week Bills

Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
NE	10/01	05:30	Netherlands to Sell 3-Month and 9-Month Bills
FR	10/01	09:00	France to Sell Bills (BTF)
AS	10/02	05:00	Austria to Sell 3.15% 2044 Bonds
AS	10/02	05:00	Austria to Sell 1.95% 2019 Bonds
BE	10/02	05:30	Belgium to Sell Bills
SZ	10/02	05:30	Switzerland to Sell 3-Month Bills
UK	10/02	05:30	U.K. to Sell GBP3.5 Bln 1.75% 2022
SW	10/03	05:03	Sweden to Sell Bonds
SP	10/04	04:30	Spain to Sell Bonds
FR	10/04	05:00	France to Sell Bonds (OAT)

Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
JN	10/02	04:00	Japan Auction for Enhanced-Liquidity
JN	10/02	23:35	Japan to Sell 3-Month Bills
JN	10/03	23:35	Japan to Sell 6-Month Bills
JN	10/03	23:45	Japan to Sell 10-Year Bonds

Source: Bloomberg, Scotia Economics.

Events for the week of October 1 - 5

North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
CA	10/01	09:30	OSFI's Dickson Speaks in Quebec City
US	10/01	12:00	Fed's Williams Speaks in San Francisco
US	10/01	12:30	Fed's Bernanke Speaks on Monetary Policy in Indianapolis
US	10/01	19:00	World Bank Releases World Development Report 2013 -- Jobs
US	10/01		U.S. Government's 2013 Fiscal Year Begins
CA	10/03		Ontario Finance Minister Speaks at IFIC Leadership Conference
CA	10/04	08:55	Senior Deputy Governor Macklem Speaks at Manitoba CoC
CA	10/04	10:30	The 2012 Surrey Regional Economic Summit
US	10/04	10:30	IMF Holds Regularly Scheduled News Briefing
US	10/04	14:00	Fed Releases Minutes from Sept. 13 FOMC Meeting
US	10/04	20:00	Fed's Bullard Speaks on U.S. Economy in Memphis, Tennessee
US	10/05	13:00	Fed's Duke Speaks on Neighborhood Stabilization in New York

Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
HU	10/01	04:00	EU Court Discusses Hungary's Forced Retirement of Judges
AS	10/01	06:00	ECB's Nowotny in Online Chat with Austria's diepresse.com
RU	10/01	07:59	Russia Refinancing Rate (%)
PO	10/01	09:30	Portugal's Albuquerque Attends Ceremony in Lisbon
AS	10/01	12:30	ECB's Asmussen, Nowotny Speak in Vienna
IT	10/02	04:30	Italy's Minister Passera Attends Event in Milan
PO	10/02	04:45	Portugal's Economy Minister, BCP's Amado Attend Conference
GE	10/02	05:00	Merkel Opens Biotech Center in Eastern Germany
CH	OCT 02-04		WTO's General Council Meets
UK	10/03	04:00	ISDA's EU Legislation and OTC Derivatives Conference
UK	10/04	07:00	BOE Asset Purchase Target
UK	10/04	07:00	BOE Announces Rates
EC	10/04	07:45	ECB Announces Interest Rates
EC	10/04	08:30	ECB'S Draghi Holds Press Conference After Rate Decision
EC	10/04		ECB Meeting in Ljubljana
GE	10/05	02:30	Schaeuble Attends Breakfast Event of Berlin Capital Club
IT	10/05	05:00	Bank of Italy to Release Balance-Sheet Aggregates for Sept.

Source: Bloomberg, Scotia Economics.

