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Global Views

Weekly commentary on economic and financial market developments

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Global Central Banks To Keep Their Powder Dry As The U.S. Fiscal Cliff Looms

- **Please see our full indicator, central bank, auction and event calendars on pp. A3-A9.**

The 'fiscal cliff' and volatility surrounding budget negotiations are rapidly over-taking data risk as the dominant driver of **US** Treasuries and the USD as well as global markets. The week's key global central bank meetings (ECB, BoE, BoC, RBA, RBNZ, Russia, Peru, and Poland) are mostly likely to keep policy on hold as markets await the outcome of negotiations in Washington with Shakespearean bated breath. It is the following week that raises uncertain Fed policy risks. Our bias is in favour of a fresh round of Treasury buying to be announced at the December FOMC meeting just as more significant fiscal policy uncertainties weigh on market tone. This call is not a certainty, however, in terms of probability, amounts of targeted buying, or timing. Also uncertain are the potential market effects as we argued in our recent piece "QE4 Prospects And Market Effects." Note that alongside headline risk through ongoing negotiations, the Joint Economic Committee of Congress (one of four standing committees of Congress with members from both the House and Senate) holds a hearing titled "Fiscal Cliff: How To Protect The Middle Class, Sustain Long-Term Economic Growth, And Reduce The Federal Deficit" on Thursday. One might quip that this is akin to Mundell's impossible trinity in the monetary policy context that consists of a fixed exchange rate, independent monetary policy and an open economy with cross border capital flows. Democrat Erskine Bowles recently raised eyebrows by remarking that he thinks there is only a one-third possibility of getting a deal done by December 31st, while Alan Simpson, his Republican co-chairman of the National Commission On Fiscal Responsibility And Reform applied some acerbic wit in remarking that "I always love the rigidity of some of those in my party. They are rigid as a fireplace poker but without the occasional warmth." It doesn't appear that any traction is developing toward an agreement as President Obama beseeches the GOP to agree to extend tax cuts for the middle classes and drop them for upper income earners, a proposal for a hard cap on deductions won't work as former OMB Director Peter Orszag has explained, and the GOP continues to demand entitlement reductions in exchange for putting revenue increases (not necessarily hikes) back on the table. My bias remains that safe havens like the USD and Treasuries will retain increased attractiveness over December. Two key forms of data risk will coincide with cliff worries. The ISM Manufacturing survey (Thursday) is expected to be flat over the prior month's reading despite fiscal cliff and Sandy effects, but I think the risk here is clearly to the downside particularly in the wake of weakness in the key Philly Fed survey with which ISM is often correlated. Nonfarm payrolls (Friday) are expected to slow the pace of job gains in the midst of hiring uncertainty into fiscal cliff risks with consensus pegging around a 100k month, down from 171k the prior month but with the difference lying within statistical sampling errors. Wednesday's ADP print is a tougher one than usual to call given a revamped methodology that will take time to evaluate. Factory orders (Wednesday) should be comparably flat to the durables report that comprises about half of total factory orders. Vehicle sales are expected to rise in the wake of encouraging company reports. UofM consumer sentiment may begin to reflect fiscal cliff uncertainties in the preliminary December reading. Also watch for weekly chain store sales that capture the full Black Friday weekend sales results. The ISM Services gauge rounds out the risks alongside the Fed's Q3 flow of funds report with updated estimates for household net worth and economy-wide finances. Fed speak will be confined to speeches by St. Louis President James Bullard (hawk, alternate 2012, voting 2013) on the economic outlook and monetary policy, Boston Fed President Eric Rosengren (dove, alternate 2012, voting 2013) as the keynote speaker at a NY Fed conference on primary and secondary mortgage markets, and Fed Governor Daniel Tarullo who delivers the keynote address at a Brookings Conference on "Structuring the Financial Industry To Enhance Economic Growth And Stability."

Canadian markets face domestic macro risk in the jobs report next Friday, and sector risk in a wave of bank earning reports for fiscal Q4 and full year results ended October 31st. Each of BNS, BMO, CIBC and TD release following Scotiabank's award as Global Bank Of The Year by the UK's *The Banker* magazine. The Bank of Canada's rate statement on Tuesday is likely to be largely a re-print of the October statement because we're in between full forecast updates awaiting the next Monetary Policy Report in January, little has changed since the October statement and MPR, and Governor Carney's announced departure for the Bank of England by next July puts a damper on expectations for material shifts in policy directions over at

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least 2013H1 (see our article on the effects of Carney's move in this issue). Since this is only a statement, there will be no press conference and we would be somewhat surprised if communications were not quiet in the aftermath of the BoC's black-out period. The BoC also releases its Financial System Review on Thursday which can contain updated research on stability and soundness issues facing Canada's financial system including assessments of household balance sheets. Canada also auctions 30-year real return bonds on Wednesday.

European markets will put monetary policy decisions and fiscal risk front and centre as each of France and Italy present budget balance updates next Friday and Monday, respectively. Rating agencies have downgraded France (Moody's and S&P, Fitch likely to follow) and kept it on negative outlook pending performance on fiscal plans. Euro area finance ministers meet on Monday, followed by an EU-27 finance ministers meeting the next day. These regularly scheduled meetings follow the recent emergency meeting that paved the way for a new Greek aid deal with disbursements to begin in two weeks. We have low expectations for both meetings as EU budget talks have become derailed, and Spain is unlikely to move toward a conditional aid request at this juncture. No changes in policy directions are expected for either the Bank of England or the ECB on Thursday for either the rate decisions, the BoE's asset purchase target, or the outline of the ECB's offered Outright Monetary Transactions (OMT) scheme otherwise known as the conditional bond buying program. The prudent thing for global central banks to do is likely to keep some powder dry amid uncertainties into the new year. Data risk should be relatively light out of the Eurozone and focused upon German factory orders and industrial production that have both been rapidly falling, and a wave of UK data including trade, industrial production, a manufacturing PMI survey, and the NIESR's November GDP estimate. The Eurozone Q3 GDP add-up, EC retail sales, French jobs and trade figures, and the Italian purchasing managers' index round out the hits. Auction risk should be relatively light and focused on German 2s and French bonds.

Asia-Pacific markets will clearly follow the global tone keyed off of US and European developments but China poses one added bit of global risk while Australia faces a very active domestic calendar. The RBA is expected to cut its cash target rate by 25bps to 3% by a fairly thin majority as eleven out of twenty-six forecasters expect no change in rates. We have some sympathy for this relative minority, as 3% is the symbolic crisis-low hit in 2009 and going there would fully reverse what in retrospect was a premature push to a peak 4.75% cash target rate by late 2010. China's data may be incrementally improving although, given the risk, this may be temporary, and recent remarks from Governor Stevens were not as dovish as some had anticipated. That said, part of the decision will be data-dependent in a week that is replete with key releases almost akin to the Chinese or Japanese tendency to dump it all on markets in a single week. The RBA will have a firm feel for Q3 GDP that gets released just hours after its rate decision, and Bloomberg consensus expects a rise of between 3.1-3.4% over the prior quarter that would signal a further deceleration in growth from the prior two quarters. Retail sales, jobs, and trade round out the Australian data hits. The RBNZ's rate decision, however, is not expected to be as uncertain, and in fact consensus is unanimous in calling for a hold at a 2.5% official cash rate. China's private sector purchasing managers' index for the manufacturing sector is expected to creep slightly further above the critical 50 line that divides expansion from contraction.

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What Carney's Move May Mean To Canada, The UK And Globally

- **We argue that BoC leadership changes have tended to result in short-lived front-end rallies but with little effect on CADUS. We also comment on other possible influences on Canada and the UK stemming from BoC Governor Carney's departure to run the BoE.**

The announcement that BoC Governor Mark Carney would depart next July to become Governor of the Bank of England caught markets by surprise after many months of denial. We've quipped that it was probably the biggest sale of Canadian talent since Wayne Gretzky skated off to LA even though the latter was a push effect at the hands of Peter Pocklington — then owner of the Edmonton Oilers. The unprecedented move raises many broad types of implications.

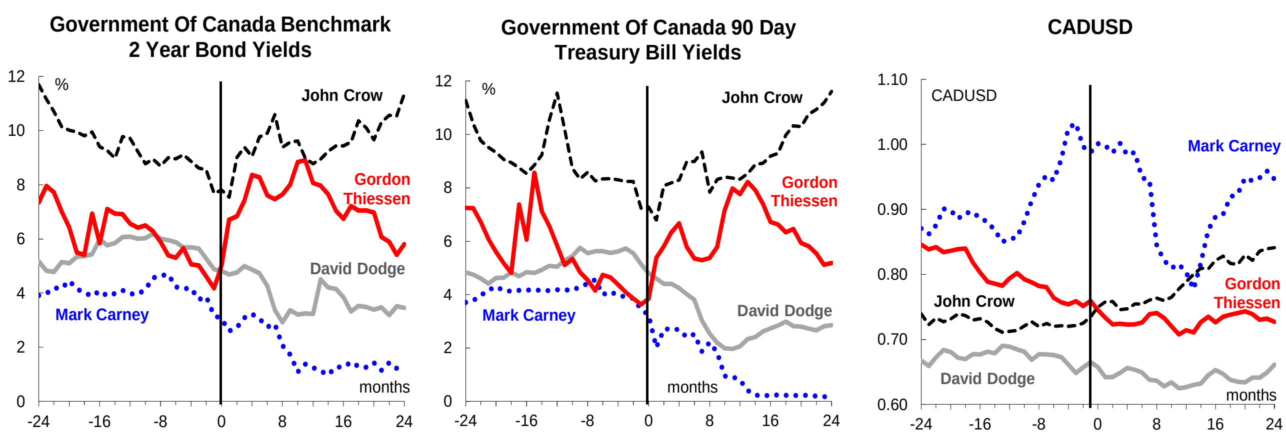
1. Carney's Departure May Pose A Market Opportunity

Every leadership transition at the Bank of Canada over the past quarter century has been associated with declining yields on 90 day bills and 2 year Government of Canada bonds in the months beforehand, but the effects tend to be short-lived and there is no readily discernible pattern for CADUSD (charts 1-3).

One possible explanation is that the results may be owing to coincidental macro developments. This is plausible in the case of Governor Dodge (Feb 2001—Jan 2008) who came to office around the dot-bomb, Y2K, 9/11 and the aftermath of the Asian crisis, and in the case of Governor Carney (Feb 2008—June 2013) who rose to power when the global crisis unfolded. It is less likely for Governor Crow (Feb 1987—Jan 1994) and Governor Thiessen (Feb 1994—Jan 2001). A second possibility is that markets perceive the BoC to be in a state of policy flux lowering the odds of policy shifts during leadership transitions.

Among our reservations that previous market tendencies will be repeated in the months ahead is the possibility that the leadership transition may be among the smoothest ever. Recall, for instance, that when Governor Dodge entered office and then retired to be followed by Governor Carney, much of the Governing Council turned over within a relatively short eight-year period as Deputy Governor Charles Freedman (Nov 2002), Deputy Governor Sheryl Kennedy (Dec 2008), Deputy Governor David Longworth (March 2010), Senior Deputy Governor Paul Jenkins (April 2010), and Deputy Governor Pierre Duguay (July 2010) all retired. If the BoC steered its way rather effectively through the global crisis while revamping the Governing Council and key staff internal positions, then it is not a given that policy continuity will be jeopardized amid what is a much more stable Council today. Further, we would expect a new Governor to be announced by the end of 2013Q1 given Carney was appointed 4 months ahead of taking office. A current favourite is Senior Deputy Governor Tiff Macklem — an excellent candidate, but markets may still be uncertain of his bias.

Event Studies: Market Movements Around BoC Leadership Changes (Time 0 = Leadership Change)



Source: Bank of Canada, Global Insight, IMF, Scotiabank Economics

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Uncertainty at the helm of the BoC is an added factor in support of our view that the BoC will be on hold until 2014 with the bigger risk being hikes coming later than that rather than sooner as housing comes off the boil and the trade picture remains under pressure through slow US growth and rapid substitution of US energy production for imported energy requirements.

2. Carney's Replacement Is Less Certain Than Consensus Believes

There are many fine candidates and we do not care to speculate upon the choices at this juncture, but while the current unanimous consensus in favour of Senior Deputy Governor Tiff Macklem would represent an excellent choice to replace Carney as Governor, this is the same unanimous and supposedly connected consensus that completely misread an independent BoC Board when it picked David Dodge in 2000 and Carney in 2007.

On that note, it is worth correcting a popular misperception. It is the BoC's Board of Directors that selects the Governor and the Senior Deputy Governor roles. This is done with the approval of cabinet and hence Finance Minister Flaherty and Prime Minister Stephen Harper. The Deputy Minister of Finance sits on the Board, but does not have a vote. While the government has significant input, the Board is not rudderless — and creating any such impression is a disservice to central bank independence — and selects from a list of candidates drawn up by a soon to be announced committee. The role of the Board and the relatively opaque nature of the search process compared to elsewhere are among the reasons why the consensus has incorrectly predicted the past two Governors.

With that said, it is a bit surprising that Canadian Finance Minister Jim Flaherty has stated that it will take six months to search for a replacement for BoC Governor Mark Carney. That takes us until the end of May, and into Carney's final weeks as BoC Governor. Recall that Carney was appointed about 4 months before taking office (on October 4th 2007 before taking office in February 2008). Also note that Carney's BoE appointment does not become effective for another half year. Perhaps Minister Flaherty is giving himself plenty of flexibility in light of the surprise announcement. My takeaway, however, is that if Senior Deputy Governor Tiff Macklem is as obvious a replacement as the consensus believes him to be within Ottawa policy circles, then why send a potentially destabilizing signal that the process will take so long and go right down to the wire if Macklem really has been groomed all along to be Carney's replacement? If the search for Carney's replacement takes that long, then the scope for potentially dovish market uncertainty is greater.

3. Basel III

I think that Governor Carney was principally hired by the BoE because of his tough stance on bank capital and liquidity standards and related regulatory matters. He will now have the opportunity to apply it from a grander seat to often market making institutions that pose global systemic risk and that in some cases will attract concomitant special capital charges. Canadian banks are safe and sound and among world leaders, but are rarely market makers in a global sense and do not attract special capital charges as institutions that potentially pose global systemic risk. Canada is imposing Basel III in January 2013 and Canadian banks have been implementing it for some time already by, for instance, making it less appealing to book longer lived assets that now attract higher capital charges thanks in part to Carney's leadership on the issue. He will have little sympathy for arguments in favour of delays in global implementation if his performance in the Canadian context and in global forums is any guide, and could well have a bias in favour of an expedited path on the belief that a sounder set of rules is positive for average longer run growth. BoE Governor King's recent remarks on the need for stronger capital positions at UK banks is in part designed to hand the torch over to Carney. The implications for global liquidity and funding markets could well be significant as I think we've lowered the odds of delayed Basel III implementation elsewhere, or lowered the odds of delaying it as much as some would prefer. In my opinion, UK economists and the media would serve the debate rather well if among their first questions of Carney they asked about his stance on this broad issue in the UK, European and global contexts.

