Global Views

Weekly commentary on economic and financial market developments

May 16, 2014

Global Views **is available on scotiabank.com, Bloomberg at SCOT and Reuters at SM1C**

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Are The Fed's Housing Worries Mistimed?

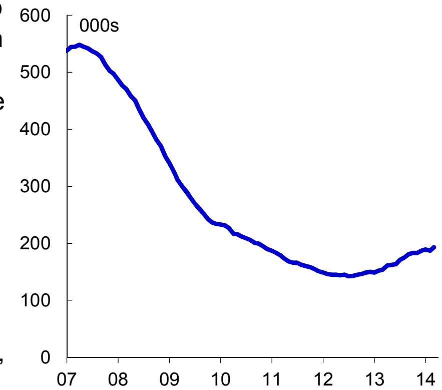
- **Please see our full indicator, central bank, auction and event calendars on pp. A3-A9.**

United States — Is The Fed A Little Late To Worry About Housing?

Next week's US focus will be upon the housing market. A pair of releases will further inform the debate over whether a Spring housing renaissance will unfold. **Following the adverse effects of crippling winter storms, consensus expects both existing home sales and new home sales to leap forward. Markets may take that as evidence that Federal Reserve Chair Janet Yellen's timing was a little off when she recently flagged concerns about housing markets.** Indeed, in the wake of a 3.4% m/m rise in pending home sales for the strongest seasonally adjusted monthly gain since 2011, a sizeable rise in completed resales is expected for April. Following a steep 14.5% m/m drop in new home sales during March, a 12% m/m rise is expected and this would continue high volatility in the wake of the large gain in February.

Apart from weather, there is also no doubting that some of the housing weakness that unfolded since last summer was a response to the rate shock that former Fed Chairman Ben Bernanke induced when he mused about perhaps reducing bond purchases 'later in the year' during his JEC testimony over a year ago. The 30-year fixed mortgage rate is presently about a full percentage point higher than where it had bottomed before taper talk commenced. This effect, however, may be moderating as the fixed income rally has pulled the 30-year mortgage rate off of its earlier peak. We view the recent fixed income rally as a blip against the longer-run trend that has witnessed a significant cheapening in Treasuries over the past year and with Treasury yields likely to end the year higher. Partly as a combined result of the weather-induced release of pent-up demand and a cap on rising rates, mortgage purchase applications entered May with a bang by rising 8.9% w/w at the start of the month.

Inventory Of Unsold New Homes



Source: Census Bureau, Scotiabank Economics.

Improved weather and a near-term cap on rate risk may make it more feasible for the other improvements in US housing markets to shine through. Never before have unsold new home inventories been as lean as they are now (see chart). It does not take much of an improvement in new home sales to force builders to put more shovels in the ground in the context of exceptionally lean inventories. Shadow housing inventories that are mostly comprised of foreclosed but unlisted resale homes are also declining toward more normal levels. Combined, the problem has swung from housing excess to housing shortages. How the US responds to excess through paring inventories and charging off debts is a key reason why the US is not Japan, and not Europe in that the US is more prone to admitting when it has a problem and addresses it much faster than elsewhere.

This picture, however, also needs confidence. We have that now, as evidenced by the strongest readings for consumer confidence since before the crisis emerged. That confidence is motivating a significant rise in the National Association of Homebuilders' measure of foot traffic through model homes. Think Americans have lost their lust for the family home? Think again. Next we'll hear that Scots have given up Scotch.

It also needs solid household finances. That box can also be ticked. I contend that key measures of US household finances have never been better than they are now. Debt payments as a share of after-tax incomes are at a record low either by the Fed's debt service burden or the Fed's broader financial obligations ratio. Net worth is at a record high and it's not all in the hands of just 'millionaires and billionaires' as President Obama unfortunately insists. Trickle down economics is working via a roughly one-half reduction in the share of American mortgage borrowers in negative equity positions. This has been driven by 24 consecutive months of rising house prices.

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The missing ingredients are job growth and mortgage availability. What mitigates such concerns is the argument that pent-up housing demand by the vast majority of employed Americans can continue to lead a housing upturn without the requirement for 300,000-400,000 monthly nonfarm prints, while fatter lending spreads and improving capital gains expectations gradually improve lenders' willingness to lend.

Unfortunately, Fed speak won't react to the possibly strong housing readings because it is all concentrated into Wednesday and hence before either resales or new home sales figures are released. Each of Chair Yellen, and regional Presidents Plosser, George, and Kocherlakota will speak. In addition, the minutes to the April 29-30 FOMC meeting will be released that same day. **The risk into the back half of the week is therefore that Fed speak will quickly become stale in the face of potentially bullish housing readings.** Finally, the US Treasury auctions 10 year TIPS in a reopening on Thursday.

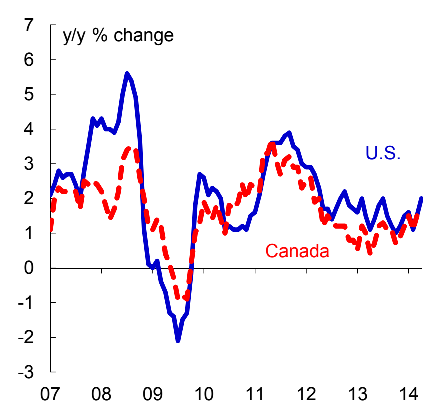
Canada — BoC's Rate Cut Risk On Its Way Out?

Canada starts the week on holiday to celebrate Queen Victoria's birth in 1819 a few days early as per the tradition to hold the vacation day on the closest Monday. The main domestic development will take until Friday to appear.

That's when we think the Consumer Price Index for April is likely to leap forward to about 2% y/y and thus bang in line with the BoC's 2% target. The main driver concerns a soft base effect from a year ago when inflation was exceptionally soft. Higher gasoline and food prices will also contribute. This spike will occur after a two year bond auction on Wednesday but higher inflation readings are likely to be anticipated.