Events for the week of October 1 - 5

Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
NZ	09/30	17:00	Westpac McDermott Miller Employment Confidence
NZ	09/30	21:00	Treasury Publishes Monthly Economic Indicators
NZ	10/01	20:00	ANZ Commodity Price Index
AU	10/02	00:30	RBA Cash Target
AU	10/02	02:30	RBA Commodity Index SDR YoY%
NZ	10/02	13:00	Fonterra Milk Powder Auction Results Due
CH	OCT 02-04		WTO's General Council Meets
JN	OCT 04-05		BOJ Target Rate
JN	10/05	02:30	BOJ Governor Shirakawa Briefing

Latin America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
CL	09/29	23:00	Chile Deadline to Submit Budget Proposal for 2013
PE	OCT 01-02		South American-Arab Countries (ASPA) Summit Held in Peru

Source: Bloomberg, Scotia Economics.

Global Central Bank Watch

North America

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
<i>Bank of Canada – Overnight Target Rate</i>	1.00	October 23, 2012	1.00	--
<i>Federal Reserve – Federal Funds Target Rate</i>	0.25	October 24, 2012	0.25	--
<i>Banco de México – Overnight Rate</i>	4.50	October 26, 2012	4.50	--

BoC: a) Weak incoming economic data (including GDP tracking at 1% q/q SAAR in July), b) slowing housing markets, and c) the current easing from the Fed, are cause to expect the BoC to moderate the hawkish bias in its recent communications with the possibility of a dovish MPR on Oct. 24. Scotia expects the Bank of Canada to hold its overnight rate at 1% through our published forecast horizon. Fed: Communications by Fed regional Presidents and members of the Board of Governors in the wake of the FOMC's introduction of open-ended asset purchases have reinforced the sense that QE3 will be long-lived. As the FOMC flagged jobs data as the key variable in its reaction function, non-farm payrolls on October 5 will be an important metric. We expected continued weakness.

Europe

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
<i>European Central Bank – Refinancing Rate</i>	0.75	October 4, 2012	0.75	0.75
<i>Bank of England – Bank Rate</i>	0.50	October 4, 2012	0.50	0.50
<i>Swiss National Bank – Libor Target Rate</i>	0.00	December 13, 2012	0.00	--
<i>Central Bank of Russia – Refinancing Rate</i>	8.25	October 1-10, 2012	8.25	8.25
<i>Hungarian National Bank – Base Rate</i>	6.50	October 30, 2012	6.75	--
<i>Central Bank of the Republic of Turkey – 1 Wk Repo Rate</i>	5.75	October 18, 2012	5.75	--
<i>Sweden Riksbank – Repo Rate</i>	1.25	October 25, 2012	1.50	--
<i>Norges Bank – Deposit Rate</i>	1.50	October 31, 2012	1.50	--

Inflation unexpectedly rose in the euro zone in September, to 2.7% y/y from 2.6%. The boost came from an increase in the Spanish VAT and a surprise acceleration in price gains in Italy, though even inflation in Germany remains above the 2%-mark. Given this development and recent guidance from European Central Bank (ECB) President Draghi (who has indicated that the ECB is committed to price stability and it is up to national governments to engineer a long-term institutional resolution to the crisis), we do not foresee any additional monetary accommodation at the rate-setting meeting on October 4th. The Bank of England (BoE) also meets next Thursday, and similarly, we expect no policy changes at this time. Strong employment, income and retail sales data, upward revisions to GDP in the first half of the year, and a moderating pace of disinflation have made the case for further quantitative easing (QE) more ambiguous. Nevertheless, our bias remains toward more QE at some point in the near term. See page A2 for a preview of the Russian central bank's meeting on October 1st.