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4. Organizational Changes At The BoE

In my opinion, Carney was also hired by the BoE because of the managerial prowess he applied in restructuring the BoC with a likely comparable outcome pending throughout the rank and file at the BoE over coming years. This is particularly likely in the wake of the BoE's Libor controversy and various crisis managerial missteps that left few serious candidates for the Governor's office untainted. While we've noted those who have left the BoC in recent years, the in-door has been just as active as Carney promoted John Murray and Agathe Cote to Deputy Governor roles from within, but brought in outsiders like Macklem and Deputy Governor Timothy Lane in addition to several key internal positions.

5. Unconventional Monetary Policy At The BoE

It is very difficult to judge what bias Carney will bring to the BoE regarding unconventional monetary policies such as the innovative funding for lending program, and asset purchase programs. This is either partly because Carney has thus far operated within a context that didn't require such programs, and/or because history may judge Carney as one of the few who perhaps correctly rejected a role for such policies against concerns over their longer run effects. Money multipliers and velocity never collapsed in Canada as they did in the US and Europe, due in no small part to a sound Canadian banking system and relatively small shadow sector, so the monetary transmission mechanism was never truly broken. That in part is due to sound bank management and a sounder overall regulatory apparatus, but it is also due in part to the simple fact that Canada had its crisis like today's European and US challenges before anyone else did back in the 1990s; after righting its ship, it was well positioned to be less impacted by global turmoil through the current crisis to date once the path to fiscal and corporate balance sheet repair had been established. Introducing a QE program in Canada would have also been more complicated than elsewhere due in part to the limited size and liquidity of several elements of the market. It also merits noting that when there were focused funding challenges, it was the Department of Finance that led the solutions through, for example, the Insured Mortgage Purchase Program that entailed buying mortgages from banks to help ease funding and liquidity strains, and financed this through greater Canada bond issuance. Carney's earlier role in addressing Canada's ABCP market problems was also significant. By definition, such a program was sterilized and not funded through the central bank's printing presses. We also offer the view that the Canadian market benefitted enormously if albeit indirectly through the Federal Reserve's QE programs and aggressive response to the early days of the crisis such that Canadian markets witnessed a US-style rapid path to considerable market repair following the despair of March 2009. On that note, however, we think Governor Carney shares a supportive view of Fed policies and the BoC has tended to have among the more aggressive opinions on how QE3 will benefit US GDP growth and Canada through back door influences. This is why we lean more toward our first suggested interpretation that Carney did not have to entertain broader unconventional monetary policies because the Canadian context was sharply different than elsewhere, as opposed to a fundamental disbelief in the nature of such initiatives.

In other respects, Carney has proven a willingness to embrace innovative ideas such as the conditional rate commitment in 2010 that pushed borrowing costs lower further up the curve, notwithstanding the fact that the BoC hiked just before the end of the commitment when the condition of price stability was being temporarily breached. We viewed hiking as not a violation of the commitment since the conditional part was simply being violated. This program has not been repeated since versus a more erratic influence created by a shifting policy bias. A conditional commitment was, however, easier for the BoC to pursue with its sole mandate of price stability than, say, for the Fed to do so given its dual mandate. Like King, Carney does not take a mechanistic rules-based approach to monetary policy that itself was more characteristic of past ECB President Jean-Claude Trichet. Carney practices what he refers to as flexible inflation targeting, as he explained in a Financial Times op-ed this past Spring. Over time, the BoC has targeted 2% inflation with variable policy lags of between two and eleven quarters in managing broad supply and demand conditions within the Canadian economy. It has not strictly hiked or eased based solely upon near-term inflation risks versus applying longer run judgement. Through the crisis, financial stability considerations wove themselves into the BoC's sole 2% inflation targeting framework.

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6. Volatility Trades
While Carney does not take a mechanistic approach to monetary policy, he has also not been as steady on the bias and rate front as King in the face of uncertainty governing the inflation outlook. It is therefore possible that volatility trades just became more attractive in the UK. I don't think Governor Carney would have been as resolute in seeing through persistent violations of the BoE's inflation target as Governor King has been throughout the period in which he has written numerous required letters of explanation to the Chancellor of the Exchequer, and I'd offer the BoC's policy shifts over the past fifteen months as evidence of this volatility.

7. Forecasting Exercises
Carney has developed a more rigorous approach to forecasting and research exercises at the BoC. That said, however, the BoC's forecast track record during the crisis has not been any closer to perfection than anyone else's. Indeed, the BoC — like the Fed — has had the repeated tendency to come out too optimistic on growth particularly in the second year of its rolling forecast horizons only to have to spend the forecast horizon revising growth lower over the course of the crisis. Carney is likely to reform forecasting and research at the BoE for the better, but don't expect miracles not least of which because he is operating within the same exceptionally uncertain times as the rest of us.

8. Transparency
Lastly, it isn't clear how Carney will manage the issue of transparency. By some metrics he is a more open Governor, including through the frequency of speaking appearances, press conferences, and media interviews but also through introducing quarterly Monetary Policy Reports over the semi-annual tendency of the past that have brought welcome improvement to the frequency of forecast assessments and special technical boxes that address current issues. Carney has also brought greater focus to the BoC's research exercises compared to its past culture. In other respects, however, the BoC is a more closed and guarded institution compared to the BoE. One key example of this is that open expression of competing viewpoints by other members of the BoC's Governing Council is neither encouraged nor tolerated under Carney (or prior Governors for that matter). This is in stark contrast to the Fed, ECB, RBA and the BoE itself in that the BoE has been characterized by open dissent on key policy issues and publishes minutes to its meetings (the BoC does not). Another issue is the role of the media on which we will only suggest that a classically more aggressive and often less forgiving UK media may represent a different brand of stick work on- and off-ice than Carney has been used to in the Canadian context.

In all, Canada has lost an excellent central banker and we wish him well on the global stage, but one would be committing a disservice in drawing inferences for UK, Canadian and global markets without taking into account the institutional and environmental differences of the two central banks. It is probable that such differences are at the root of why an ambitious and talented Mark Carney found the BoE role to be so appealing in the first place and one cannot credibly fault him for that.

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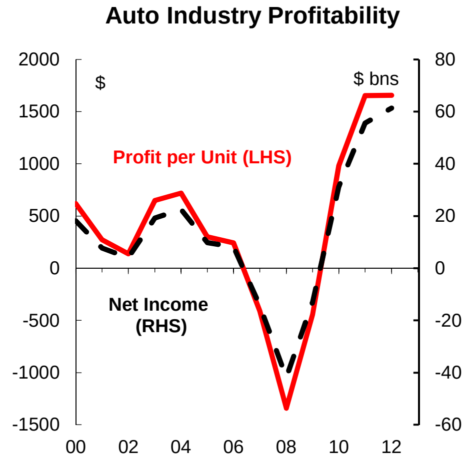
Record Auto Industry Profits

- **Asia and North America lead the way, but losses widen in Western Europe.**



Source: Scotiabank Economics.

Profitability for the five largest auto manufacturers has posted a double-digit increase in 2012, climbing to a record high of US$61.4 bn (annualized) through September. This represents the third consecutive annual earnings improvement — a trend likely to remain in place for several years, as our leading indicators point to ongoing gains in global car sales amid, a slow, but enduring economic expansion. Highlighting the dramatic turnaround, this year's profit is approaching the massive cumulative loss of US$69 bn sustained during the tumultuous years between 2007 and 2009.

Profitability is improving in most regions, with the exception of Western Europe where losses continue to widen. North America tends to receive most of the credit for the improved performance. However, profits in Asia (excluding Japan) — the world's largest auto market, also continue to make steady progress. The region (ex Japan) now accounts for nearly 30% of global car sales and one-quarter of overall profits. Automakers earned a record US$2.4 bn in the region during the third quarter, a 58% y/y surge. In fact, when these results are combined with the profits booked by Japanese automakers in their home market, overall profitability in the Asia Pacific region is rapidly approaching the US$5.3 bn reported in North America last quarter.

North America is the leader in profitability per vehicle, at more than US$2,000. However, earnings growth per unit has stalled across the region. In contrast, per unit profitability is soaring in Asia, advancing by more than 40% y/y, and is now approaching US$1,300 per vehicle (outside of Japan). This is on top of the roughly US$2,000 per vehicle that Japanese automakers earn in their home market.

Investors as well as corporate officials remain worried about the industry's deteriorating prospects in Western Europe. However, the region's importance is being overtaken by the rapidly growing developing markets. Car sales in Asia (ex Japan) and Latin America are now more than double the sales pace in Western Europe — a sharp reversal from a decade ago when these markets accounted for less than half of the volumes in Western Europe. Even taking into account lower car prices — US$13,000 in Asia (ex Japan) and US$16,000 in Latin America — automakers already collect more revenue from their operations in these markets than from Western Europe. Transactions car prices in Western Europe are the highest in the world at US$28,000.

Even with high sticker prices, the industry will continue to lose money in Europe until capacity is realigned with the region's reduced demand. The five largest automakers are currently losing nearly US$1,000 for each vehicle sold in Western Europe. The red ink is being exacerbated by the ongoing sovereign debt crisis which has slashed car sales in Western Europe to a two-decade low of 11.7 million units. Automakers have the capacity to build 18 million vehicles annually in Western Europe, and have to operate their facilities at about 80% to break even. We estimate that the region has an excess capacity of 3.6 million units — at least 12 assembly plants — and profitability is unlikely to be restored until a significant number of plants are closed.

Outside of Western Europe, the industry is also making progress in containing its fixed costs, especially in North America. We estimate that after slashing fixed costs by more than 25% during the 2008-09 industry's restructuring, the two largest North American automakers have trimmed their costs by an additional percentage point over the past year. Japanese automakers are also reducing costs by shifting production from their home market, to North America and the rest of Asia. The two largest Japanese automakers now assemble two-thirds of their vehicles outside of Japan, a significant change from prior to the global economic downturn, when a majority of production occurred on the island nation.

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Japanese Economic Prospects Remain Weak; South Korea Set To Pick Up

- **Sustained weakness is in sight for the Japanese economy, as deflation discourages consumption, the reconstruction boom wanes and exports suffer from geopolitical tensions with China.**
- **The Korean economy is showing preliminary signs of a revival as domestic demand solidifies and the external sector gathers steam.**

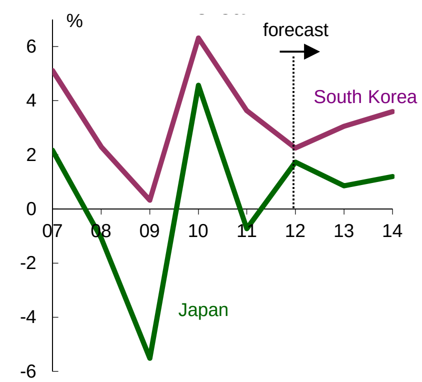
The Japanese economy continues to weaken. Real GDP contracted by 0.9% q/q (+0.2% y/y) in the third quarter, as the export sector continues to suffer from the combined effect of recessionary conditions in Europe and the diplomatic tensions between China and Japan over disputed territories. Domestic demand is being adversely impacted by deflationary pressures that make borrowing unappealing and encourage consumers and companies to postpone spending, while the boost from reconstruction-related investment will continue to wane. The economy has failed to provide convincing evidence of a pickup in momentum in the final quarter of the year, as business and consumer confidence continues to deteriorate while leading indicators point towards sustained weakness. Accordingly, we are revising Japan's 2012 output growth forecast downwards to 1.7% from 2.2%, and expect the economy to record only a modest average gain of 1.1% in 2013-14 as the tsunami-related reconstruction boom vanishes.

In South Korea, tentative signs of an economic revival are emerging with industrial production, exports, consumer confidence and the labour market recording modest improvements following a relatively weak economic performance in the third quarter of the year, when real GDP growth decelerated to 0.2% q/q (+1.6% y/y) from 0.3% (+2.4%) in the April-June period. We expect South Korean output to advance by 2.3% in 2012, followed by a modest pickup to around 3.0-3.5% in 2013-14 reflecting gradually improving global demand conditions.

The external sector is significant for both economies (though more so for South Korea), as net exports positively contribute to real GDP growth. To South Korea's benefit, in a time when global growth is almost exclusively driven by emerging markets, the nation's shipments abroad are directed towards developing economies to a greater extent than are Japanese exports (57% of Korean exports go to emerging markets, while the corresponding figure for Japan is 46%). As China is the most important export destination for both nations (purchasing 24% of all Korean shipments abroad, and 20% of Japanese exports; please see chart), its economy's imminent revival will be significant; nevertheless, strains between China and Japan over the Senkaku Islands will continue to dampen demand for Japanese products in the near future.

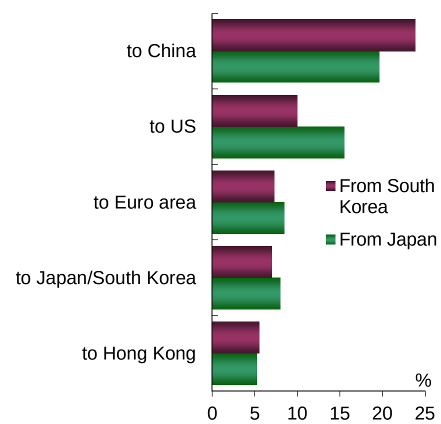
Given the deteriorating economic outlook in Japan, the Bank of Japan is under pressure to loosen monetary conditions further; while the current asset purchase program's total size of ¥91 trillion is not expected to be reached before end-2013, further increases to

Real GDP Growth - Japan and South Korea



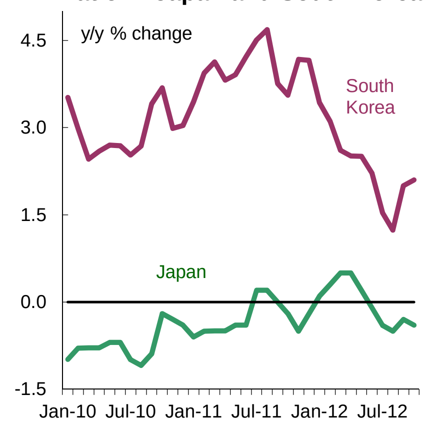
Source: Bloomberg, Scotiabank Economics.

Share of Total Exports



Source: IMF.