We had argued from last fall through to early winter that the BoC was likely to signal openness toward a rate cut without forecasting one as a very high bar existed for delivering further monetary policy easing. That view is passé, and **makes advancing the notion of rate cuts at this juncture unwise**. This article had argued that rising inflation would increase the pressure on the BoC to drop ongoing emphasis upon downside risks to inflation and drop its ambivalence over the direction of future rate changes. Inflation readings are well off the bottoms in both the US and Canada (see chart). We still believe that — even though Governor Poloz is attempting to talk through the rise in inflation as a function of temporary factors. **Into the second half of this year, it is going to be less credible to continue to flag ongoing worries about downside risks to inflation while hinting at the possibility of rate cuts while markets look through BoC guidance.** The emphasis is likely to shift more and more aggressively toward talking a prolonged rate pause with the inference leaning toward lagging well behind the Fed in raising rates.

Canadian & U.S. CPI



Source: Statistics Canada, BLS, Scotiabank Economics.

What may further reinforce this perspective is the possibility of a decent gain in retail sales the day before the CPI release, although we're expecting more of a middling print on the back of flat new vehicle sales while a rise in gasoline prices provides some lift. Both this print and Tuesday's wholesale trade figures will lead us to firm up our call for monthly GDP growth during March.

Europe — Will Evidence Of UK, German Strength Continue?

In the wake of a solid Q1 print for German economic growth, will the higher frequency German gauges continue to buoy spirits? Will a flat French economy be offset by strong UK growth such that two of the three anchor economies are shaking off the doldrums while the rest of the eurozone remains mired in soft growth? Answers to these two questions will dominate the European week ahead.

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In fact, the UK economy will hog much of the spotlight next week when CPI, retail sales, Q1 GDP revisions and BoE meeting minutes will be released. Consensus expects a half point rise in UK retail sales and a slight increase in inflationary pressures while the BoE dialogue continues to tamp down rate hike expectations for now.

Germany's resilience is expected to shine through outperformance of the rest of Europe in manufacturing and service purchasing managers' indices and the IFO business confidence print

Lastly, next week's European Parliamentary elections will be the highlight of an article by eurozone strategist Frédéric Prêtet in this week's Global Views. 413 million European citizens in 28 different countries will elect 751 representatives to the EU parliament. Frédéric argues that the new power given to the EU parliament makes it such that the capacity to have an efficient parliament is key for the future of Europe. The results of elections to the European Parliament will, in particular, be directly linked to the choice of candidate for the President of the European Commission. This election is therefore seen as a key opportunity for European citizens to express their views about how Europe’s leaders have addressed the crisis, and to judge between austerity vs. growth. A low turnout could question the legitimacy of this new parliament. Also, an increasing representation of anti-european parties will raise the risk of blockade in a number of areas at the parliament but also could increase difficulties for national governments to defend pro-european positions at the Council.

Asia-Pacific — China Back In The Market's Sights

Not all of the focus will be on Europe and US housing next week as attention reverts to the health of the Chinese and Japanese economies. Chinese property prices will be watched into the Monday market open and ahead of Wednesday's 'flash' purchasing managers' index for the manufacturing sector. Another contractionary signal is expected in contrast to the still soft but more balanced state version of the PMI. The private PMI is more skewed toward smaller manufacturers in export-oriented cities that have paid more of a price for PBoC liquidity tightening measures that began to unfold about a year ago.

Japan's exports for April are unlikely to be materially influential on Tuesday's Bank of Japan meeting. They will continue to demonstrate mixed progress behind Abenomics as nominal exports rise on price effects related to yen depreciation while the volume of exports that are more important to GDP growth post little trend improvement. No policy changes are expected as the BoJ assesses the impact of the sales tax hike on the economy and marks progress in achieving a higher headline inflation reading notwithstanding what we believe to be unsustainable dynamics behind Abenomics.

A Q1 contraction in Thai GDP partly on political instability and minutes to the recent RBA meeting round out the market highlights.

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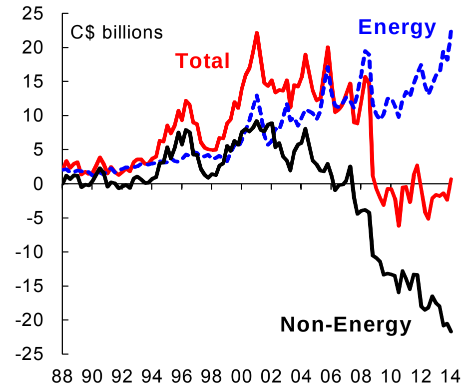
Canada Registers Its First Trade Surplus Since 2011

- **While structural challenges and transportation constraints persist, exporters should get some relief from a weaker Canadian dollar and stronger U.S. private sector demand.**

Canada posted its first quarterly merchandise trade surplus in two years in Q1 2014. The improvement was fuelled by a record $22.4 billion trade surplus in energy, which more than offset a record non-energy deficit of $21.7 billon. Shipments to the U.S. led the 4.8% q/q increase in Canadian exports between January and March, followed by export gains to the Eurozone.

However, the underlying details in the Q1 trade performance were less encouraging than the headline. Real exports and imports contracted at a 6½% annual rate, undercut by the weather-related slowdown on both sides of the border and a truck drivers' strike in British Columbia, which dampened shipments for most of March at the Port of Metro Vancouver. Nevertheless, we expect net exports to make a small contribution to Q1 real GDP, marking the sixth consecutive quarter Canada's trade sector has provided a boost to overall economic growth.

Canada's Trade Balance: Q1 Sets New Record



Source: Statistics Canada

Looking ahead to later this year and into 2015, Canadian goods and services are expected to be bolstered by the recent depreciation of the Canadian dollar and stronger growth in advanced economies, especially the United States and the Eurozone. In fact, after six years of recovery, the value of Canadian merchandise exports is finally projected to exceed its pre-recession level in 2014 — a development many of Canada's industrialized peers accomplished several years ago.