Asia Pacific

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
<i>Bank of Japan – Target Rate</i>	0.10	October 5, 2012	0.10	--
<i>Reserve Bank of Australia – Cash Target Rate</i>	3.50	October 2, 2012	3.50	3.50
<i>Reserve Bank of New Zealand – Cash Rate</i>	2.50	October 24, 2012	2.50	--
<i>People's Bank of China – Lending Rate</i>	6.00	TBA	--	--
<i>Reserve Bank of India – Repo Rate</i>	8.00	October 30, 2012	8.00	--
<i>Bank of Korea – Bank Rate</i>	3.00	October 10, 2012	2.75	--
<i>Bank of Thailand – Repo Rate</i>	3.00	October 17, 2012	3.00	--
<i>Bank Indonesia – Reference Interest Rate</i>	5.75	October 11, 2012	5.75	--

Monetary conditions will likely remain unchanged in Australia and Japan following next week's policy meetings. In September, the Bank of Japan added ¥10 trillion to its asset purchase program that raised its total size to ¥80 trillion, while extending the program by six months until the end of 2013. In Australia, a relatively robust economy combined with moderate inflation will allow the Reserve Bank of Australia to leave the cash target rate unchanged for now. For more detailed analysis on Australian monetary policy, please refer to the Key Data Preview on page A2 of this publication.

Latin America

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
<i>Banco Central do Brasil – Selic Rate</i>	7.50	October 10, 2012	7.25	7.50
<i>Banco Central de Chile – Overnight Rate</i>	5.00	October 18, 2012	5.00	--
<i>Banco de la República de Colombia – Lending Rate</i>	4.75	October 26, 2012	4.50	--
<i>Banco Central de Reserva del Perú – Reference Rate</i>	4.25	October 11, 2012	4.25	--

Africa

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
<i>South African Reserve Bank – Repo Rate</i>	5.00	November 22, 2012	5.00	--

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

Forecasts as at September 27, 2012*	2000-10	2011	2012f	2013f	2000-10	2011	2012f	2013f
Output and Inflation (annual % change)	Real GDP				Consumer Prices²			
World ¹	3.7	4.0	3.1	3.3				
 Canada	2.2	2.4	1.9	1.8	2.1	2.9	1.7	2.0
 United States	1.8	1.8	2.1	1.9	2.5	3.1	2.1	2.2
 Mexico	2.1	4.2	3.9	3.6	4.9	3.8	4.2	4.0
 United Kingdom	2.0	0.7	-0.3	1.2	2.1	4.2	2.3	3.0
 Euro Zone	1.4	1.5	-0.7	0.2	2.1	2.7	2.4	2.0
 Japan	0.9	-0.7	2.3	1.5	-0.3	-0.2	0.1	0.1
 Australia	3.1	2.1	3.2	3.1	3.1	3.1	2.6	2.8
 China	9.4	9.3	7.8	8.2	2.3	4.1	2.7	3.5
 India	7.5	10.0	5.7	6.3	6.4	7.7	8.0	7.0
 South Korea	4.6	3.6	2.8	3.5	3.1	4.8	2.2	3.0
 Thailand	4.4	0.1	5.0	4.0	2.7	3.5	3.3	3.6
 Brazil	3.7	2.7	1.7	3.8	6.6	6.5	5.0	5.5
 Chile	4.6	6.1	5.2	5.2	3.4	4.4	2.1	2.9
 Peru	5.5	7.0	6.3	5.7	2.4	4.7	3.0	3.0
Central Bank Rates (% end of period)	12Q1	12Q2	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	0.75	0.75	0.75	0.75	0.75	0.75
Bank of England	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Swiss National Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bank of Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Reserve Bank of Australia	3.75	3.50	3.50	3.25	3.25	3.25	3.50	3.50
Exchange Rates (end of period)								
Canadian Dollar (USDCAD)	1.00	1.02	0.98	0.96	0.96	0.96	0.97	0.97
Canadian Dollar (CADUSD)	1.00	0.98	1.02	1.04	1.04	1.04	1.03	1.03
Euro (EURUSD)	1.33	1.27	1.29	1.26	1.24	1.23	1.22	1.21
Sterling (GBPUSD)	1.60	1.57	1.62	1.62	1.62	1.63	1.64	1.64
Yen (USDJPY)	83	80	78	80	84	85	86	87
Australian Dollar (AUDUSD)	1.03	1.02	1.04	1.04	1.05	1.05	1.06	1.06
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	12.9	12.8	12.9	12.8	12.9	13.2
Brazilian Real (USDBRL)	1.83	2.01	2.03	1.99	1.98	1.95	1.90	1.86
Commodities (annual average)	2000-10	2011	2012f	2013f				
WTI Oil (US\$/bbl)	54	95	95	100				
Brent Oil (US\$/bbl)	52	112	112	112				
Nymex Natural Gas (US\$/mmbtu)	5.81	4.03	2.75	3.00				
Copper (US\$/lb)	1.93	4.00	3.65	3.50				
Zinc (US\$/lb)	0.75	0.99	0.89	1.02				
Nickel (US\$/lb)	7.36	10.38	7.85	7.80				
Gold, London PM Fix (US\$/oz)	586	1,569	1,690	1,800				
Pulp (US\$/tonne)	694	977	880	900				
Newsprint (US\$/tonne)	575	640	640	660				
Lumber (US\$/mfbm)	273	255	285	315				