Inflation - Japan and South Korea



Source: Bloomberg.

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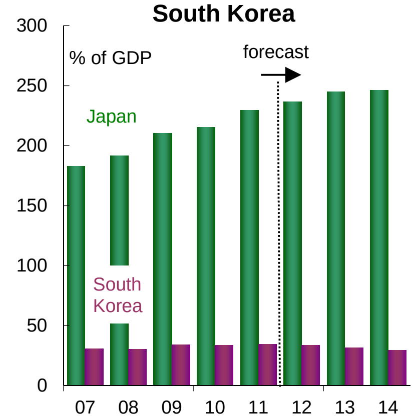
the program will likely be announced in the coming months. Deflationary pressures persist, with consumer prices dropping by 0.4% y/y in October, following a -0.3% reading a month earlier. We assess that prices in Japan will likely remain flat in 2012 as a whole, with inflation being dormant in 2013 as well.

In South Korea, inflationary pressures remain manageable; the headline consumer price index increased by 2.1% y/y in October, remaining within the Bank of Korea's 2-4% target range. We expect inflation to hover below the 3%-mark through 2014. The monetary easing cycle in South Korea has likely reached its bottom following the most recent benchmark interest rate reduction of 25 basis points to 2.75% in October. In November, the Monetary Policy Committee unanimously agreed to keep the key rate unchanged. A gradual process of interest rate normalization will likely commence in the third quarter of 2013.

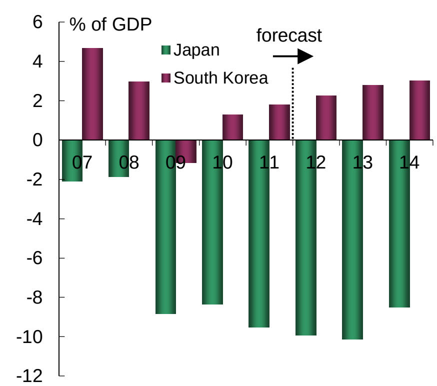
South Korean economic fundamentals remain solid, as emphasized by improving sovereign creditworthiness and healthy government finances. In fact, South Korea's sovereign credit rating has increased the most among the OECD countries in the last five years; among the three major international credit rating agencies, South Korea has experienced a total of four advancements since end-2007 (two notches by Moody's to "Aa3", one by S&P to "A+", and one by Fitch to "AA-"). Meanwhile, Japan faced a total of six downgrades over the same period of time (3 steps by Moody's to "Aa3", one by S&P to "AA-" and two by Fitch to "A+"), reflecting the government's weak fiscal position with sizable budget deficits and a heavy public debt burden (please see charts).

Gross Government Debt - Japan and South Korea



Source: IMF.

Fiscal Balances - Japan and South Korea



Source: OECD, Scotiabank Economics.

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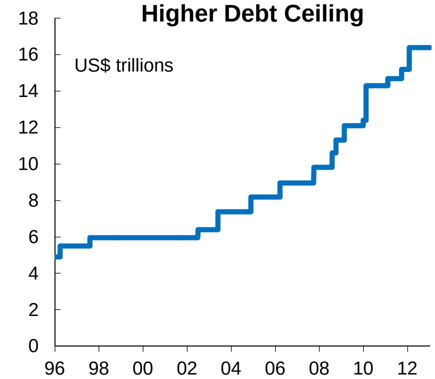
Facing The U.S. Debt Ceiling

- **"Extraordinary measures" may be required once again.**

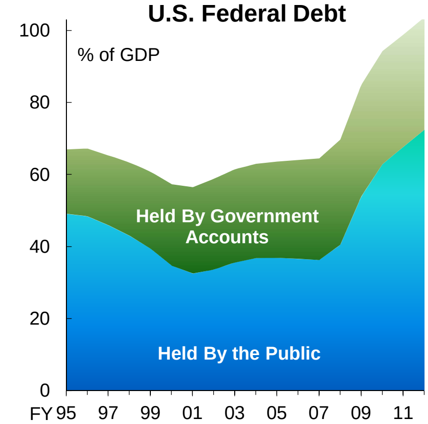
As negotiations over the 'fiscal cliff' proceed, the U.S. federal debt subject to statutory limits was US$16.28 billion[1] as of November 27th, just $115 billion less than the current $16.394 billion ceiling *(chart 1)*. The current limit follows a three-stage rise after the *Budget Control Act* was passed on August 2, 2011. With respect to the present debate, the Congressional Budget Office (CBO) estimates that after the current debt limit is reached, likely in late December, the U.S. Treasury's use of a range of extraordinary measures probably will allow continued borrowing to fund the government's activities until mid-February or early March of 2013.

Washington's Progressively Higher Debt Ceiling



Source: U.S. Treasury.

U.S. Federal Debt



Source: U.S. Treasury.

As witnessed over the late spring and summer of 2011 until August 2nd, the U.S. Treasury can take a number of actions to trim inter-governmental and other federal obligations that fall under the debt ceiling definition. It can suspend the issuance of new State and Local Government Series securities and savings bonds, and it can halt investments by the Civil Service Retirement and Disability Fund, the Postal Benefits Fund, the Government Securities Investment Fund of the Federal Employees' Retirement System, and the Exchange Stabilization Fund. From the first two Funds, it can redeem early a limited amount of securities and it can replace up to $8 billion of Treasury securities subject to the debt limit for debt issued by the Federal Financing Bank.

Setting a precise date for the potential extension from these measures is complicated by the uncertainty and increasing size of the federal daily cash flows and transactions *(chart 2)*. For example, on February 1st, 2013, the CBO estimates payments for Social Security benefits of $25 billion and for Medicare Advantage and Medicare Part D of $17 billion, plus wages for active military staff and civil service, veteran and Supplemental Security Income benefits totaling roughly $17 billion. On February 6th, 13th and 20th, additional Social Security benefit payments, each about $11 billion, are due. On February 15th, interest payments on publicly issued securities are required which will likely surpass $30 billion. In mid-January, individuals will make their quarterly nonwitheld personal income tax (PIT) payments that have averaged roughly $45 billion recently. Quarterly corporate income tax payments are expected in mid-December and mid-March (the latter about $23 billion), alongside annual tax filings due in March for the majority of corporations. For PIT tax filings, the annual renewal of higher exemption amounts for the Alternative Minimum Tax (AMT) for the 2012 tax year has not been legislated, potentially making a number of citizens subject to this tax. Aside from the AMT, processing PIT returns and issuing refunds, that typically occur in February and March, could well be delayed.

After the debt ceiling is raised, the U.S. Treasury will have to address the uninvested principal of the Funds involved and restore the lost interest income. The Government Accountability Office has estimated that the delays in raising the debt ceiling in fiscal 2011 raised federal borrowing costs by about $1.3 billion because of the resulting market volatility. Its recommendation to Congress was to better link budget and debt ceiling decisions. This advice is underlined by the considerable domestic and international expense, for financial market participants and the economy, caused by the 2011 debt ceiling delays.

[1] Federal debt not subject to the statutory limit is very small, and includes unamortized Treasury bill discounts, Zero Coupon Treasury bonds and issuance by agencies other than Treasury. All dollar amounts are in US dollars.

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Argentina Update: Reopening, Circumventing, And Recovery

The following article was published on November 29, 2012.

The stay announced yesterday evening should ensure that bondholders get paid in December and that appeals have more time to be heard; they could also give Argentina time to circumvent the ruling. Briefs will be filed in January and oral argument will be heard on February 27, 2013. Thus, plaintiffs' attempts to expedite the ruling and catch Argentina off guard have been thwarted. Nevertheless, Argentina's legal troubles are not over in this matter. We explore three recent areas of interest to investors: the reopening of the exchange, the difficulties Argentina must overcome to circumvent the ruling, and what recovery value investors can expect in a default.

Reopening the Exchange

Over the past few days, the local press has reported Argentina's intention to reopen the exchange to holdout investors at terms equal to or worse than those offered in 2005 and 2010. With holdout investors currently winning in court, Argentina cannot possibly think that those investors would accept such an offer. Instead, Argentina is probably trying to remedy a strategic mistake it made earlier in passing the lock-law, which gave plaintiffs clear evidence that their claims had been legally subordinated in violation of the pari passu clause. While the move makes sense, and we wonder why Argentina took so long to make it, we don't think it will immediately fix Argentina's problems. The Appeals court cited two different violations of the pari passu clause, only one of which was the legal subordination addressed by reopening the exchange. The other violation, which is legally controversial, was subordination in actual payments, and that one has still not been remedied.

The automatic review by the appeals court of Judge's Greisa's decision over Thanksgiving will consider only the amount holdouts should receive and which intermediaries are covered by the injunction. If the request for a rehearing in front of the full panel of the Appeals court is granted, however, then the definition of pari passu might again be considered. If the Appeals Court were to limit the definition of pari passu, and Argentina reopened the exchange, then the violation would be moot, and the legal problems could well go away. We would have thought that this news would have caused markets to rally a couple of points, but markets largely ignored it.

Circumventing the ruling

So far, Argentina is relying more on appeals than on circumventing the ruling. Part of the reason could simply be that the government is being careful in public since earlier pronouncements that it would not abide by US court rulings have been successfully used against Argentina by plaintiffs, and provided a justification for Judge Griesa to expedite his rulings. Another reason is that circumventing the ruling will be difficult for Argentina, especially in the near term. Judge Griesa had ordered third parties including banks and lawyers not to assist Argentina in violating his rulings. Most corporate actions such as bond swaps are implemented through clearing systems, which have the master list of ownership positions in Argentine bonds, albeit only to the level of custodian banks; that list is crucial both for implementing such swaps and also for paying the coupons on the bonds. Without the clearing systems, the administrative headaches for Argentina and for custodian banks to implement any type of restructuring or even to pay the bonds offshore would be greater. All of Judge's Griesa's orders have been stayed, but we imagine that any evidence of an attempt to circumvent a potential ruling could lead portions of the order to be reinstated.

Recovery Values

A question that many investors are asking is what is the recovery value? What will the bonds be worth if Argentina is unable to deliver coupons to bondholders next year after the appeals court ruling? While such a

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question is difficult to answer for most any sovereign, it is particularly cumbersome for the unusual situation in which Argentina finds itself. The most obvious benchmark, of course, is Argentina's past restructuring, implying a recovery value of 30 cents on the dollar. The fact that Argentina does not need any debt relief this time around implies a much higher recovery rate. On the other hand, Argentina could decide that paying foreign bondholders is pointless, and, offer no restructuring option, implying that bond prices could fall below $30.

In trying to sort through the possibilities, we need to think about why Argentina is paying the bonds in the first place. There are two reasons probably. One is economic — to avoid panic in local financial markets that could increase capital flight. Another is political and personal — the administration takes pride in having executed a successful restructuring in 2005. Thus, a likely outcome of the default, which is also the best bondholders can expect to obtain, would be an offer of securities of similar terms but out of the reach of US courts. For example, our rough estimate based on very limited trading is that prior to recent court decisions, local law Discount bonds were trading at a $10 to $15 discount to the NY law bonds, which presumably accounts for risks related to pessification as well as lower legal protections in general. That implies the price of restructured bonds should be around $60.

Nevertheless, we think both fundamentals and technicals would be worse post-default, meriting a lower price. The default could cause problems in local financial markets, only partly ameliorated by increased capital controls. There could also be repercussions in the real economy — while business sentiment is already low, another default could make it fall even further. On the technical side, some investors who hold NY law bonds may not want to hold local law bonds, especially if they are not in the index and the country has an SD rating. Thus an initial level of around $50 seems called for in this scenario, but obviously recovery would be worse in alternative types of defaults.

For more information, see our past articles:

"Argentina legal update," November 21, 2012
"Argentina expedited court schedule," November 9, 2012.
"Pricing Argentina's court ruling," November 6, 2012
"Argentina appeals court commentary," October 26, 2012.

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Canada's Loss Is The UK's Gain

George Osborne's appointment of Mark Carney as the next BoE Governor was a political masterstroke. There has been considerable criticism of the Bank's forecast track record and its handling of the financial crisis. To have replaced King with Tucker to many people would have been a like-for-like swap — the King is dead, long live the King.

While it may sound a little shallow, presentation skills are also likely to have been an issue. Love him or hate him, Mervyn King is an excellent presenter. He presented the quarterly inflation report press conference when he was Chief Economist and continued to do so when he became Governor. In my view, Carney was a better candidate than the two internal applicants on this front. At the end of the day, communicating the Bank's work is half the battle.

The following are 4 key themes that we think are likely to be evident under the new Governor.

What Went Wrong?

While Carney's first day in the office (1st July) may seem a long way off, that is just two *Quarterly Inflation Reports* away. We would expect Carney to do what any other private sector economist has been doing for years regarding the Bank's disappointing forecast track record. More specifically:

> **Problem:**
> Persistently too optimistic on GDP growth
> **Solution:**
> Aim a bit lower
>
> **Problem:**
> Inflation projection has been persistently too low
> **Solution:**
> Aim a bit higher

Flexible Inflation Targeting

The above highlights a key issue — flexible inflation targeting. Had the BoE been 100% accurate in forecasting inflation in recent years, it would never have been projecting inflation below the 2% target. As such, this would have made it much harder to justify the policy ease that has been delivered.

Flexible inflation targeting or embracing a more Fed-style mandate is probably the solution and one that King has hinted at in the past. In other words, inflation has been above target and the Bank could very easily have pushed it down by raising Bank Rate. However, that would have killed the economy, pushed up unemployment and made matters worse. The difference, given the above, is that Carney may well have to make this argument on a forward-looking basis rather than backward-looking basis. In other words, we could envisage a situation over the coming years where the Bank has to predict that inflation will continue to be above target, but justify why it is not tightening monetary policy.

Transparency

The BoE is fairly shy about providing the details that underpin its economic projections. For example, we don't get a breakdown of the components of GDP built into its growth projection. Had we had this cross-check, perhaps the forecast track record might have been a little better.

As such, we would hope to see a little more detail provided alongside the headline forecasts. The Office for Budget Responsibility (as will be demonstrated next week) provides oceans of detail on the makeup of its growth projection with a workforce a fraction of the size of that in Threadneedle Street. The Bank of Canada in its quarterly Monetary Policy Report provides a breakdown of the expected contributions to GDP by each

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category expenditure and how this has evolved since the prior forecast. Furthermore, the BoC even publishes a % q/q GDP projection! That has only been indirectly published by the BoE (albeit requiring some jiggery pokery to discover it). Worse still — the figures are not published until a week after the BoE *Inflation Report*!

With any luck, the new Governor will not continue this teasing exercise. It is ok for forecasts to go wrong — they are almost certain to do so and outsiders should understand that. A bit more colour around those forecasts would make that more likely.