Energy will likely be one of Canada's top performing export sectors and is projected to post double-digit gains in 2014. This reflects higher crude oil volumes, and a further narrowing in the price differential between West Texas Intermediate (WTI) and Western Canadian Select (WCS), underpinned by expanded pipeline capacity between Cushing, Oklahoma and the Gulf Coast, as well as refinery configurations. Meanwhile, despite lower volumes, natural gas exports will be bolstered by higher prices and rising revenue from the depreciation of the Canadian dollar vis-a-vis the U.S. greenback. Industrial machinery and equipment exports are also expected to accelerate through 2015, as the global economy gains strength and American corporations unleash record cash levels and pent-up demand for business investment. Capital expenditure by U.S. firms will likely be led by construction and agricultural machinery and equipment.

Canadian forestry exports are also forecast to register solid gains in 2014 as rising housing starts in the U.S. and increasing demand in China support robust growth in Canadian lumber exports. Agricultural exports should also perform strongly, though this year's gains may lag last year's bumper crop. Meanwhile, transportation constraints and a backlog in railroad system will continue to temper growth in agriculture exports.

Transportation exports will likely be bolstered by the aerospace industry, as stronger global growth and rising incomes in emerging markets increase air travel demand. Canada's aerospace industry currently has a record order backlog, with most orders geared towards export. In contrast, auto industry shipments will only post low-single digit advances through 2015, held back by limited investment in recent years. Despite robust auto sales in the U.S., the expansion of Canadian auto plants has been left behind, as lower production costs have attracted significant capacity expansion in Mexico and the southern United States. The recent depreciation of the Canadian dollar should provide some relief, however, Canada's share of North American automotive assemblies is expected to continue to decline over the forecast horizon.

On a regional basis, exports to the faster-growing emerging markets are forecast to outperform, led by Asia, Africa and the Middle East. Exports to the U.S. are likely to post mid-single digit gains. Following two years of declines, Canadian exports to the EU are expected to pick-up in 2014, with trade linkages strengthening in the years ahead alongside the implementation of the Canada-EU Comprehensive Economic and Trade Agreement (CETA).

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Prince Edward Island — Growth Beyond Its Traditional Pillars

- **Tourism and niche manufacturing to drive growth, bolstered by the soft Canadian dollar.**

A steady economic expansion is forecast for Prince Edward Island through 2015, with the Canadian dollar in the range of 90¢ (US) assisting the Island's traditional activities — agri-food, fishing and tourism — as well as its emerging industries, such as aerospace and pharmaceuticals. Constraining average annual real GDP growth to 1½% over the next two years is an expected downshift in residential and non-residential construction, plus continuing fiscal restraint.

Lobster prices will likely be firmer this year, after falling below $3 per pound in August 2013. The soft prices trimmed last year's sales receipts by nearly 20% even though lobster landings rose 5.6%, setting a new record. Higher yields pushed up potato production last year, but its sales receipts fell by more than 10% y/y through the first three quarters of 2013 also from lower prices. By late-2013 and early -2014, potato prices had recovered, but pests remain a concern.

The manufacturing sector's diversity has been a continuing source of strength for PEI, as manufacturing production rose more than 6% in each of the last two years. Leading last year's gains were chemicals and fabricated metals, supported by a 3.3% rise in food processing. Looking forward, sales to Africa and Europe are likely to drive aerospace repair & overhaul growth, while oil sands and other projects support demand for fabricated metal and machinery.

Tourism gains are anticipated from the 150th anniversary of the Charlottetown Conference and revived interest in Anne of Green Gables in Japan. Over the first four months of 2014, online bookings through the Province's BookPEI service were up a startling 45% y/y. Cruise ship traffic is expected to remain elevated after record dockings and a 35½% rise in passenger & crew visits in 2013.

Last year, private-sector services led Prince Edward Island's real economic growth, increasing 1.9%. In contrast, federal and provincial restraint trimmed public service growth (*middle chart*).

More modest job creation is expected for Prince Edward Island, after last year's 1.8% rise in employment, led by private-sector and part-time positions, but underpinned by 1.2% higher full-time employment.

Average weekly earnings climbed 1.7% in PEI in 2013, a solid gain but short of the province's 2.0% CPI inflation. Contributing to the one -off price uptick was the introduction of the Harmonized Sales Tax (HST) that eliminated several sales tax exemptions, while lowering the combined federal/provincial rate from 15.5% to 14.0%.

After dropping by nearly a third last year, no substantial recovery in housing starts is anticipated through mid-decade. Home sales witnessed a less steep, but still sizable 11.7% decline in 2013 (*bottom chart)*.

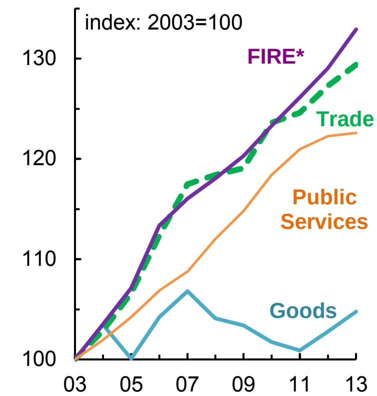
Prince Edward Island: Economic Outlook

Population
January 2014: 0.15 mn, 0.4% of Cda, +0.2% y/y
Net International Immigration: +1,000 (2013)
Net Interprovincial Migration: -900 (2013)

	2000-12	13	14f	15f
Real GDP, % change	1.8	1.4	1.3	1.7
Employment, % change	1.5	1.8	0.5	0.7
Employ/Pop.* Rate, %	60.1	61.4	61.5	61.6
Unemployment Rate, %	11.3	11.5	11.2	11.1
Housing Starts, 000s	0.8	0.6	0.7	0.7

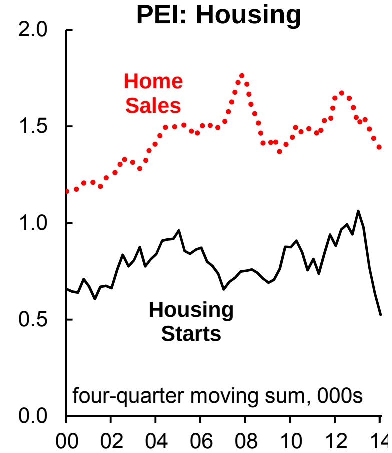
** Working-age population.*
Source: Statistics Canada, Scotiabank Economics.