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 					United States 				
	2011	12Q1	12Q2	Latest		2011	12Q1	12Q2	Latest
Real GDP (annual rates)	2.4	1.8	1.8		Real GDP (annual rates)	1.8	2.0	1.3	
Current Acc. Bal. (C\$B, ar)	-48.4	-40.6	-64.1		Current Acc. Bal. (US\$B, ar)	-466	-534	-470	
Merch. Trade Bal. (C\$B, ar)	2.3	8.4	-13.9	-28.0 (Jul)	Merch. Trade Bal. (US\$B, ar)	-738	-777	-743	-687 (Jul)
Industrial Production	3.5	0.9	2.6	1.9 (Jul)	Industrial Production	4.1	4.0	4.9	3.1 (Aug)
Housing Starts (000s)	193	206	230	224 (Aug)	Housing Starts (millions)	0.61	0.71	0.74	0.75 (Aug)
Employment	1.6	0.9	1.2	1.0 (Aug)	Employment	1.1	1.6	1.3	1.4 (Aug)
Unemployment Rate (%)	7.5	7.4	7.3	7.3 (Aug)	Unemployment Rate (%)	9.0	8.3	8.2	8.1 (Aug)
Retail Sales	4.1	4.3	2.6	3.0 (Jul)	Retail Sales	8.3	6.4	4.3	4.4 (Aug)
Auto Sales (000s)	1589	1703	1670	1615 (Jul)	Auto Sales (millions)	12.7	14.1	14.1	14.5 (Aug)
CPI	2.9	2.3	1.6	1.2 (Aug)	CPI	3.2	2.8	1.9	1.7 (Aug)
IPPI	4.6	1.8	0.6	-0.3 (Jul)	PPI	6.0	3.4	1.1	2.0 (Aug)
Pre-tax Corp. Profits	15.4	4.2	0.4		Pre-tax Corp. Profits	2.1	18.0	14.6	

Mexico 				
	2011	12Q1	12Q2	Latest
Real GDP	3.9	4.5	4.1	
Current Acc. Bal. (US\$B, ar)	-11.1	4.7	1.8	
Merch. Trade Bal. (US\$B, ar)	-1.5	7.1	6.1	-11.8 (Aug)
Industrial Production	4.0	4.4	3.7	4.9 (Jul)
CPI	3.4	3.9	3.9	4.6 (Aug)

Europe

Euro Zone 					Germany 				
	2011	12Q1	12Q2	Latest		2011	12Q1	12Q2	Latest
Real GDP	1.4	-0.1	-0.5		Real GDP	3.1	1.2	1.0	
Current Acc. Bal. (US\$B, ar)	-3	-32	79	235 (Jul)	Current Acc. Bal. (US\$B, ar)	202.6	215.8	192.1	189.3 (Jul)
Merch. Trade Bal. (US\$B, ar)	6.9	28.0	128.6	183.9 (Jul)	Merch. Trade Bal. (US\$B, ar)	216.2	223.3	245.2	237.4 (Jul)
Industrial Production	3.5	-1.7	-2.4	-2.7 (Jul)	Industrial Production	8.0	0.7	-0.3	-1.4 (Jul)
Unemployment Rate (%)	10.1	10.8	11.2	11.3 (Jul)	Unemployment Rate (%)	7.1	6.8	6.8	6.8 (Sep)
CPI	2.7	2.7	2.5	2.6 (Aug)	CPI	2.3	2.2	1.9	2.0 (Sep)