Seeing the wood for the trees — a change is as good as a rest.

One of the biggest advantages of hiring an outsider is it will be a fresh start with little or no baggage. As such, taking a look at the UK outlook and recent experience with a fresh set of eyes stands a good chance of being able to see the bigger picture without getting bogged down by the minutiae of detail that tends to come when an incumbent has been in the thick of the action.

Overall

We very much welcome the announcement of Mark Carney as the new Bank of England Governor from next year. Nobody is arguing that he can work miracles, but he is the right man to make the best of a bad situation. The 3 key changes that we would expect or hope to see under his leadership are more transparency, correcting past errors and flexible inflation targeting.

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UK: No More Cheap Booze

Where has the Punchbowl Gone?

With any luck, at some point during Mark Carney's five-year term as Governor of the Bank of England he is going to have to think about taking away the punchbowl just as the party is getting going. But if the UK Government proposals for a minimum price of alcohol go ahead — that metaphor will no longer be appropriate — alcohol is going to be too expensive to generate rowdy behaviour and hangovers. More specifically, the government has launched a consultation that proposes a minimum price of 45p per unit of alcohol. There have even been calls for a minimum price of 50p per unit (which is being implemented in Scotland). The motivation for this policy is to prevent unnecessary alcohol-induced health problems and crime. Furthermore, there is a case for helping pubs and clubs in the face of aggressive competition from supermarkets.

My initial knee-jerk reaction was that this won't affect me — surely it will only impact on binge drinking teenagers and tramps who tend to consume alcopops and cider. However, the sobering effects of this move are likely to be far-reaching.

Distilling the data

Each month the ONS collects over 2500 prices of individual alcoholic beverages as part of the process to construct the CPI and RPI measures of inflation. There are 3 key sub-categories (spirits, wine and beer) which are then sub-divided into 15 narrower fields (e.g. New World White Wine, 4 Bottles of Premium Lager etc — Table 1).

We have made use of the ONS price data for these individual items in order to gauge exactly how far-reaching a minimum price level might be and what impact this could have on the CPI and RPI.

- **Stage 1:** we identified how many units of alcohol are contained in a typical product within each category. For example, a 700ml bottle of vodka typically contains 26 units of alcohol. Hence, if the minimum price per unit is 50p, then the minimum price of a bottle of vodka would be £13, or £11.70 if the minimum price per unit is 45p.
- **Stage 2:** We looked at the proportion of the individual prices collected by the ONS that fall beneath this proposed minimum price threshold for each category. In the case of vodka, the latest ONS data showed the prices of 226 bottles of vodka that were collected during June (the latest month for which detailed data is published). Of these, 99 (i.e. 44% of the total) would have had a price below the minimum threshold (assuming minimum of 50p per unit). Alternatively 70 of those bottles of vodka (i.e. 31% of the total sample) would have had a price below the threshold (assuming a minimum of 45p per unit).
- **Stage 3:** We calculated how much prices of those goods affected will have to rise in order to bring them up to in line with the minimum price threshold.
- **Stage 4:** Based on the weights applied to each individual sub-category and the results of stages 2 and 3 above, we calculated the likely addition to overall CPI inflation.

Widespread Impact

Table 1 below provides the results of this analysis with some surprising outcomes. To summarise, if the minimum price is 50p per unit:

- around a third of the individual products that the ONS sampled during June-2012 had prices below that limit.
- these products will need to see an average price increase of around 18% (using the geometric mean) to get up to that minimum threshold.
- In isolation, this will probably add around 0.13% points to overall inflation.
- However, it is also possible that there is a more generalised upward drift in other alcohol products as a ripple effect.

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Table 1: Summary Analysis of Individual Alcoholic Beverage Prices (Assuming 50p per Unit Minimum Price)

Item Description	Weight (out of 1000)	Typical Alcohol Units	Minimum Price (if 50p per unit)	Proportion of June-2012 Sample Below 50p Threshold	% Increase Needed to Get Price Above Minimum
LAGER 4 BOTTLES- PREMIUM	2.00	1.5	3.00	0.0	0.0
LAGER 12 - 24 CANS (440-500ML)	1.15	2.0	12-24	100.0	57.0
LAGER 12-24 BOTTLE (250-300ML)	1.00	1.3	7.5-15	66.7	29.0
BITTER-4CANS-440-500ML	0.85	2.0	4	41.5	15.5
SPIRIT BASED DRINK 275ML	0.30	1.1	0.55	0.0	0.0
VODKA-70 CL BOTTLE	2.05	26.0	13	43.8	18.2
WHISKY-70 CL BOTTLE	2.20	28.0	14	39.8	9.4
FORTIFIED WINE (70-75CL)	0.36	13.0	6.5	27.4	26.0
WHITE WINE- EUROPEAN 75CL	1.26	9.0	4.5	42.0	7.4
WHITE WINE- NEW WORLD 75CL	1.80	9.0	4.5	20.1	7.8
RED WINE- EUROPEAN 75CL	1.44	10.0	5	28.6	4.6
RED WINE- NEW WORLD 75CL	2.07	10.0	5	28.8	5.5
ROSE WINE-75CL BOTTLE	0.45	9.0	4.5	15.2	1.0
RED OR WHITE SPARKLING WINE	0.36	9.0	4.5	8.4	35.0
APPLE CIDER 500-750ML 4.5-5.5%	0.81	3.0	1.5	10.5	24.5

Table 2 shows the results of the same analysis if the minimum price is set at 45p per unit. In general, the effects are a little less powerful, but striking nonetheless:

- Around a quarter of the individual products that the ONS sampled in June-2012 had prices below that limit.
- These would need to see an average 13% price increase (again, using the geometric mean) to get up to that minimum threshold.
- This would add around 0.08% points to headline inflation (in isolation) though probably a bit higher with ripple effects.

Table 2: Summary Analysis of Individual Alcoholic Beverage Prices (Assuming 45p per Unit Minimum Price)

Item Description	Weight (out of 1000)	Typical Alcohol Units	Minimum Price (if 45p per unit)	Proportion of June-2012 Sample Below 45p Threshold	% Increase Needed to Get Price Above Minimum
LAGER 4 BOTTLES- PREMIUM	2.00	1.5	2.70	0.0	0.0
LAGER 12 - 24 CANS (440-500ML)	1.15	2.0	10.8-21.6	93.7	53.0
LAGER 12-24 BOTTLE (250-300ML)	1.00	1.3	7.02-14.04	52.1	25.0
BITTER-4CANS-440-500ML	0.85	2.0	3.6	36.9	3.7
SPIRIT BASED DRINK 275ML	0.30	1.1	0.495	0.0	0.0
VODKA-70 CL BOTTLE	2.05	26.0	11.7	31.0	8.1
WHISKY-70 CL BOTTLE	2.20	28.0	12.6	14.3	4.9
FORTIFIED WINE (70-75CL)	0.36	13.0	5.85	21.5	9.7
WHITE WINE- EUROPEAN 75CL	1.26	9.0	4.05	32.0	4.1
WHITE WINE- NEW WORLD 75CL	1.80	9.0	4.05	12.2	3.1
RED WINE- EUROPEAN 75CL	1.44	10.0	4.5	12.7	1.0
RED WINE- NEW WORLD 75CL	2.07	10.0	4.5	19.6	1.7
ROSE WINE-75CL BOTTLE	0.45	9.0	4.05	3.6	5.8
RED OR WHITE SPARKLING WINE	0.36	9.0	4.05	7.5	37.0
APPLE CIDER 500-750ML 4.5-5.5%	0.81	3.0	1.35	9.0	13.1

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Surprising Outcomes

- **Alco pops immune:**

As we highlighted above, we had expected alcopops to be among the most affected. In fact, because of the low alcohol content (spirit based drinks tend to only have around 1.3 units of alcohol) the prices of these goods in the ONS basket were all well above the minimum threshold for that type of beverage (50 to 55p).

- **Squeezed middle:**

Even the squeezed middle (who like the odd glass of wine or bottle of beer at home) are likely to be affected. With an average of 9-10 units per bottle, the minimum price of a bottle of wine will be around £4.50 to £5.00. Between 20% and 40% of the 900 bottles of wine sampled in July were below that threshold.

- **Multi-packs are a grey area:**

Some of the sub-categories are a little difficult to analyse. For example, the ONS data set for the category 'Lager 12-24 cans' does not specify how many cans are associated with each price. For the purposes of our calculations we have assumed the mid-point i.e. 18 cans. Our Scotiabank Shopping Basket Index price collection indeed shows that products in this category tend to be scattered between 12, 15, 18 and 20 cans per pack — so this is a reasonable assumption.

This category is the most affected by the minimum price threshold. Economies of scale mean that the larger the number of cans in a pack, the cheaper the average price per can. With an average of 2 units of alcohol per can, a minimum price of 50p per unit would mean a price of £1 per can, and around £18 per pack (of 12-24 cans). In fact, the price per pack is typically around 50% lower than that.

CPAC Implications — Another Landmine for the RPI-CPI Wedge?

The introduction of a minimum price for alcohol has the potential to cause a period of significant volatility and dispersion within the alcoholic beverages category of inflation. This is not a million miles away from what has been happening to the clothing component of the inflation basket — which in turn has caused a blowout in the RPI-CPI wedge.

In the small print above we specifically mentioned that the average increase needed to get the individual prices up to the minimum levels was calculated using the geometric mean. That is always going to be the case for the CPI measure of inflation. Fortunately, in the case of the RPI, the troublesome Carli averaging technique is not applied to alcoholic beverages. If it was, we believe that we could have seen another blowout in the RPI-CPI wedge. By way of illustration, in the case of sparkling wine, an average (geometric) price increase of 37% is required to push prices in this category up to the minimum threshold. However, if the Carli-style arithmetic mean is used, we calculate that an average 64% price increase would be needed.

It would have made a great story and provided considerable ammunition for the ONS to opt for the more drastic change to the RPI in its upcoming methodology change related to clothing prices. Nonetheless, this does highlight the perils of the Carli formula. Unexpected methodology changes can happen at any time and at some stage there could be another RPI-CPI wedge blowout as long as the Carli formula is used for various components of the RPI. So this analysis does lend some support to options 3 or 4 in the on-going consultation into improving the RPI.

Conclusion

'Cheap' booze is more widespread than most people realise. The proposed minimum price of 45p or 50p per unit of alcohol is likely to have a far-reaching impact across society. The direct impact on inflation is fairly minimal at close to 0.1% point (since the weight of alcoholic beverages in the CPI is just 2%). This experience is also a warning light that another RPI-CPI blowout is possible for as long as the Carli methodology is used for various components of the RPI.

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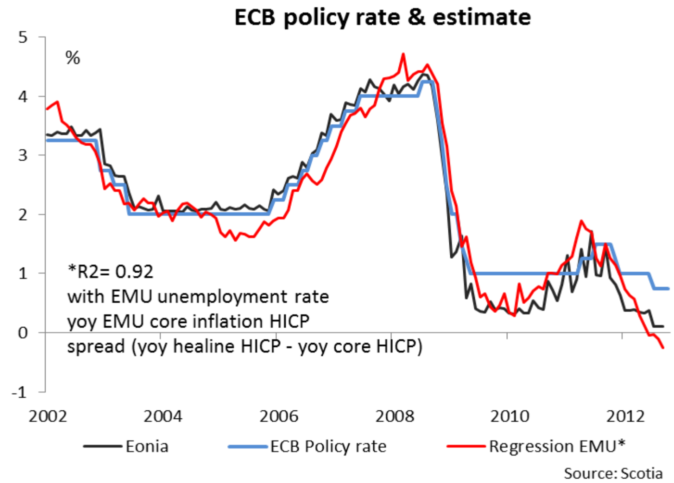
ECB Expected To Remain On Hold Despite Lower Growth Outlook

- **We expect the ECB to leave policy on hold at the December meeting.**
- **There remains a risk of a further rate cut over the coming months despite signs of firmer business sentiment.**
- **The ECB staff growth projections are likely to be revised down again for next year though, maintaining the view that the economy will stage a recovery.**
- **The inflation outlook is likely to be stickier than previously thought but nonetheless the message will be "in line with price stability" in a two year horizon.**

Status quo on rates but bias still on the downside

We expect the ECB to keep rates unchanged after the December 6th meeting, although the new staff macroeconomic projections are likely to show another downgrading in growth expectations. When looking to the historical relationships between eonia or ECB policy rates on one side and the EMU unemployment rate, EMU yoy core inflation as well as the gap between yoy EMU headline and core inflation (to take into account the ECB's view that headline inflation leads core inflation) on the other, one would assess that the bias is still very much toward cutting, suggesting the central bank may adjust the policy rate closer to zero!

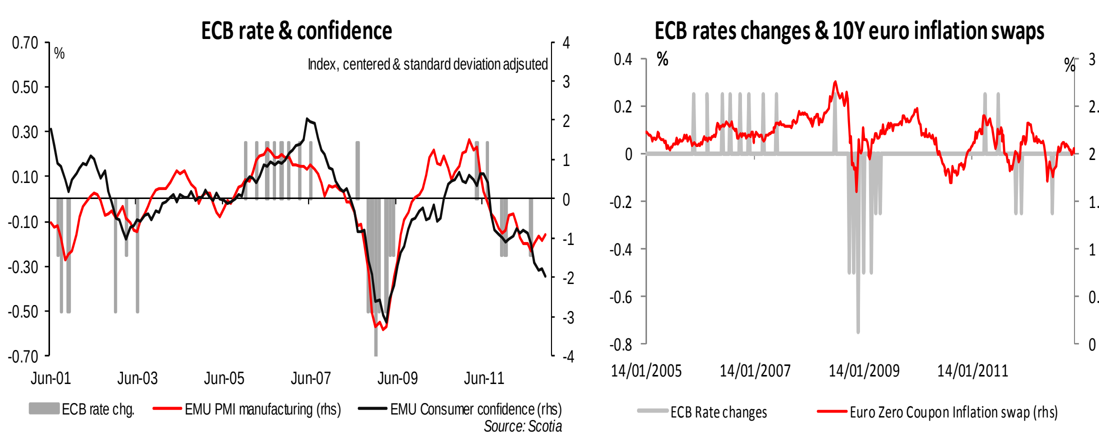
Chart 1: ECB policy rate



However, the signals have not been clear-cut. On the one hand, there has been some improvement in business sentiment of late. The flipside has been further weakness on consumer confidence. Notwithstanding the downward surprise in the preliminary estimate for eurozone inflation in November the trend has been stickier than expected and could favour another upside revision to next year's inflation forecast. Also, compared to the early summer when the ECB last cut the policy rate, medium term inflation expectations measured by the trend in 10Y Euro inflation swaps have moved up from below 2%.