PEI: Real GDP by Industry



* Finance, insurance & real estate.
Source: Statistics Canada.

PEI: Housing



Source: CMHC, CREA.

For more information see: John Bulmer, Provincial Trends: Prince Edward Island, Scotiabank Economics, May 2014.

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Another Step In Canadian Federal Pension Repair

- **Ottawa's proposed Target Benefit Plan mirrors New Brunswick's Shared Risk model.**

Canada's federal government has proposed for consultation Target Benefit Plans (TBPs) as a pension option for federal Crown corporations or federally regulated corporations in sectors such as transportation, banking and telecommunications.[1] In the middle ground between Defined Benefit (DB) and Defined Contribution (DC) plans, this hybrid model represents an alternative for existing DB plans (particularly those under pressure), a means to enhance DC plans, or a possible path for a new pension plan. Ottawa underlines that the adoption of a TBP will be voluntary, requiring the plan sponsor, members and retirees to all be involved in designing and agreeing upon an integrated package of benefits, contributions, investments, funding policy and governance. On the East Coast, New Brunswick already is implementing its Shared Risk model, broadly similar to this TBP proposal.[2]

The TBP proposal is Ottawa's latest move to make more sustainable the pension and retirement benefit commitments subject to federal oversight. In a post-recession environment of reassessing retirement obligations, Ottawa's actions align with public- and private-sector employers around the world who are "de-risking" their pensions. Their changes range from selling their DB plan liabilities to insurance companies to negotiating lump-sum payments for retirees to transitioning to hybrid plans, categorized by the type and extent of the risk shifted to participants.

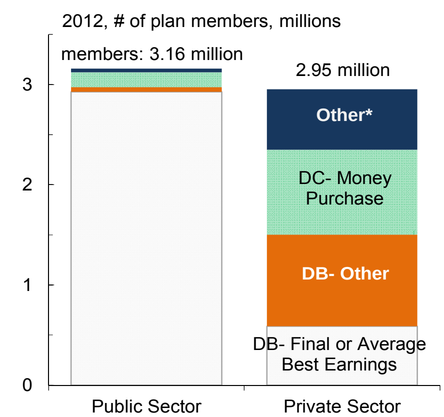
A TBP is designed to provide benefits with a high degree of predictability and security, but the benefits are targeted, and the employer, as plan sponsor, is not solely responsible for addressing unfunded pension liabilities or guaranteeing the benefits. To assure that targeted benefits are met, a TBP's governance framework, with oversight from a representative stakeholder Board, provides the flexibility for timely benefit and contribution changes if financially necessary. A TBP's "funding deficit recovery plan" would incorporate: a defined trigger for action; a description and order of priority for all possible remedial measures; a timeline to regain a minimum funding target; and, an approval process for the changes. Conversely, a "surplus utilization plan" would include: the trigger; the priority for specific enhancements or contribution cuts; and, a surplus utilization cap.

Ottawa suggests two classes of TBP benefits: a base benefit with a high level of protection; and, ancillary benefits with lower but reasonable security that will be trimmed first, but also increased when a sufficient surplus exists. A TBP has many of the DB plan advantages, such as pooling longevity and investment risk. As TBPs are negotiated, Ottawa outlines several other considerations, such as intergenerational equity.

A TBP depends upon the discipline of its plan administrators and effective risk management procedures. The TBP's funding policy would rely upon either a probabilistic approach, setting specific probabilities for achieving base and ancillary benefits, or a going-concern requirement that would incorporate an explicit financial buffer to be built up during stronger financial periods and drawn down during adverse events. Solvency funding requirements based upon termination scenarios are not strictly necessary for TBPs since payment amounts to members in the event of winding up the plan are not guaranteed.

Establishing a TBP puts on the table for all participants to consider the requirements to achieve an acceptable range of long-term costs and benefits for the plan sponsors and members. As a result, even if the news is bad, the process offers a degree of transparency often not available to DB plan participants.

Canadian Employer Pension Coverage by Type of Plan



* Includes hybrid plans and composite or combination plans. Source: Statistics Canada.

[1] The TBP proposal does not relate to Ottawa's core public sector pensions which are subject to other reforms. *Finance Canada, "Consultation Paper — Pension Innovation for Canadians: The Target Benefit Plan",* April 2014. http://www.fin.gc.ca/activty/consult/pic-impicc-eng.asp

[2] *Fiscal Pulse, "New Brunswick's Shared Pension Model",* February 2013. http://www.gbm.scotiabank.com/English/bns_econ/nbpension.pdf

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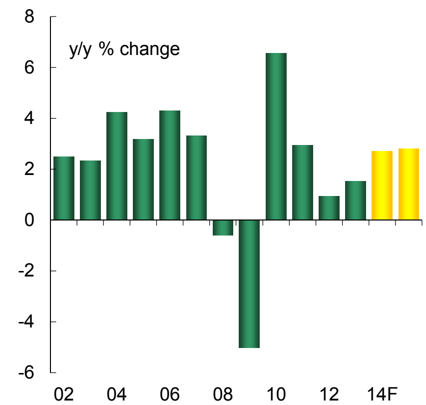
Sweden: Economic Outlook 2014-15

- **Solid growth prospects and manageable fiscal outlook, though deflation and household debt concerns persist.**

The Swedish economy is gathering pace and is expected to be a growth leader among the developed markets in Europe over the forecast horizon. After a surprisingly robust 1.5% advance in 2013 helped by a surge in domestic demand in the fourth quarter, we expect real GDP growth to pick up to 2¾% on average in 2014-15 alongside recuperating export demand.