France 					United Kingdom 				
	2011	12Q1	12Q2	Latest		2011	12Q1	12Q2	Latest
Real GDP	1.7	0.4	0.3		Real GDP	0.9	-0.1	-0.5	
Current Acc. Bal. (US\$B, ar)	-54.5	-50.6	-77.0	-6.1 (Jul)	Current Acc. Bal. (US\$B, ar)	-46.4	-100.3	-128.6	
Merch. Trade Bal. (US\$B, ar)	-51.9	-54.4	-55.8	-41.7 (Jul)	Merch. Trade Bal. (US\$B, ar)	-160.3	-159.8	-177.6	-133.7 (Jul)
Industrial Production	1.9	-1.8	-2.1	-3.1 (Jul)	Industrial Production	-0.7	-2.8	-2.5	-0.8 (Jul)
Unemployment Rate (%)	9.6	10.0	10.1	10.3 (Jul)	Unemployment Rate (%)	8.1	8.2	8.1	8.1 (Jun)
CPI	2.1	2.3	2.0	2.1 (Aug)	CPI	4.5	3.5	2.7	2.5 (Aug)

Italy 					Russia 				
	2011	12Q1	12Q2	Latest		2011	12Q1	12Q2	Latest
Real GDP	0.5	-1.5	-2.6		Real GDP	4.3	4.9	4.0	
Current Acc. Bal. (US\$B, ar)	-0.07	-0.07	-0.01	0.02 (Jul)	Current Acc. Bal. (US\$B, ar)	98.8	39.3	19.2	
Merch. Trade Bal. (US\$B, ar)	-34.2	-17.5	16.7	66.2 (Jul)	Merch. Trade Bal. (US\$B, ar)	16.5	19.7	16.7	11.1 (Jul)
Industrial Production	0.3	-5.4	-7.8	-7.0 (Jul)	Industrial Production	4.8	4.1	2.3	2.1 (Aug)
CPI	2.8	3.4	3.3	3.2 (Aug)	CPI	8.4	3.9	3.8	5.9 (Aug)

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

Source: Bloomberg, Global Insight, Scotia Economics.