Overall, given the ongoing high uncertainties on the EMU economic cycle, the tone of the press conference is likely to continue to be dovish, suggesting that that the bias on rates remains on the downside.

Chart 2: ECB policy rate & sentiment and inflation swaps



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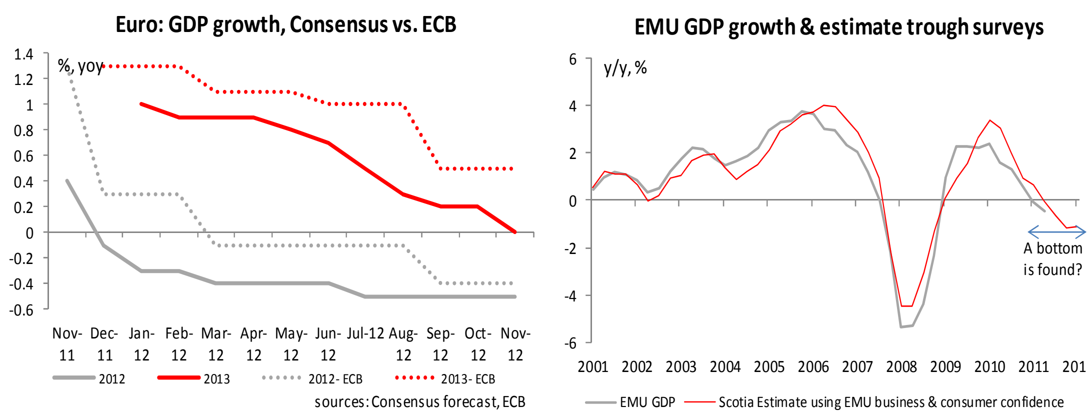
Further downgrade in GDP growth expectations, sticky inflation to prevail

The December meeting will also produce a new set of economic forecasts with, for the first time, 2014 projections. In terms of growth, there is a high probability that the ECB will once again revise lower its GDP growth forecasts for next year. In September, its mid-range forecast was for a +0.5% rise. However, after the -0.1% q/q drop in EMU GDP in the third quarter, such an outcome would suggest a rise of between 0.1%/0.2% q/q in EMU GDP in each of the coming five quarters.

While the recent improvement in business confidence (both at the EMU level but also across most countries) is encouraging for H1 2012, the turnaround is coming from a very long point. Also, its magnitude remains too small to change the negative dynamic for the fourth quarter after the sharp drop seen in September industrial production. Finally, while business sentiment shows a positive bias, consumer confidence continued to move lower. All in all, this suggests that a bottom could have been found and that the recession could be a mild one, but it does not point yet to any significant recovery.

Looking to the recent Consensus Economics forecast (November), growth expectations for next year have continued to be downgraded with an average forecast of around 0%! Over the past year, the ECB proved to follow this trend and the new forecast is likely to be also around this level. Worth watching, however, will be whether this forecast prints in sub-zero territory, as this would strengthen the view that the risk for interest rates still lies on the downside.

Chart 3: Growth expectations



For 2014, recent statements from the ECB indicated expectations for a weak growth momentum and this is likely to be reflected in the new projections. Looking to the last OECD forecast, the expectations are for a 1.3% GDP growth which would suggest roughly back toward EMU potential growth level. Our own estimate is on the downside with a target closer to 1%, which we think is likely to be around the new ECB forecast.

Regarding inflation, September's staff projections for 2012 experienced a sharp upward revision with a rise to 1.9% y/y from 1.6% y/y in June. Large swings in oil prices over the summer months mainly explained the magnitude of this revision. Since September, Brent prices in euro terms have been less volatile and have even softened slightly. The flipside is that with the exception of November's flash estimate, recent inflation data have been stickier than expected, especially on the back of reaccelerating food prices and higher indirect taxes (Spain, and the Netherland). While a downward revision to growth next year and therefore a higher negative output gap will weigh on inflationary pressures, the current stickiness is likely to prompt the ECB to revise its inflation forecast for next year up slightly to 2.0%-2.1%, an outcome which would be in line with our expectations.

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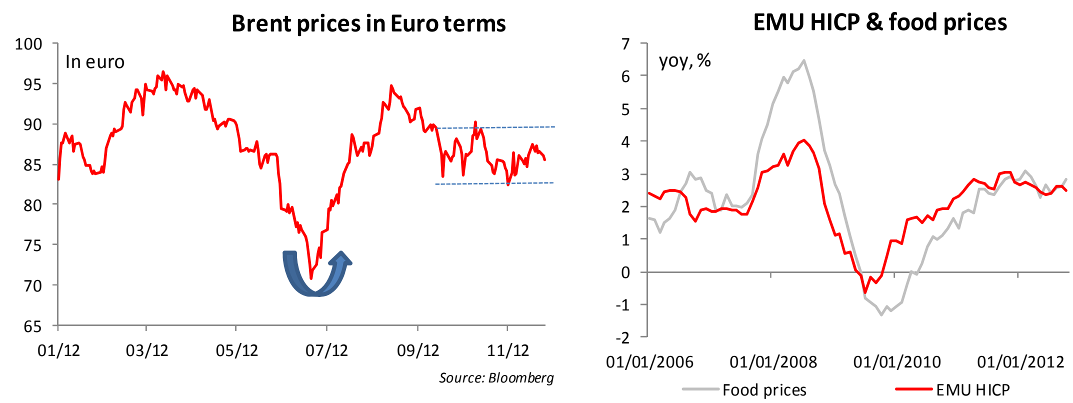
Chart 4: EMU inflation swings



The ECB's two-year inflation forecast is usually a very political one. Indeed, while it is not rare to see the ECB showing above 2% inflation over a one-year horizon while suggesting that upside risks to price development are transitory, the two-year inflation forecast is closely linked to the medium-term price stability objective. As a result, the figure usually sends a strong signal on the interest rate outlook, depending on how large it diverges either on the upside or the downside from the "below, but close to, 2%" target. With the ECB likely to promote a status quo on rates for the time being, we would look for the forecast to be around the definition of price stability, that is, in the 1.5%/1.8% bracket which has usually been seen over past years, but with the risk of significant revisions at a later stage.

Table 1: ECB's 2 year horizon inflation forecast & reality

ECB forecasts	for	Two year Mid-forecast	Actual
in Dec 2008	2010	1.8	1.6
in Dec 2009	2011	1.4	2.7
in Dec 2010	2012	1.5	2.5*
in Dec 2011	2013	1.5	1.9*

*** last ECB forecast, Sept 2012*

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2013 CAD Outlook

- **CAD is expected to appreciate in 2013 with Fed policy as the driving force behind USD weakness.**

The outlook for the Canadian dollar in 2013 and 2014 is strong; we expect it to close both years above parity and with an appreciating trend. The single most important factor driving our view is relative monetary policy. Entering 2013, the US Federal Reserve is expected to expand its quantitative easing (QE) program again; this balance sheet expansion, juxtaposed against the Bank of Canada's neutral to hawkish stance, is likely to prove a significant support for CAD. The lack of a US fiscal plan is expected to create waves of uncertainty, but on balance should weigh on the USD over time. From the Canadian perspective the established fiscal plan, low net debt levels and triple-A rating serves to drive investment flows into Canada and drives CAD higher. However, dampening CAD strength is a shifting domestic environment — namely within the housing and commodity sectors — and a mixed oil outlook where the benefits of elevated prices are offset by a wide Brent-WTI spread and a changing US energy environment. On balance, the positive CAD drivers continue to outweigh the weights, leading to an environment ripe for CAD strength.

CAD FORECAST: STRENGHTENS TO 1.04 IN 2013 USDCAD FORECAST: WEAKENS TO 0.96 IN 2013		
	CAD STRENGTH	CAD WEAKNESS
Central banks	FED's QE program juxtaposed against neutral to hawkish BoC	
Growth	• China expected to have a soft landing (GDP, 2012 7.7%; 2013 8.0%; 2014 8.4%) • US moving into stronger recovery	Domestic risks: housing market, household debt, slowing employment growth
Sovereign	Triple A rated with a credible fiscal plan	
Flows	CAD positive flows - Triple A rating; FX reserves; M&A	
Oil	Oil (Scotiabank Economics forecasts WTI oil to average $95 in 2013)	Oil risks: Brent-WTI spread & US self reliance
Politics	Stable government until October 2015	
Sentiment	Sentiment is bullish with traders holding CAD net long - however moderating	
Risks	CAD vol at decade lows	External risks: Europe, US fiscal cliff & geopolitics but none are our base case

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Key Data Preview

CANADA

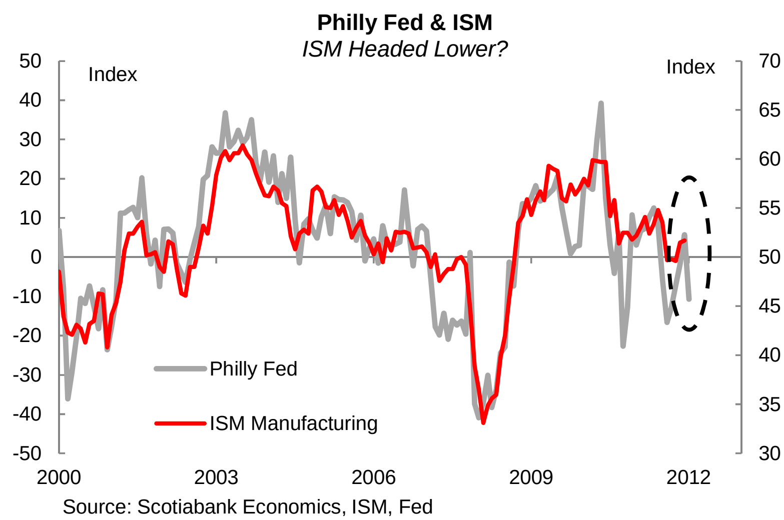
Canadian **jobs** numbers for November will be released on December 7, and Scotiabank Economics is looking for a muted 5k gain following October's anemic +1.8k outcome. Fundamentals aren't pointing to strong labour conditions, particularly after GDP came in at 0.6% q/q SAAR in Q3. While the October jobs report showed decent gains in terms of employees on payrolls (+16.6k), it did so mainly on the basis of a surge in public sector employment (+36.9k), an area that is facing secular headwinds as the federal government implements cuts that were announced long-ago. Pay-back in that sector is surely a possibility in the November numbers.

UNITED STATES

It's hard to get a read on U.S. **jobs** for November (December 7). On the one hand, jobless claims for the first two weeks of November reflected broad weakness in the U.S. labour market, with initial claims spiking — and not just because of Hurricane Sandy. While the state-by-state breakdown of the jobless numbers showed pronounced weakness in the regions most impacted by the hurricane, they also reflected job losses in the broader economy, which makes sense in light of the uncertainty surrounding the fiscal cliff which will likely cause businesses (which have an uncertain tax bill) to restrain themselves from committing to long-term expenses such as new hiring. In other words, while the 'Sandy effect' explains some of the labour market headwinds, it can't explain all of them. Adding to the complexity, as a result of Hurricane Sandy, the usual leading indicator for non-farm payrolls (i.e. initial jobless claims) is distorted beyond what is usual. We're not looking for any miracles here, and Scotiabank Economics anticipates a 100k job-gain largely on the basis of a view that the initial jobless claims surge is probably overstating labour market weakness.

Markets are expecting big things from the U.S. **housing** sector after housing starts spiked in late summer and into the fall. The question is: will the spike in starts translate into GDP? We'll be watching the October residential spending numbers on December 3 to see if the very strong growth in private residential spending that we've seen since April continues (spending is up 19.2% y/y). Hurricane Sandy might put a dent in the number, but we're still expecting an overall construction spending gain of 0.4% m/m driven by a likely much higher gain in residential construction spending as the value of recent housing starts get put into place.

Will the **ISM manufacturing** index follow the Philly Fed lower for November? Out of the regional Fed surveys released as we go to press, the bulk have shown improvement in November with the one notable exception of the Philly Fed index. Of course, the Philly Fed index covers NJ, Pennsylvania, Delaware… the areas hardest hit by the hurricane. The net is that we're expecting a flat reading on the ISM Manufacturing index which after all takes into account a national sample and therefore should be more in line with the majority of surveys than any single one.



Last but not least, **automotive sales** numbers for November will be released and Scotiabank Economics is looking for a solid increase to 15.2m vs. 14.2m in October. In terms of positive themes for the U.S. economy in 2012, the housing improvement, increased energy output, and the resurgence in auto sales have been by far the bright lights. Can auto sales continue to climb? There has been a moderation in production in September and October, and the key question is whether this sector is slowing down — or if sales are about to get a second wind that causes production to rise back to mid-year levels.

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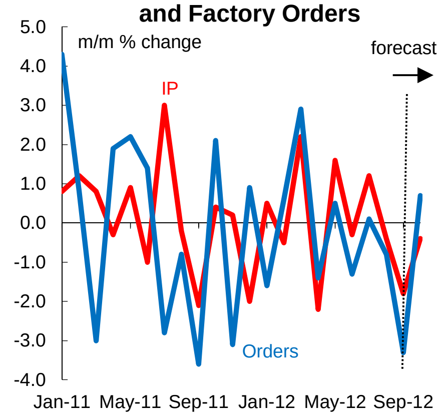
EUROPE

The latest improvement in business sentiment in Germany raises hope for some catch-up in industrial activity after the very depressing September result. This is not only true for Germany, but for the euro area as a whole. October German manufacturing orders and production data will therefore be the first hard data to offer some insight on this point. The increases in the November Ifo "orders in the month" and "current production" components are encouraging. We also consider that the sharp 3.3% m/m and 1.8% drops in factory orders and industrial production, respectively, in September could have been linked to unfavourable calendar effects between September and August. As a result, the October report should benefit from some upward payback, although the still low level in business sentiment points to limited gains. For factory orders (Thursday), we look for an increase of around +0.7% m/m. However, for industrial production (Friday), the bias could be still on the downside and we look for a 0.4% m/m fall as output continues to adjust from past order weakness.

German Industrial Production and Factory Orders

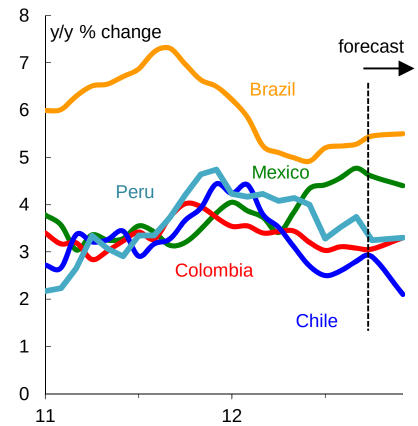


Source: Bloomberg, Scotiabank Economics.