Sweden Real GDP Growth



Source: IMF, Scotiabank Economics.

Although consumption and investment will likely continue to act as the main growth drivers over the coming quarters, as a small open economy with exports amounting to nearly half of GDP, Sweden's performance is also conditional on an upturn in the global economy, and particularly in Europe. Notwithstanding persistent sluggishness in the labour market (the jobless rate has averaged 8% over the last three years), retail sales have held up, rising 5.1% y/y in March (the biggest gain since April 2011). The PMIs are hovering above their long-term averages; however, industrial production is still struggling to gain traction.

The Swedish krona (SEK) followed a depreciating path for much of the last year, reaching a nearly two-year low of 9.12 against the euro (EUR) in late-April after the Riksbank flagged the increased possibility of an interest rate cut. We expect the currency to rally against the EUR to 8.50 by year-end, while weakening modestly against the US dollar. Over the longer term, Sweden's solid fiscal profile, current account surplus, triple-A credit ratings and sound financial system will uphold the SEK's status as a safe alternative among the major currencies.

Despite recent currency depreciation, deflationary pressures persist. The consumer price index fell by 0.6% y/y in March, its steepest drop since late 2009, while the underlying inflation sunk to a record-low 0%. Both measures subsequently rebounded in April, easing somewhat the pressure on the Riksbank to act. Despite persistent concerns about household debt, future negative inflation surprises will likely be met with an interest rate cut. Interest rate normalization should begin around mid-2015 once inflation picks up above 1% y/y.

Sweden's strong public finances are underpinned by an established set of fiscal rules. The general government budget balance recovered quickly following the last recession, but returned to deficit territory in 2012-13 and will remain negative over the next two years (averaging around 1⅓% of GDP in 2014-15). In its latest spring budget, the governing coalition has resumed a prudent fiscal stance, pledging a return to budget surplus by 2016. Sweden's current account surplus measured 6.2% of GDP in 2013. The recovery underway in Sweden's main trading partners (Germany, Norway, UK) will support an upturn in exports, lifting the current account to around 6½% of GDP in 2014-15.

A general election is scheduled for September 14th. Opinion polls currently point to a change in government, with the current centre-right administration likely to fall to a centre-left coalition led by the Social Democratic Party. In any event, we do not anticipate any significant policy shifts given the nation's history of political stability, fiscal discipline and institutional transparency, as well as continued widespread support for the welfare state model and the EU. Sweden has a strong international reputation, ranking 6th in the World Economic Forum's Global Competitiveness Index and 14th in the World Bank's Doing Business survey.

The Swedish banking sector is large, with assets measuring over 400% of GDP. Local authorities have stipulated stricter capital and liquidity requirements than those under Basel III, and recently raised the risk weights to be assigned to mortgage assets in an effort to address the increased financial stability risks from rising property prices and household debt. The household sector's aggregated debt to disposable income ratio reached a record 174% in 2013, but according to a recent study by the Riksbank, on a disaggregated basis the average debt ratios for indebted individuals and households are all above 250%.

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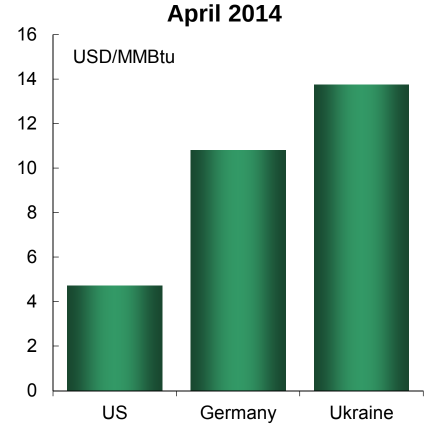
Russia-Ukraine Crisis Heightens Energy Risk In Europe

- **Ongoing confrontation between Kyiv and Moscow increases risk of near-term natural gas supply disruptions.**

There is an increasing risk that the flow of natural gas from Russia to Ukraine could be interrupted if the ongoing debt and pricing debate between Naftogaz Ukrainy, the Ukrainian national energy company, and OAO Gazprom, the state-controlled Russian energy giant, is not settled. This increases the risk of near-term European natural gas price instability, supply shortfalls, and resultant damage to industrial activity and wider economic prospects in Ukraine as well as all importing countries whose supply transits Ukrainian territory. Russia has recently indicated that Ukraine will be required to pre-pay for its monthly natural gas consumption before deliveries will be made, meaning that Russia may cut off the flow of natural gas to Ukraine on June 3rd if Naftogaz does not pay the estimated US$1.66 billion owed for its June demand by June 2nd.

The January 2009 Russo-Ukrainian gas dispute — also concerning debt-settlement and pricing — can serve as a reference for the possible course this crisis may take. During that episode, Gazprom originally suspended natural gas deliveries for Ukrainian consumption but allowed shipments destined for Europe to continue; however, Gazprom cut off all shipments through Ukrainian territory after it accused Naftogaz of siphoning off gas transiting the country. While shipments resumed within two weeks, the interruption occurred during the winter peak demand season and adversely affected economic activity across much of Europe. Relations between Kyiv and Moscow were relatively amicable in 2009, whereas the ongoing confrontation in eastern Ukraine will exacerbate policy uncertainty and make settlement far more difficult this time around.

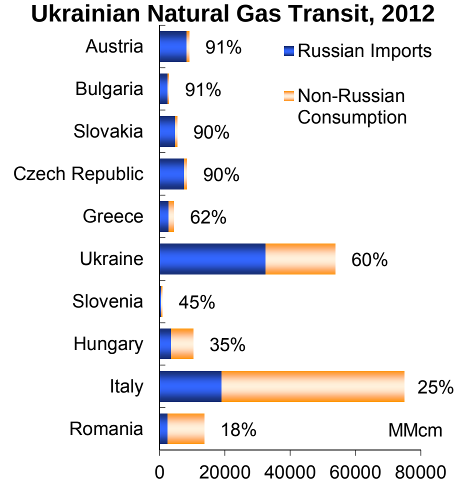
Natural Gas Price Comparison, April 2014



Source: IMF, Scotiabank Economics.