Asia Pacific

Australia 		2011	12Q1	12Q2	Latest	Japan 		2011	12Q1	12Q2	Latest
Real GDP		2.1	4.4	3.7		Real GDP		-0.7	2.8	3.3	
Current Acc. Bal. (US\$B, ar)		-33.1	-61.6	-32.9		Current Acc. Bal. (US\$B, ar)		119.2	101.1	49.0	95.0 (Jul)
Merch. Trade Bal. (US\$B, ar)		35.7	1.4	28.4	20.3 (Jul)	Merch. Trade Bal. (US\$B, ar)		-33.2	-70.2	-73.2	-72.1 (Aug)
Industrial Production		-1.2	3.9	0.5		Industrial Production		-2.3	2.7	5.1	-4.3 (Aug)
Unemployment Rate (%)		5.1	5.2	5.1	5.1 (Aug)	Unemployment Rate (%)		4.6	4.5	4.4	4.2 (Aug)
CPI		3.4	1.6	1.2		CPI		-0.3	0.3	0.2	-0.5 (Aug)
South Korea 						China 					
Real GDP		3.6	2.8	2.3		Real GDP		10.4	8.1	7.6	
Current Acc. Bal. (US\$B, ar)		26.5	10.2	44.8	28.3 (Aug)	Current Acc. Bal. (US\$B, ar)		201.7			
Merch. Trade Bal. (US\$B, ar)		30.8	5.5	37.8	24.0 (Aug)	Merch. Trade Bal. (US\$B, ar)		155.0	1.4	274.0	319.9 (Aug)
Industrial Production		6.9	2.9	2.4	0.1 (Aug)	Industrial Production		12.8	11.9	9.5	8.9 (Aug)
CPI		4.0	3.0	2.4	1.2 (Aug)	CPI		4.1	3.6	2.2	2.0 (Aug)
Thailand 						India 					
Real GDP		0.1	0.4	4.2		Real GDP		7.5	5.3	5.5	
Current Acc. Bal. (US\$B, ar)		5.9	1.4	-2.4		Current Acc. Bal. (US\$B, ar)		-62.8	-21.7	-16.4	
Merch. Trade Bal. (US\$B, ar)		1.4	0.4	0.5	1.5 (Aug)	Merch. Trade Bal. (US\$B, ar)		-13.5	-15.7	-13.4	-15.5 (Jul)
Industrial Production		-9.4	-7.1	-1.5	-11.0 (Aug)	Industrial Production		4.8	0.6	-0.2	0.1 (Jul)
CPI		3.8	3.4	2.5	2.7 (Aug)	WPI		9.5	7.3	7.5	7.6 (Aug)
Indonesia 											
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	-0.2 (Jul)						
Industrial Production		4.1	5.4		3.0 (May)						
CPI		5.4	3.7	4.5	4.6 (Aug)						

Latin America

Brazil 		2011	12Q1	12Q2	Latest	Chile 		2011	12Q1	12Q2	Latest
Real GDP		2.5	0.6	0.4		Real GDP		6.0	5.3	5.5	
Current Acc. Bal. (US\$B, ar)		-52.5	-48.3	-53.1		Current Acc. Bal. (US\$B, ar)		-0.3	-0.5	-9.8	
Merch. Trade Bal. (US\$B, ar)		29.8	9.8	18.6	38.7 (Aug)	Merch. Trade Bal. (US\$B, ar)		10.0	10.2	5.1	-10.1 (Aug)
Industrial Production		0.4	-3.5	-4.5	-4.3 (Jul)	Industrial Production		6.9	3.9	2.8	3.6 (Aug)
CPI		6.6	5.8	5.0	5.2 (Aug)	CPI		3.3	4.1	3.1	2.6 (Aug)
Peru 						Colombia 					
Real GDP		6.9	6.0			Real GDP		5.9	4.7	4.9	
Current Acc. Bal. (US\$B, ar)		-3.3	-1.0			Current Acc. Bal. (US\$B, ar)		-10.0	-1.6	-3.2	
Merch. Trade Bal. (US\$B, ar)		0.9	0.8	0.2	-0.2 (Jul)	Merch. Trade Bal. (US\$B, ar)		0.4	0.7	0.2	-0.2 (Jul)
Unemployment Rate (%)		7.7	8.3	7.2	6.7 (Aug)	Industrial Production		4.8	1.9	-0.1	2.8 (Jun)
CPI		3.4	4.2	4.1	3.5 (Aug)	CPI		3.4	3.5	3.4	3.1 (Aug)

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

Source: Bloomberg, Global Insight, Scotia Economics.

Interest Rates (% , end of period)