LATIN AMERICA

November inflation data for the five major economies in Latin America will be released next week. The inflation performance continues to be uneven across these countries. After an aggressive easing cycle in Brazil, headline inflation has rebounded, reaching 5.5% y/y in October, a trend that we anticipate to continue in the coming months. However, the sluggish economic recovery could dampen inflationary pressures in the country. Colombian and Peruvian inflation has converged to the 3% y/y mark, the mid-point of the tolerance range in Colombia and the upper-limit in Peru. We maintain our view that in both countries inflation will remain within the central banks' ranges in 2013. Chile has maintained the lowest inflation rate among its regional peers since the second quarter of the year and we expect inflation to decelerate even further to 2.1% y/y in December. Although headline inflation in Mexico remains above the central bank's target range (2-4%), it has already shown some signs of deceleration; however, we expect inflation to close the year at 4.2% y/y.

Inflation in Latin America

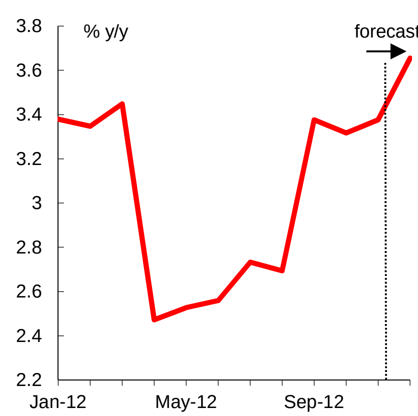


Source: Bloomberg, Scotiabank Economics.

ASIA

Thai inflation data for November will be released on December 2nd; we estimate that consumer prices climbed 0.3% m/m, taking the annual inflation rate to 3.4%. While consumer price inflation has been gradually trending higher in recent months, measuring 3.3% y/y in October, core inflation, at 1.8% y/y, hovers comfortably within the Bank of Thailand's (BoT) 0.5-3.0% target range. Headline inflation will likely remain around 3-4% through 2014. The monetary easing cycle has likely reached its bottom. In mid-October, the BoT loosened monetary conditions to protect domestic demand from elevated external risks, lowering the policy rate by 25 basis points to 2.75%, but opted to maintain monetary conditions on hold at the November 28th meeting. The October rate cut may need to be reversed more promptly than in other regional countries due to strong domestic demand conditions, as long as global downside risks do not materialize; we expect the BoT to start normalizing interest rates in the third quarter of 2013.

Thai Consumer Price Inflation



Source: Bloomberg, Scotiabank Economics.

Key Indicators for the week of December 3 - 7

North America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	12/03	10:00	Construction Spending (m/m)	Oct	0.4	0.4	0.6
US	12/03	10:00	ISM Manufacturing Index	Nov	51.5	51.5	51.7
US	12/03	17:00	Domestic Vehicle Sales (mn a.r.)	Nov	11.8	11.3	11.1
US	12/03	17:00	Total Vehicle Sales (mn a.r.)	Nov	15.2	14.8	14.2
CA	12/04	09:00	**BoC Interest Rate Announcement (%)**	Dec 4	**1.00**	**1.00**	**1.00**
US	12/05	07:00	MBA Mortgage Applications (w/w)	NOV 30	--	--	-0.9
US	12/05	08:15	ADP Employment Report (000s m/m)	Nov	100.0	130.0	157.8
US	12/05	10:00	Factory Orders (m/m)	Oct	0.3	0.0	4.8
US	12/05	10:00	ISM Non-Manufacturing Composite	Nov	54.0	53.5	54.2
CA	12/06	08:30	Building Permits (m/m)	Oct	--	2.0	-13.2
US	12/06	08:30	Continuing Claims (000s)	NOV 24	3275	--	3287
US	12/06	08:30	Initial Jobless Claims (000s)	DEC 1	385	380	393
CA	12/07	08:30	Employment (000s m/m)	Nov	5.0	5.0	1.8
CA	12/07	08:30	Unemployment Rate (%)	Nov	7.4	7.4	7.4
US	12/07	08:30	Nonfarm Employment Report (000s m/m)	Nov	100.0	95.0	171.0
US	12/07	08:30	Unemployment Rate (%)	Nov	7.9	7.9	7.9
MX	12/07	09:00	Consumer Prices (m/m)	Nov	0.97	0.8	0.5
MX	12/07	09:00	Consumer Prices (y/y)	Nov	4.5	4.4	4.6
MX	12/07	09:00	Consumer Prices Core (m/m)	Nov	0.3	0.2	0.2
US	12/07	09:55	U. of Michigan Consumer Sentiment	Dec P	82.0	82.0	82.7
US	12/07	15:00	Consumer Credit ($ bn m/m)	Oct	--	10.0	11.4

Europe

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
IT	12/03	03:45	Manufacturing PMI	Nov	--	46.1	45.5
FR	12/03	03:50	Manufacturing PMI	Nov F	44.7	44.7	44.7
GE	12/03	03:55	Manufacturing PMI	Nov F	46.8	46.8	46.8
EC	12/03	04:00	Manufacturing PMI	Nov F	46.2	46.2	46.2
UK	12/03	04:30	Manufacturing PMI	Nov	48.0	48.0	47.5
RU	12/03	06:59	**Russia Refinancing Rate (%)**	**Dec 3**	**8.25**	**8.25**	**8.25**
UK	12/03	06:59	Halifax House Price (3 month, y/y)	Nov	-1.8	-1.9	-1.7
IT	12/03	11:00	Budget Balance YTD (€ bn)	Nov	--	--	-58.5
UK	12/04	04:30	PMI Construction	Nov	--	50.5	50.9
EC	12/04	05:00	PPI (m/m)	Oct	--	0.0	0.2
SP	12/05	03:00	Industrial Output NSA (y/y)	Oct	--	--	-11.7
IT	12/05	03:45	Services PMI	Nov	--	46.0	46.0
FR	12/05	03:50	Services PMI	Nov F	46.1	46.1	46.1
GE	12/05	03:55	Services PMI	Nov F	48.0	48.0	48.0
EC	12/05	04:00	Composite PMI	Nov F	45.8	45.8	45.8
EC	12/05	04:00	Services PMI	Nov F	45.7	45.7	45.7
UK	12/05	04:30	Official Reserves (£ bn)	Nov	--	--	-512.0
EC	12/05	05:00	Retail Trade (m/m)	Oct	--	-0.2	-0.2
UK	12/05	04:30	Services PMI	Nov	51.0	51.1	50.6
UK	12/06	04:30	Visible Trade Balance (£ mn)	Oct	-8500.0	-8700.0	-8368.0
EC	12/06	05:00	GDP (q/q)	3Q P	-0.1	-0.1	-0.1
GE	12/06	06:00	Factory Orders (m/m)	Oct	0.7	1.0	-3.3
UK	12/06	07:00	BoE Asset Purchase Target (£ bn)	Dec	375.0	375.0	375.0
UK	12/06	07:00	**BoE Policy Announcement (%)**	**Dec 6**	**0.50**	**0.50**	**0.50**
EC	12/06	07:45	**ECB Announces Interest Rates (%)**	**Dec 6**	**0.75**	**0.75**	**0.75**
FR	12/07	02:45	Central Government Balance (€ bn)	Oct	--	--	-85.0
FR	12/07	02:45	Trade Balance (€ mn)	Oct	--	-4900.0	-5033.0
UK	12/07	04:30	Industrial Production (m/m)	Oct	-0.1	0.8	-1.7
UK	12/07	04:30	Manufacturing Production (m/m)	Oct	-0.2	-0.2	0.1
GE	12/07	06:00	Industrial Production (m/m)	Oct	-0.4	0.0	-1.8

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

Key Indicators for the week of December 3 - 7

Asia Pacific

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
SK	12/02	18:00	Consumer Price Index (m/m)	Nov	0.1	0.0	-0.1
SK	12/02	18:00	Consumer Price Index (y/y)	Nov	2.1	2.0	2.1
SK	12/02	18:00	Core Consumer Price Index (y/y)	Nov	--	--	1.5
AU	12/02	19:30	Retail Sales (m/m)	Oct	--	0.4	0.5
CH	12/02	20:00	Non-manufacturing PMI	Nov	--	--	55.5
CH	12/02	20:45	HSBC Manufacturing PMI	Nov	50.5	50.4	49.5
ID	12/02	23:00	Exports (y/y)	Oct	--	-3.9	-9.4
ID	12/02	23:00	Imports (y/y)	Oct	--	1.0	1.2
ID	12/02	23:00	Trade Balance (US$ mn)	Oct	--	465.5	552.9
ID	12/02	23:00	Inflation (y/y)	Nov	--	4.6	4.6
ID	12/02	23:00	Inflation NSA (m/m)	Nov	--	0.3	0.2
ID	12/02	23:00	Core Inflation (y/y)	Nov	--	4.6	4.6
TH	12/02	23:00	Consumer Price Index (y/y)	Nov	3.4	3.2	3.3
TH	12/02	23:00	Consumer Price Index NSA (m/m)	Nov	0.3	0.1	0.1
TH	12/02	23:00	Core CPI (y/y)	Nov	--	1.9	1.8
ID	DEC 02-04		Consumer Confidence Index	Nov	--	--	119.5
JN	12/03	00:00	Vehicle Sales (y/y)	Nov	--	--	-9.0
AU	12/03	06:59	Trade Balance (AUD mn)	Oct	--	-2200.0	-1456.0
JN	12/03	18:50	Monetary Base (y/y)	Nov	--	--	10.8
AU	12/03	19:30	Building Approvals (m/m)	Oct	--	-1.6	7.8
AU	12/03	19:30	Current Account (AUD bn)	3Q	--	-14550.0	-11801.0
AU	12/03	19:30	Australia Net Exports of GDP (%)	3Q	--	0.0	0.3
AU	12/03	22:30	**RBA Cash Target Rate (%)**	Dec 4	**3.00**	**3.00**	**3.25**
TH	12/02	23:00	Consumer Confidence Economic	Nov	--	--	68.1
SI	12/04	08:30	Purchasing Managers Index	Nov	--	49.0	48.3
AU	12/04	19:30	GDP (q/q)	3Q	0.3	0.6	0.6
AU	12/04	19:30	GDP (y/y)	3Q	2.9	3.1	3.7
TA	12/04	19:30	CPI (y/y)	Nov	--	2.0	2.4
PH	12/04	20:00	CPI (m/m)	Nov	--	--	-0.1
PH	12/04	20:00	CPI (y/y)	Nov	--	3.0	3.1
PH	12/04	20:00	Core CPI (y/y)	Nov	--	--	3.6
CH	12/04	20:45	HSBC Services PMI	Nov		--	53.5
HK	12/04	21:30	Purchasing Managers Index	Nov	--	--	50.5
NZ	12/05	15:00	**RBNZ Official Cash Rate (%)**	Dec 6	**2.50**	**2.50**	**2.50**
SK	12/05	18:00	GDP (q/q)	3Q	0.2	--	0.2
SK	12/05	18:00	GDP (y/y)	3Q	1.6	--	1.6
AU	12/05	19:30	Employment (000s)	Nov	--	0.0	10.7
AU	12/05	19:30	Unemployment Rate (%)	Nov	--	5.5	5.4
JN	12/06	18:50	Official Reserve Assets (US$ bn)	Nov	--	--	1274.2
MA	12/06	23:01	Exports (y/y)	Oct	--	-1.7	2.6
MA	12/06	23:01	Imports (y/y)	Oct	--	10.6	9.6
MA	12/06	23:01	Trade Balance (MYR bn)	Oct	--	7.2	6.5
JN	12/07		Coincident Index CI	Oct P	--	91.0	91.5
JN	12/07		Leading Index CI	Oct P	--	91.9	91.6
JN	12/07		New Composite Leading Economic Index	Oct P	--	91.9	91.6
TA	12/07	03:00	Exports (%)	Nov	--	7.6	-1.9
TA	12/07	03:00	Imports (%)	Nov	--	8.6	-1.8
TA	12/07	03:00	Trade Balance (US$ bn)	Nov	--	3.2	3.3

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

Key Indicators for the week of December 3 - 7

Latin America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
PE	12/01	06:00	Consumer Price Index (m/m)	Nov	--	0.1	-0.2
PE	12/01	06:00	Consumer Price Index (y/y)	Nov	3.0	2.8	3.3
BZ	12/03	07:00	PMI Manufacturing Index	Nov	--	--	50.2
BZ	12/03	12:00	Trade Balance (FOB) - Monthly (US$ mn)	Nov	--	600.0	1662.0
BZ	12/04	06:00	Industrial Production SA (m/m)	Oct	--	1.1	-1.0
BZ	12/04	06:00	Industrial Production (y/y)	Oct	--	2.6	-3.8
CL	12/05	06:30	Economic Activity Index SA (m/m)	Oct	--	0.0	1.0
CL	12/05	06:30	Economic Activity Index NSA (y/y)	Oct	--	6.0	4.9
CO	12/05	19:00	Consumer Price Index (m/m)	Nov	--	0.2	0.2
CO	12/05	19:00	Consumer Price Index (y/y)	Nov	--	3.1	3.1
PE	12/06	18:00	**Reference Rate (%)**	Dec	**4.25**	**4.25**	**4.25**
BZ	12/07	06:00	IBGE Inflation IPCA (m/m)	Nov	--	0.5	0.6
BZ	12/07	06:00	IBGE Inflation IPCA (y/y)	Nov	--	5.4	5.5
CL	12/07	06:00	CPI (m/m)	Nov	--	-0.1	0.6
CL	12/07	06:00	CPI (y/y)	Nov	--	2.5	2.9

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

Global Auctions for the week of December 3 - 7

North America

Country	Date	Time	Event
US	12/03	11:30	U.S. to Sell 3-Month Bills
US	12/03	11:30	U.S. to Sell 6-Month Bills
CA	12/04	10:30	Canada to Sell 98-Day Bills
CA	12/04	10:30	Canada to Sell 168-Day Bills
CA	12/04	10:30	Canada to Sell 350-Day Bills
US	12/04	11:30	U.S. to Sell 4-Week Bills
CA	12/05	11:00	Canada to Sell 30 Year Real Return Bonds

Europe

Country	Date	Time	Event
NE	12/3/2012	05:00	Netherlands to Sell Up to EUR2 Bln 85-Day Bills
NE	12/3/2012	05:00	Netherlands to Sell Up to EUR2 Bln 177-Day Bills
GE	12/3/2012	05:30	Germany to Sell EU3 Bln 6-Mth Bills
FR	12/3/2012	09:00	France to Sell Bills (BTF)
BE	12/4/2012	05:30	Belgium to Sell Bills
SZ	12/4/2012	05:30	Switzerland to Sell 3-Month Bills
SP	12/5/2012	04:30	Spain to Sell 3.75% 2015 Bonds
SP	12/5/2012	04:30	Spain to Sell 4.6% 2019 Bonds
SP	12/5/2012	04:30	Spain to Sell 5.85% 2022 Bonds
SW	12/5/2012	05:03	Sweden to Sell Treasury Bills
GE	12/5/2012	05:30	Germany to Sell Add'l EU4 Bln 2-Year Notes
FR	12/6/2012	05:00	France to Sell Bonds (OAT)
IC	12/7/2012	06:00	Iceland to sell Bonds

Asia Pacific

Country	Date	Time	Event
JN	12/03	22:45	Japan to Sell 10-Year Bonds
CH	12/04	22:00	China to Sell 3-Year Bonds
JN	12/04	22:35	Japan to Sell 6-Month Bills
JN	12/05	22:35	Japan to Sell 3-Month Bills
JN	12/05	22:45	Japan to Sell 30-Year Bonds

Source: Bloomberg, Scotiabank Economics.