Gazprom currently charges Ukraine US$485 per thousand cubic metres (Mcm) for its natural gas (US$13.74/MMBtu), the highest price paid by any European client — as a comparison, the U.S. Henry Hub spot price was US$4.70/MMBtu in April 2014. Russian president Vladimir Putin agreed to drop the price to US$286.50/Mcm in late 2013, but raised the price again after the pro-Russian government in Kyiv was ousted in February. Ukraine has said that it will pay its gas bill at the previously agreed upon lower rate, but Russia is holding firm on the new higher price. The International Monetary Fund recently approved a US$17 billion bailout package for Ukraine, with US$3.2 billion available immediately. Kyiv has indicated that it intends to use this money for its Russian gas supply, but not until the market price debate is resolved.

Countries Most Dependent on Ukrainian Natural Gas Transit, 2012



Source: IEA, Scotiabank Economics.

While Russia supplies nearly one-third of EU natural gas imports, not all countries are similarly exposed to Ukrainian transit risk as a significant volume of Russian exports flow through the Nord Stream pipeline, which serves the majority of northern and central Europe. That said, over 86 billion cubic metres of natural gas flowed through Ukraine in 2013 (more than half of total Russian gas exports to Europe), destined for southern and eastern Europe. Italy, Romania, Hungary, Slovenia, Greece, the Czech Republic, Slovakia, Bulgaria, and Austria all depend on the Ukrainian transit corridor for the majority of their Russian natural gas imports. Ukraine itself depends on Russia for 60% of its consumption.

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There are two primary supply and price concerns at play. The first is most obvious. In the short term, if Russian gas supply is cut off, natural gas feedstock prices will immediately increase, industrial activity will slow, and the economies of the affected countries will suffer. The second concern is longer-lived. This is the time of year when Ukraine would normally begin filling its natural gas storage facilities, which are used to meet peak winter demand when Russian gas flow does not meet real-time demand. Due to the ongoing crisis, storage considerations have been a lower priority, with the Ukrainian storage capacity fill-rate lagging behind the EU average (29% vs. 55%). If these storage levels are not sufficiently replenished before winter, natural gas scarcity may become a serious concern later this year and into 2015.

Mitigating risk, an uncharacteristically mild winter in Europe has left EU storage levels comparatively high (55% vs. 28.6% this time last year), which will provide a short-term buffer if supply is interrupted. For Ukraine, there has been discussion of reversing the flow of an underutilized pipeline to send gas from Western Europe back into the country to lessen dependence on Russia. However, it is unlikely that this will significantly lessen dependence, particularly in the short term, as the ultimate capacity of this flow is nowhere near the level of Russia's East-to-West exports. Other possibilities for the rest of Europe include increasing imports from other major pipeline suppliers such as Norway and Algeria (which accounted for approximately a quarter and a tenth of 2012 imports, respectively), or LNG imports from Qatar and eventually North America, but current infrastructure constraints will limit these potential offsets.

It should be noted that Russia depends on European demand for the majority of its natural gas revenue, putting pressure on Moscow to keep the gas flowing so as to avoid creating the impetus for future supply diversification. Despite both sides having a financial interest in keeping the pipelines flowing, the ongoing political brinkmanship may result in a mutually damaging outcome if compromise cannot be reached.

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Chile's Overlooked Bond Tax Reform

The following article was published on May 15, 2014.

The recent elimination of capital gains taxes on Chilean bonds traded OTC was little noticed by the markets. Yet, those reforms will greatly facilitate access to those markets for foreign investors, through GDNs and soon through global depositories and clearing systems, increasing inflows and affecting market prices in the long-run.

For several years now, Chilean regulations have allowed investors to avoid paying 35% capital gains taxes on government bonds by trading on exchanges. As a result, only a few foreign investors with local accounts were able to participate efficiently in that market. Ease of access, in our experience, is critical, and the Chilean market seemed to have more obstacles than its peers.

Consider the two Latin American countries where foreigners own around one-half of nominal bonds outstanding: Mexico and Peru. Mexican bonds can be held in global depositories while foreign ownership of Peru was initially facilitated by the GDN program that effectively allows the same. In contrast, in Colombia, a country with more difficult access until recently, foreign ownership was only at 11% at the end of April.

The GDN program introduced for Chile one year ago tried to reduce transaction costs for offshore investors. One difficulty, however, was that GDNs were not created on an exchange, and as a result, would not be eligible for the capital gains tax exclusion offered to most locally settled transactions. While some investors participated, and markets seemed to rally when the program was launched, the program did not have as much success as the program in Peru, where there were no such taxes.

The new Chilean Article 104, published earlier this year and effective as of May 1st, expands the bond tax exemption to cover OTC transactions. That change should resolve a disadvantage faced by GDN investors in the past.

More importantly, the tax change could facilitate transactions through global depositories. Unbeknownst to most investors, the central depository in Chile (DCV) has long had a link with Euroclear. Apparently, investors were not using it because of the tax implications. Since establishing such a link can take one to three years, Chile has an advantage over other markets. Despite some remaining regulatory clarifications and operational details that must be resolved in light of the new Article 104, we think global investors should be able to hold Chilean local bonds in Euroclear soon. Thus, seamless transactions similar to those that made investors so comfortable purchasing Mbonos in Mexico over the past several years may soon come to Chile.

We know from the recent experience in Colombia that low transactions costs and ease of access are important for another reason. They are often a prerequisite for the incorporation of bonds into certain indices, which seems critical to driving flows from benchmarked investors. Over the last two months, Colombia local bonds significantly outperformed those of Mexico, such that after-tax yields in Colombia are now actually 40bp lower than that of Mexico. Those Colombian local bonds are also trading around 40bp tight to Colombia's offshore COP-bonds after taxes, even as the offshore bonds offer the benefits of NY-law and a guarantee of no new taxes.