	12Q1	12Q2	Sep/21	Sep/28*		12Q1	12Q2	Sep/21	Sep/28*
Canada 					United States 				
BoC Overnight Rate	1.00	1.00	1.00	1.00	Fed Funds Target Rate	0.25	0.25	0.25	0.25
3-mo. T-bill	0.91	0.88	0.98	0.98	3-mo. T-bill	0.07	0.08	0.10	0.08
10-yr Gov't Bond	2.11	1.74	1.85	1.71	10-yr Gov't Bond	2.21	1.64	1.75	1.63
30-yr Gov't Bond	2.66	2.33	2.42	2.29	30-yr Gov't Bond	3.34	2.75	2.94	2.81
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US\$B)	69.2	66.0	67.0	(Aug)	FX Reserves (US\$B)	138.0	138.8	140.5	(Aug)
Germany 					France 				
3-mo. Interbank	0.71	0.53	0.11	0.11	3-mo. T-bill	0.07	0.04	0.00	-0.01
10-yr Gov't Bond	1.79	1.58	1.60	1.44	10-yr Gov't Bond	2.89	2.69	2.28	2.18
FX Reserves (US\$B)	67.9	68.2	68.4	(Aug)	FX Reserves (US\$B)	49.2	49.6	51.2	(Aug)
Euro Zone 					United Kingdom 				
Refinancing Rate	1.00	1.00	0.75	0.75	Repo Rate	0.50	0.50	0.50	0.50
Overnight Rate	0.39	0.38	0.10	0.10	3-mo. T-bill	0.37	0.37	0.36	0.35
FX Reserves (US\$B)	319.8	328.7	331.3	(Aug)	10-yr Gov't Bond	2.20	1.73	1.83	1.73
Japan 					Australia 				
Discount Rate	0.30	0.30	0.30	0.30	Cash Rate	4.25	3.50	3.50	3.50
3-mo. Libor	0.13	0.13	0.13	0.13	10-yr Gov't Bond	3.98	3.04	3.29	2.99
10-yr Gov't Bond	0.99	0.84	0.80	0.78	FX Reserves (US\$B)	47.7	44.1	41.2	(Aug)
FX Reserves (US\$B)	1247.8	1231.2	1232.7	(Aug)					

Exchange Rates (end of period)

USDCAD	1.00	1.02	0.98	0.98	¥/US\$	82.87	79.79	78.17	77.96
CADUSD	1.00	0.98	1.02	1.02	US¢/Australian\$	1.03	1.02	1.05	1.04
GBPUSD	1.601	1.571	1.623	1.613	Chinese Yuan/US\$	6.30	6.35	6.31	6.28
EURUSD	1.334	1.267	1.298	1.285	South Korean Won/US\$	1133	1145	1119	1111
JPYEUR	0.90	0.99	0.99	1.00	Mexican Peso/US\$	12.811	13.361	12.859	12.866
USDCHF	0.90	0.95	0.93	0.94	Brazilian Real/US\$	1.827	2.009	2.023	2.029

Equity Markets (index, end of period)

United States (DJIA)	13212	12880	13579	13397	U.K. (FT100)	5768	5571	5853	5753
United States (S&P500)	1408	1362	1460	1437	Germany (Dax)	6947	6416	7452	7246
Canada (S&P/TSX)	12392	11597	12384	12263	France (CAC40)	3424	3197	3531	3377
Mexico (IPC)	39521	40200	40339	40780	Japan (Nikkei)	10084	9007	9110	8870
Brazil (Bovespa)	64511	54355	61320	59254	Hong Kong (Hang Seng)	20556	19441	20735	20840
Italy (BCI)	859	761	859	834	South Korea (Composite)	2014	1854	2002	1996

Commodity Prices (end of period)

Pulp (US\$/tonne)	870	900	850	850	Copper (US\$/lb)	3.85	3.45	3.76	3.75
Newsprint (US\$/tonne)	640	640	640	640	Zinc (US\$/lb)	0.91	0.84	0.95	0.95
Lumber (US\$/mfbm)	279	283	294	285	Gold (US\$/oz)	1662.50	1598.50	1784.50	1776.00
WTI Oil (US\$/bbl)	103.02	84.96	92.89	91.63	Silver (US\$/oz)	32.43	27.08	34.69	34.65
Natural Gas (US\$/mmbtu)	2.13	2.82	2.89	3.26	CRB (index)	308.46	284.19	308.98	307.80

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

Emerging Markets Strategy

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Foreign Exchange Strategy

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