Events for the week of December 3 - 7

North America

Country	Date	Time	Event
MX	12/01	13:00	Mexican President-Elect Enrique Pena Nieto Takes Office
US	12/01	17:00	Fed's Evans, Plosser, Kocherlakota Speak on Panel in Chicago
US	12/03	00:00	Fed's Rosengren to Speak at New York Fed Conference
US	12/03	13:40	Fed's Bullard Speaks on the Economy in Little Rock AR
CA	12/04	09:00	**Bank of Canada Rate**
US	12/04		Fed's Tarullo Speaks at the Brookings Institution
CA	12/05	12:00	Canada Minister of Industry Paradis Speaks at AIAC Conference
US	12/06	09:30	Full committee hearing on "Fiscal Cliff"
CA	12/06	10:30	Bank of Canada Releases Financial System Review
CA	12/07	00:00	Bank of Nova Scotia Releases Fourth-Quarter Results
CA	12/07	10:00	Canada Deputy Finance Minister Horgan Speaks in Toronto

Europe

Country	Date	Time	Event
EC	12/01	05:30	ECB's Coeure Speaks in Paris
PO	01-03 DEC		Portuguese Prime Minister Visits Cape Verde for Summit
UK	12/03	04:30	Bank of England Publishes Quarterly FLS Lending Data
EC	12/03	07:00	ECB's Coeure Speaks in London
EC	12/03	11:00	Euro-Area Finance Ministers Meet in Brussels
RU	03-10 DEC		**Russia Refinancing Rate**
GE	03-05 DEC		Merkel Attends CDU Annual Party Congress: Hanover
EC	12/04	03:00	EU-27 Finance Ministers Meet in Brussels
GE	12/04	03:30	Steinbreuck meets EU's Van Rompuy, Barroso, Briefs: Brussels
AS	12/04	04:00	ECB's Nowotny Speaks on Future of Euro Zone in Vienna
EC	12/04	06:00	ESM's Regling Speaks at Brussels Think Tank
EC	04-05 DEC		NATO Foreign Ministers Meet in Brussels
UK	12/05	07:30	U.K. Chancellor Osborne Makes Autumn Statement in Commons
EC	12/05	09:00	ECB's Asmussen Speaks in Brussels
PO	12/05	11:20	Germany's Schroeder to Speak at Conference on Europe
EC	12/05	13:30	ECB's Asmussen speaks at Commerzbank event in Brussels
SZ	12/05		ILO Releases the Global Wage Report
EC	12/06	03:15	EU's Rehn Speaks at Brussels Think Tank
UK	12/06	07:00	**BOE ANNOUNCES RATES**
UK	12/06	07:00	BOE Asset Purchase Target
EC	12/06	07:45	**ECB Announces Interest Rates**
EC	12/06	07:45	ECB Deposit Facility Rate
EC	12/06	08:30	ECB'S Draghi Holds Press Conference After Rate Decision
EC	12/06	10:00	EU's Barnier Speaks at Banking Conference in Brussels
SZ	12/07	03:00	SNB publishes foreign currency reserves
AS	12/07	04:00	Austrian Central Bank Presents Economic Outlook for Austria
IT	12/07	05:00	Bank of Italy to Release Balance-Sheet Aggregates for Nov.
HU	12/07	05:00	ECB President Draghi, Hungary Central Bank Chief Simor Speak
EC	12/07	10:00	ECB's Weidmann Speaks in Berlin

Source: Bloomberg, Scotiabank Economics.

Events for the week of December 3 - 7

Asia Pacific

Country	Date	Time	Event
NZ	12/02	16:45	Statistics NZ on Export, Import Prices
JN	12/02	19:10	BoJ Deputy Governor Nishimura Speaks at Panel
NZ	12/02	20:00	Treasury Publishes Monthly Economic Indicators
JN	12/02	23:00	BOJ Shirakawa, ECB Noyer Speak at Luncheon at Europlace Forum
NZ	12/03	19:00	ANZ Commodity Price Index
AU	12/03	22:30	**RBA CASH TARGET**
US	03-12 DEC		15th Round of Trans-Pacific Partnership in New Zealand
MA	03-06 DEC		2012 World Islamic Economic Forum
NZ	12/04	16:00	Government Financial Statements
NZ	12/04	16:45	Statistics New Zealand on Construction Activity
JN	12/04	20:30	BoJ Deputy Governor Nishimura Speaks to Business Leaders
SK	04-05 DEC		OECD DAC to Complete Review on South Korea
AU	12/05	02:00	RBA's Lowe Speaks at an Australian Business Economists Dinner
NZ	12/05	15:00	Reserve Bank of New Zealand Monetary Policy Statement
NZ	12/05	15:00	**RBNZ Official Cash Rate**
AU	12/05	18:00	RBA's Debelle Speaks at Conference at University of Melbourne
NZ	12/06	19:00	ANZ-Roy Morgan Consumer Confidence Survey

Latin America

Country	Date	Time	Event
PE	12/06	18:00	**Reference Rate**
BZ	12/07		Summit of leader from the South American Trade Bloc Merocsur

Source: Bloomberg, Scotiabank Economics.

Global Central Bank Watch

North America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Canada – Overnight Target Rate	1.00	December 4, 2012	1.00	1.00
Federal Reserve – Federal Funds Target Rate	0.25	December 12, 2012	0.25	--
Banco de México – Overnight Rate	4.50	January 18, 2013	4.50	--

BoC: We do not expect a change in policy from the BoC, as it grapples with the 'two sided' risks emanating from the Canadian household sector (which we expect will keep it on hold for some time yet). We're looking for a maintenance statement following last month's forecast revisions and in light of the considerable uncertainty in markets particularly in terms of US budget negotiations. Fed: As the Fed goes into communications blackout one week ahead of the Dec. 12 meeting, we do not expect much in the way of further insight on attitudes towards changes in communications regarding interest rate forward guidance or Treasury purchases. We continue to expect the FOMC to add Treasury purchases into 2013 and see high probability that it will introduce changes to its communications strategy in light of comments by FOMC Vice-Chair Yellen and the minutes from the October meeting.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	0.75	December 6, 2012	0.75	0.75
Bank of England – Bank Rate	0.50	December 6, 2012	0.50	0.50
Swiss National Bank – Libor Target Rate	0.00	December 13, 2012	0.00	--
Central Bank of Russia – Refinancing Rate	8.25	December 3, 2012	8.25	8.25
Hungarian National Bank – Base Rate	6.00	December 18, 2012	6.00	--
Central Bank of the Republic of Turkey – 1 Wk Repo Rate	5.75	December 18, 2012	5.50	--
Sweden Riksbank – Repo Rate	1.25	December 18, 2012	1.25	--
Norges Bank – Deposit Rate	1.50	December 19, 2012	1.50	--

Next week the European Central Bank (ECB) will release updated macroeconomic forecasts in conjunction with a regular policy meeting. We expect a downward revision to 2013 growth and an upward revision to inflation. Though the ECB will maintain a dovish bias, no policy changes are anticipated at this point, given that the lower growth profile was already factored in to previous decisions and President Draghi maintains that the monetary transmission mechanism is broken. The Bank of England (BoE) will also meet next week and, similarly, we foresee an unchanged policy stance. In fact, we are inclined to rule out any rate cut or further expansion of bond purchases in the current monetary cycle. Finally, we expect no changes from the Russian central bank next week. On the one hand, inflation remains elevated above the central bank's 5-6% target (at 6.5% y/y in October), while on the other, the economic slowdown was confirmed by the third-quarter GDP estimate, which showed growth decelerating from 4.0% y/y to 2.9%.

Asia Pacific

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Japan – Target Rate	0.10	December 20, 2012	0.10	--
Reserve Bank of Australia – Cash Target Rate	3.25	December 3, 2012	3.00	3.00
Reserve Bank of New Zealand – Cash Rate	2.50	December 5, 2012	2.50	2.50
People's Bank of China – Lending Rate	6.00	TBA	--	--
Reserve Bank of India – Repo Rate	8.00	December 18, 2012	8.00	--
Bank of Korea – Bank Rate	2.75	December 12, 2012	2.75	--
Bank of Thailand – Repo Rate	2.75	January 9, 2013	2.75	--
Bank Indonesia – Reference Interest Rate	5.75	December 11, 2012	5.75	5.75

Given a stable inflation outlook and the fact that Australian monetary authorities seem uncertain about the timing and the pace of economic recovery, we expect the Reserve Bank of Australia to reduce the Cash Target Rate by 25 basis points to 3.0% on December 3rd, marking the final rate cut during the current monetary easing cycle. The Reserve Bank of New Zealand will likely maintain an accommodative monetary stance in the coming quarters, keeping the Cash Rate unchanged at a record low of 2.5% for the 20th consecutive month following the next policy meeting on December 5th.

Latin America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	7.25	January 16, 2013	7.25	--
Banco Central de Chile – Overnight Rate	5.00	December 13, 2012	5.00	5.00
Banco de la República de Colombia – Lending Rate	4.50	December 14, 2012	4.50	4.50
Banco Central de Reserva del Perú – Reference Rate	4.25	December 6, 2012	4.25	4.25

The central bank of Peru will likely leave the reference rate unchanged at 4.25%, where it has been since May 2011. Since peaking at 4.7% y/y in December 2011, headline inflation in Peru has slowed significantly, reaching 3.2% y/y in October. However, in recent months, the deceleration process has moderated, showing reluctance to go below the 3.0% mark. We maintain our view that inflation will close 2012 at 3.3%.

Africa

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
South African Reserve Bank – Repo Rate	5.00	January 24, 2013	5.00	--

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

Forecasts as at November 1, 2012*	2000-11	2012f	2013f	2014f	2000-11	2012f	2013f	2014f
Output and Inflation (annual % change)	Real GDP				Consumer Prices[2]			
World[1]	3.7	3.1	3.3	3.8				
Canada	2.2	2.1	1.8	2.3	2.1	1.6	1.9	2.2
United States	1.8	2.1	1.9	2.5	2.5	2.1	2.3	2.2
Mexico	2.2	3.9	3.6	4.0	4.8	4.4	4.0	4.0
United Kingdom	1.9	0.0	1.4	1.6	2.3	2.4	3.0	2.2
Euro Zone	1.4	-0.6	0.1	1.0	2.1	2.5	1.8	1.7
Japan	0.8	2.2	1.0	1.2	-0.3	0.0	0.3	0.6
Australia	3.0	3.4	2.7	3.1	3.1	2.5	2.8	3.0
China	9.4	7.7	8.0	8.3	2.4	2.4	3.4	4.0
India	7.3	5.5	6.0	6.5	6.6	8.3	7.0	6.1
South Korea	4.5	2.3	3.1	3.6	3.2	2.4	2.8	3.0
Thailand	4.0	5.5	4.0	4.2	2.7	3.7	3.3	3.4
Brazil	3.6	1.7	3.8	4.0	6.6	5.0	5.5	5.5
Chile	4.8	5.2	5.0	4.8	3.5	2.2	3.1	3.0
Peru	5.6	6.3	5.7	5.5	2.6	3.3	3.0	3.0

Central Bank Rates (%, end of period)	12Q4f	13Q1f	13Q2f	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f
Bank of Canada	1.00	1.00	1.00	1.00	1.00	1.25	1.50	1.75
Federal Reserve	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
European Central Bank	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Bank of England	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Swiss National Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bank of Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Reserve Bank of Australia	3.00	3.00	3.00	3.00	3.25	3.25	3.50	3.50
Exchange Rates (end of period)								
Canadian Dollar (USDCAD)	0.97	0.97	0.97	0.96	0.96	0.95	0.95	0.94
Canadian Dollar (CADUSD)	1.03	1.03	1.03	1.04	1.04	1.05	1.05	1.06
Euro (EURUSD)	1.27	1.27	1.26	1.25	1.25	1.24	1.23	1.22
Sterling (GBPUSD)	1.62	1.62	1.63	1.64	1.64	1.65	1.65	1.66
Yen (USDJPY)	80	82	84	85	87	88	89	89
Australian Dollar (AUDUSD)	1.04	1.05	1.05	1.06	1.06	1.07	1.07	1.08
Chinese Yuan (USDCNY)	6.3	6.3	6.2	6.2	6.1	6.1	6.1	6.1
Mexican Peso (USDMXN)	12.8	12.9	12.8	13.0	13.2	13.2	13.1	13.2
Brazilian Real (USDBRL)	1.99	1.98	1.95	1.90	1.86	1.86	1.85	1.84

Commodities (annual average)	2000-11	2012f	2013f	2014f
WTI Oil (US$/bbl)	57	95	98	100
Brent Oil (US$/bbl)	58	112	112	112
Nymex Natural Gas (US$/mmbtu)	5.67	2.80	3.25	3.75
Copper (US$/lb)	2.10	3.62	3.58	3.35
Zinc (US$/lb)	0.77	0.88	1.02	1.20
Nickel (US$/lb)	7.62	7.90	8.10	8.00
Gold, London PM Fix (US$/oz)	668	1,690	1,800	1,700
Pulp (US$/tonne)	718	868	875	950
Newsprint (US$/tonne)	581	640	660	675
Lumber (US$/mfbm)	272	285	315	350

[1] World GDP for 2000-11 are IMF PPP estimates; 2012-14f are Scotiabank Economics' estimates based on a 2011 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 Scotiabank Economics 'Global Forecast Update' (http://www.gbm.scotiabank.com/English/bns_econ/forecast.pdf) for additional forecasts & commentary.