We mention the example of Colombia because it demonstrates that yields are not the only-factor that determine foreign asset allocation. While Chilean yields are below those of other Latin American countries, thanks in part to the Chilean market's resilience to last summer's tapering talks, we could still see significant inflows as global investors add Chile to their local markets portfolio.

For more information on Chilean local markets, see our publications:

Scotiabank Guide to Local Markets, October 2014.

"Chile local bonds as refuge from tapering, " December 6, 2013.

"Inflation linkers in Latin America," January 10, 2014.

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EU Parliamentary Elections — This Time Is Different!

Why it matters!

- One week to go before the European Parliament elections! Between May 22 & 25, 413 million European citizens in 28 different countries will be called to ballot box to elect 751 representatives to the EU parliament. In an area where key topics are often seen as being mainly managed by national governments through inter-governmental conference with the decision-making process taking place behind closed doors, this should be almost a non-event. Looking to the regular drop in the participation rate for these elections over the past 20 years, we would be tempted to agree with this sentiment. However, this time is different!

- With the crisis, Europe is indeed everywhere in the political debate across countries. Fundamental changes have been put in place to deal with this situation (the fiscal compact, banking union, credit support lines to peripheral countries…) which have shaped the life of millions across the continent. So, while normally, during European Parliament election campaigns, the focus is more on domestic rather than European issues, "Europe" is likely to play a more prominent role in these elections. This changing pattern has even affected the tactics of anti-European parties, which have been able to gather forces to be able to get a stronger vice at the parliament.

- This time is also different because the new Parliament will be elected under the rule of the Lisbon treaty which gives more powers and more responsibility:

  - **More powers** as i) Parliament becomes a stronger lawmaker by bringing over 40 new fields within the "co-decision" procedure, under which it has equal rights with the Council. These areas include agriculture, energy security, immigration, justice and home affairs, health and structural funds. ii) It gains a bigger role in setting budgets. Parliament will decide on the entire €1 trillion EU budget together with the Council (vs. 55% of the budget currently), and iii) it gives consent to a whole range of international agreements negotiated by the Union, in areas such as international trade.

  - **More responsibility** as i) with this increased legislative power, Parliament's decisions will, more than ever, directly affect the daily lives of Europe's citizens. ii) It will have new rights to propose treaty changes and iii), the most emblematic, results of elections to the European Parliament will be directly linked to the choice of candidate for the President of the European Commission (although there is still some room for manoeuvre for the governments). This means that the parliament will then control the Commission by giving its legitimacy to the Commission President!

- So, this election is seen as a key opportunity for European citizens to express their views about how Europe's leaders have addressed the crisis. They will be able to elect a new political majority, which will influence how the EU and the single market will be governed for the next five years, especially with respect to the debate between austerity vs. growth. In this regard, two main contenders for the Commission president job are facing each other: J.C. Junker (former Luxembourg Prime Minister & Eurogroup President), running the campaign for the right-wing conservative EPP and more in favour of austerity and strict budget rules, vs. M. Schultz (Current president of the EU parliament) for the socialist faction, favouring more growth-oriented policy and willing to offer some flexibility on budget deficit reduction plans.

Can a real majority please stand up?

- Looking to the most recent polls, the EPP and socialists are neck-in-neck. In the meantime, compared to the current Parliament, the position of the EPP has clearly weakened to the benefit of higher ratings for non-attached members. This last group includes a number of far-right parties. So, the position of anti-European parties is strengthening. The capacity of these non-attached members to form an official group at the EU Parliament (required to have 25 members from at least 4 countries) will be an important factor to assess their capacity to influence activity in Parliament. At this stage, it seems there could be three groups to the right of the EPP with approximately 40 seats each, representing therefore more than 15% of Parliament. If

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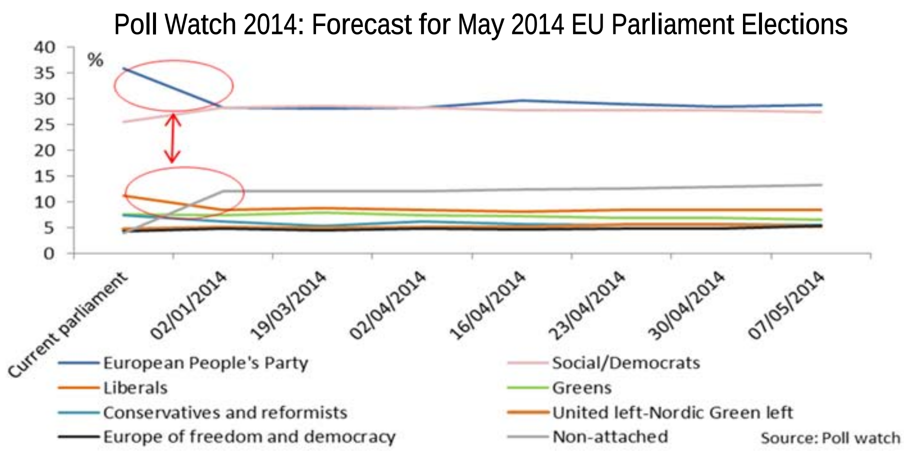
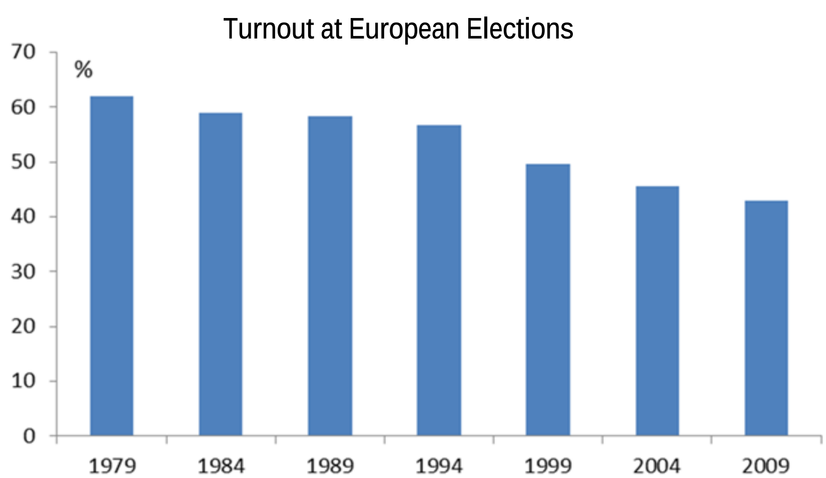
that is the case, the capacity to see a clear majority could be jeopardized! A high result for anti-European parties could also freeze the wiliness of European governments to work toward closer relationships. So, this could impact future progress in the European Council also!