North America

Canada	2011	12Q1	12Q2	Latest	
Real GDP (annual rates)	2.6	1.7	1.7		
Current Acc. Bal. (C$B, ar)	-52.3	-64.4	-73.5		
Merch. Trade Bal. (C$B, ar)	0.9	0.6	-14.6	-9.9	(Sep)
Industrial Production	3.5	0.9	2.3	-1.5	(Sep)
Housing Starts (000s)	193	206	231	204	(Oct)
Employment	1.6	0.9	1.2	1.3	(Oct)
Unemployment Rate (%)	7.5	7.4	7.3	7.4	(Oct)
Retail Sales	4.1	4.3	2.6	1.8	(Sep)
Auto Sales (000s)	1589	1701	1670	1695	(Aug)
CPI	2.9	2.3	1.6	1.2	(Oct)
IPPI	4.6	1.8	0.7	0.2	(Oct)
Pre-tax Corp. Profits	15.4	4.2	0.4		

United States	2011	12Q1	12Q2	Latest	
Real GDP (annual rates)	1.8	2.0	1.3	2.0	(Q3-A)
Current Acc. Bal. (US$B, ar)	-466	-534	-470		
Merch. Trade Bal. (US$B, ar)	-738	-777	-743	-689	(Sep)
Industrial Production	4.1	4.0	4.9	2.0	(Oct)
Housing Starts (millions)	0.61	0.71	0.74	0.89	(Oct)
Employment	1.1	1.6	1.3	1.4	(Oct)
Unemployment Rate (%)	9.0	8.3	8.2	7.9	(Oct)
Retail Sales	8.3	6.4	4.3	3.8	(Oct)
Auto Sales (millions)	12.7	14.1	14.1	14.2	(Oct)
CPI	3.2	2.8	1.9	2.2	(Oct)
PPI	6.0	3.4	1.1	2.3	(Oct)
Pre-tax Corp. Profits	2.1	18.0	14.6		

Mexico	2011	12Q1	12Q2	Latest	
Real GDP	3.9	4.9	4.4		
Current Acc. Bal. (US$B, ar)	-9.2	0.7	3.6		
Merch. Trade Bal. (US$B, ar)	-1.5	7.1	6.1	-19.8	(Oct)
Industrial Production	4.0	4.8	4.1	2.4	(Sep)
CPI	3.4	3.9	3.9	4.6	(Oct)

Europe

Euro Zone	2011	12Q1	12Q2	Latest	
Real GDP	1.5	-0.1	-0.5		
Current Acc. Bal. (US$B, ar)	17	-24	84	54	(Sep)
Merch. Trade Bal. (US$B, ar)	12.8	33.0	131.6	93.8	(Sep)
Industrial Production	3.4	-1.6	-2.3	-2.9	(Sep)
Unemployment Rate (%)	10.1	10.9	11.2	11.7	(Oct)
CPI	2.7	2.7	2.5	2.5	(Oct)

Germany	2011	12Q1	12Q2	Latest	
Real GDP	3.1	1.2	1.0		
Current Acc. Bal. (US$B, ar)	203.6	215.8	192.2	251.4	(Sep)
Merch. Trade Bal. (US$B, ar)	217.0	222.9	245.1	263.2	(Sep)
Industrial Production	8.0	0.7	-0.2	-1.1	(Sep)
Unemployment Rate (%)	7.1	6.8	6.8	6.9	(Nov)
CPI	2.3	2.2	1.9	3.3	(Nov)

France	2011	12Q1	12Q2	Latest	
Real GDP	1.7	0.2	0.1		
Current Acc. Bal. (US$B, ar)	-54.5	-51.1	-81.3	-30.2	(Sep)
Merch. Trade Bal. (US$B, ar)	-52.8	-54.4	-57.2	-47.0	(Sep)
Industrial Production	1.8	-1.9	-2.0	-2.5	(Sep)
Unemployment Rate (%)	9.6	10.0	10.2	10.7	(Oct)
CPI	2.1	2.3	2.0	1.9	(Oct)

United Kingdom	2011	12Q1	12Q2	Latest	
Real GDP	0.9	-0.1	-0.5		
Current Acc. Bal. (US$B, ar)	-46.4	-100.3	-128.6		
Merch. Trade Bal. (US$B, ar)	-160.3	-159.8	-177.6	-161.8	(Sep)
Industrial Production	-0.7	-2.8	-2.5	-2.6	(Sep)
Unemployment Rate (%)	8.1	8.2	8.1	7.8	(Aug)
CPI	4.5	3.5	2.7	2.6	(Oct)

Italy	2011	12Q1	12Q2	Latest	
Real GDP	0.6	-1.4	-2.4		
Current Acc. Bal. (US$B, ar)	-0.07	-0.07	0.00	-0.04	(Sep)
Merch. Trade Bal. (US$B, ar)	-35.5	-20.5	17.0	6.3	(Sep)
Industrial Production	0.2	-5.3	-7.5	-4.9	(Sep)
CPI	2.8	3.4	3.3	2.7	(Oct)

Russia	2011	12Q1	12Q2	Latest	
Real GDP	4.3	4.9	4.0		
Current Acc. Bal. (US$B, ar)	98.8	40.4	21.2		
Merch. Trade Bal. (US$B, ar)	16.5	19.7	16.7	17.1	(Sep)
Industrial Production	4.8	4.1	2.3	1.8	(Oct)
CPI	8.4	3.9	3.8	6.5	(Oct)

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

Source: Bloomberg, Global Insight, Scotiabank Economics.

Asia Pacific

Australia	2011	12Q1	12Q2	Latest
Real GDP	2.1	4.4	3.7	
Current Acc. Bal. (US$B, ar)	-33.1	-61.6	-32.9	
Merch. Trade Bal. (US$B, ar)	35.7	1.4	27.7	7.0 (Sep)
Industrial Production	-1.2	3.9	0.5	
Unemployment Rate (%)	5.1	5.2	5.1	5.4 (Oct)
CPI	3.3	1.6	1.2	

Japan	2011	12Q1	12Q2	Latest
Real GDP	-0.7	2.7	3.4	
Current Acc. Bal. (US$B, ar)	119.2	101.1	56.8	77.3 (Sep)
Merch. Trade Bal. (US$B, ar)	-33.8	-69.2	-64.4	-94.9 (Oct)
Industrial Production	-2.3	2.7	5.1	-6.8 (Oct)
Unemployment Rate (%)	4.6	4.5	4.4	4.2 (Oct)
CPI	-0.3	0.3	0.2	-0.4 (Oct)

South Korea	2011	12Q1	12Q2	Latest
Real GDP	3.6	2.8	2.3	
Current Acc. Bal. (US$B, ar)	26.5	10.2	44.8	69.8 (Oct)
Merch. Trade Bal. (US$B, ar)	30.8	5.3	38.5	44.8 (Oct)
Industrial Production	6.9	2.9	2.4	0.5 (Oct)
CPI	4.0	3.0	2.4	2.1 (Oct)

China	2011	12Q1	12Q2	Latest
Real GDP	10.4	8.1	7.6	
Current Acc. Bal. (US$B, ar)	201.7			
Merch. Trade Bal. (US$B, ar)	155.0	1.1	274.2	384.6 (Oct)
Industrial Production	12.8	11.9	9.5	9.6 (Oct)
CPI	4.1	3.6	2.2	1.7 (Oct)

Thailand	2011	12Q1	12Q2	Latest
Real GDP	0.1	0.4	4.4	
Current Acc. Bal. (US$B, ar)	5.9	1.4	-2.3	
Merch. Trade Bal. (US$B, ar)	1.4	0.4	0.5	-0.1 (Oct)
Industrial Production	-9.3	-7.1	-1.6	36.4 (Oct)
CPI	3.8	3.4	2.5	3.3 (Oct)

India	2011	12Q1	12Q2	Latest
Real GDP	7.5	5.3	5.5	
Current Acc. Bal. (US$B, ar)	-62.8	-21.7	-16.4	
Merch. Trade Bal. (US$B, ar)	-13.4	-15.7	-13.7	-21.0 (Oct)
Industrial Production	4.8	0.6	-0.3	-0.4 (Sep)
WPI	9.5	7.3	7.5	7.5 (Oct)

Indonesia	2011	12Q1	12Q2	Latest
Real GDP	6.5	6.3	6.4	
Current Acc. Bal. (US$B, ar)	1.7	-3.1	-7.7	
Merch. Trade Bal. (US$B, ar)	2.2	0.9	-0.8	0.6 (Sep)
Industrial Production	4.1	3.8	2.2	7.6 (Sep)
CPI	5.4	3.7	4.5	4.6 (Oct)

Latin America

Brazil	2011	12Q1	12Q2	Latest
Real GDP	2.5	0.6	0.4	
Current Acc. Bal. (US$B, ar)	-52.5	-48.2	-52.7	
Merch. Trade Bal. (US$B, ar)	29.8	9.7	18.5	19.9 (Oct)
Industrial Production	0.4	-3.5	-4.4	-1.3 (Sep)
CPI	6.6	5.8	5.0	5.4 (Oct)

Chile	2011	12Q1	12Q2	Latest
Real GDP	6.0	5.2	5.7	
Current Acc. Bal. (US$B, ar)	-0.3	0.6	-7.0	
Merch. Trade Bal. (US$B, ar)	10.0	10.6	6.7	0.8 (Oct)
Industrial Production	6.9	3.9	2.8	9.1 (Oct)
CPI	3.3	4.1	3.1	2.9 (Oct)

Peru	2011	12Q1	12Q2	Latest
Real GDP	6.9	6.1	6.1	
Current Acc. Bal. (US$B, ar)	-3.3	-0.9	-2.2	
Merch. Trade Bal. (US$B, ar)	0.9	0.8	0.2	0.5 (Sep)
Unemployment Rate (%)	7.7	8.3	7.2	6.2 (Oct)
CPI	3.4	4.2	4.1	3.2 (Oct)

Colombia	2011	12Q1	12Q2	Latest
Real GDP	5.9	4.7	4.9	
Current Acc. Bal. (US$B, ar)	-10.0	-1.6	-3.2	
Merch. Trade Bal. (US$B, ar)	0.4	0.7	0.2	0.4 (Sep)
Industrial Production	5.1	1.8	-0.2	-1.9 (Aug)
CPI	3.4	3.5	3.4	3.1 (Oct)

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

Source: Bloomberg, Global Insight, Scotiabank Economics.

Interest Rates (%, end of period)

Canada	12Q2	12Q3	Nov/23	Nov/30*
BoC Overnight Rate	1.00	1.00	1.00	1.00
3-mo. T-bill	0.88	0.98	0.96	0.96
10-yr Gov't Bond	1.74	1.73	1.79	1.70
30-yr Gov't Bond	2.33	2.32	2.36	2.29
Prime	3.00	3.00	3.00	3.00
FX Reserves (US$B)	66.0	67.9	67.9	(Oct)
Germany				
3-mo. Interbank	0.53	0.11	0.09	0.15
10-yr Gov't Bond	1.58	1.44	1.44	1.38
FX Reserves (US$B)	68.2	68.5	68.5	(Oct)
Euro Zone				
Refinancing Rate	1.00	0.75	0.75	0.75
Overnight Rate	0.38	0.11	0.07	0.07
FX Reserves (US$B)	328.7	332.8	334.0	(Oct)
Japan				
Discount Rate	0.30	0.30	0.30	0.30
3-mo. Libor	0.13	0.13	0.13	0.12
10-yr Gov't Bond	0.84	0.78	0.74	0.72
FX Reserves (US$B)	1231.2	1233.3	1231.8	(Oct)

United States	12Q2	12Q3	Nov/23	Nov/30*
Fed Funds Target Rate	0.25	0.25	0.25	0.25
3-mo. T-bill	0.08	0.09	0.09	0.07
10-yr Gov't Bond	1.64	1.63	1.69	1.61
30-yr Gov't Bond	2.75	2.82	2.83	2.79
Prime	3.25	3.25	3.25	3.25
FX Reserves (US$B)	138.8	142.0	141.2	(Oct)
France				
3-mo. T-bill	0.04	0.00	-0.02	-0.02
10-yr Gov't Bond	2.69	2.18	2.16	2.04
FX Reserves (US$B)	49.6	50.9	52.4	(Oct)
United Kingdom				
Repo Rate	0.50	0.50	0.50	0.50
3-mo. T-bill	0.37	0.35	0.34	0.35
10-yr Gov't Bond	1.73	1.73	1.84	1.77
FX Reserves (US$B)	84.4	87.9	89.5	(Oct)
Australia				
Cash Rate	3.50	3.50	3.25	3.25
10-yr Gov't Bond	3.04	2.99	3.30	3.16
FX Reserves (US$B)	44.1	42.4	46.9	(Oct)

Exchange Rates (end of period)

USDCAD	1.02	0.98	0.99	0.99
CADUSD	0.98	1.02	1.01	1.01
GBPUSD	1.571	1.617	1.603	1.603
EURUSD	1.267	1.286	1.298	1.301
JPYEUR	0.99	1.00	0.94	0.93
USDCHF	0.95	0.94	0.93	0.93

¥/US$	79.79	77.96	82.40	82.50
US¢/Australian$	1.02	1.04	1.05	1.04
Chinese Yuan/US$	6.35	6.28	6.23	6.23
South Korean Won/US$	1145	1111	1086	1083
Mexican Peso/US$	13.361	12.859	12.965	12.923
Brazilian Real/US$	2.009	2.026	2.082	2.107

Equity Markets (index, end of period)

United States (DJIA)	12880	13437	13010	13023
United States (S&P500)	1362	1441	1409	1415
Canada (S&P/TSX)	11597	12317	12213	12199
Mexico (IPC)	40200	40867	41920	41995
Brazil (Bovespa)	54355	59176	57574	56964
Italy (BCI)	761	825	833	845

U.K. (FT100)	5571	5742	5819	5887
Germany (Dax)	6416	7216	7309	7423
France (CAC40)	3197	3355	3529	3574
Japan (Nikkei)	9007	8870	9367	9446
Hong Kong (Hang Seng)	19441	20840	21914	22030
South Korea (Composite)	1854	1996	1911	1933

Commodity Prices (end of period)

Pulp (US$/tonne)	900	830	850	850
Newsprint (US$/tonne)	640	640	640	640
Lumber (US$/mfbm)	283	285	336	352
WTI Oil (US$/bbl)	84.96	92.19	88.28	88.47
Natural Gas (US$/mmbtu)	2.82	3.32	3.90	3.63

Copper (US$/lb)	3.45	3.75	3.48	3.61
Zinc (US$/lb)	0.84	0.95	0.87	0.92
Gold (US$/oz)	1598.50	1776.00	1734.50	1726.00
Silver (US$/oz)	27.08	34.65	33.41	34.28
CRB (index)	284.19	309.30	299.07	299.35

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

Emerging Markets Strategy

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