- Another point of risk could be the participation rate. As we already mentioned, over the past 20 years, the participation rate has been constantly in retreat, down around 20%! It remains to be seen whether with the new dimension of the electoral campaign, this trend is reversed. A low turnout could:
    - Question the legitimacy of the new parliament.
    - Increase the representation of anti-European parties with the risk of impasse in a number of policy areas. This could start as soon as the time comes to designate the next Commission President.
    - Be used as an excuse by governments for not following the result of the election to designate the next Commission President (especially if the majority is on the left side while the majority of EU governments are on the right side).



- So, the outcomes of the coming elections could have important impacts on the direction of EU policy, and its capacity to act swiftly to any new shocks. Any risk of blockade would increase the extent to which Europe is seen as being “behind the curve” in addressing new challenges. For the Eurozone, it will also leave the ECB on its own to manage the crisis with the risk of also entering freeze mode. Indeed, in the past, the ECB president has consistently repeated that significant ECB actions have been linked to the major steps taken by governments to strengthen the European agenda (i.e., fiscal compact, banking union).

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Latin America Week Ahead: For The Week Of May 19 - 23

Week-ahead highlights

The EM carry trade seems to be losing some momentum as we head into the summer, with a number of global sources of uncertainty adding to its headwinds. Chief among them appear to be the lingering uncertainty in Ukraine, increasing talk of about a potential "controlled burn" in China's shadow banking this summer, and the Fed's policy outlook, but it is always worth bearing in mind that the greatest risks are the unexpected ones. Within LATAM, we still favour using CLP as a "funding currency", and the fact that the easing bias remains in place in last night's statement by the BCCh adds to the arguments for it in our view. In terms of potential appreciation, we believe MXN has the strongest potential, but BRL's carry cannot be ignored.

Week-ahead views:

Brazil: The BCB weekly survey of economists is important to monitor on Monday as the latest inflation and retail sales (materially weaker than anticipated, and deeply in contraction territory) surprises, combined with the repeated message from the BCB that a lot of the tightening that has been delivered remains in the pipelines suggest the hiking cycle may have already come to an end. However, it is still worth monitoring how inflation expectations behave in next week's survey. Our sense is that the weakness we saw in the latest retail sales data (-1.1% y/y vs a consensus expectation of -0.3%, and a +8.5% y/y print last month) will be an important factor for the BCB, as the recent rebound in consumer activity seemed to hit a wall. Regarding BRL, we continue to see it as an attractive "carry-trade", but believe it is worth taking advantage of "cheap global volatility" to protect against potential reversals in global risk appetite, as the list of potential land-mines is non-negligible (Ukraine's geo-political situation, some of the uncertainty over China's economy, etc).

Chile: Our EM FI team wrote an interesting paper (included in this report) which highlights a change in Chile's tax code, that eliminates capital gains taxes on bonds traded OTC. Our FI team estimates that the change could serve as a trigger for higher interest from foreigners on the domestic Chilean bond market, which was previously "expensive to access". Accordingly, this could be CLP supportive, at least on the margin. However, we still see the loss of competitiveness of the country's mining sector, and the expected tax reform as a larger influence on the peso. As expected by the market, following the recent inflation surprise, the BCCh left the overnight rate unchanged in last night's announcement. The bias of the central bank remains towards easing, as the central bank seems concerned about the slowing pace of the economy. However, there is an increased level of vigilance on the inflation front, as the rise in wages and core inflation seemed to somewhat catch the bank "off-guard", but which was described as likely transitory. In terms of next week's data, the GDP and current account are likely to take centre stage, as market players continue to re-evaluate the likely path of the BCCh's policy. In addition, the week will be cut in two by a holiday on Wednesday.

Colombia: With the presidential election's first round rapidly approaching, a lot of the media attention is likely to go towards the possibility of a change in government after recent polls have suggested the race may have closed substantially, with some results giving opposition candidate Zuluaga a potential victory in the second round. We don't expect economic policy to differ materially with the two major candidates, but their approach to the peace process seems to differ substantially. On the data front, Colombian trade balance is likely to be the major market driver, with consensus looking for a deficit of US$500mn.

Mexico: The opposition PAN party is scheduled to hold its leadership election this week-end, with current president Madero facing competition from former FinMin Cordero. Cordero's camp has signaled it will present a more confrontational approach towards the government in legislative negotiations, but we don't expect the agenda of the two factions to be "materially different" in terms of objectives. In our view, the "negative outcome" from the elections would be a result that eventually leads to a splintering of the party (a low probability scenario in our view), as it would split the market friendly opposition PAN. Local newspaper Reforma published a recent survey which indicated Madero was expected to win by a roughly 10 percentage point margin (48% vs 37% of the votes). In terms of releases, this looks set to be a very active week, with data releases including CPI, Q1 GDP, the current account balance, and retail sales. In our view, the most interesting release for the week is

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likely to be Banxico's Q1 inflation report. On the manufacturing sector front, news flow remains positive, with the latest news being the start of Audi's construction of a "supplier" park that is planned as a site for housing roughly 100 suppliers the firm plans to rely upon for its plant (which will build the Q5).

Peru: Peñoles / Grupo Mexico announced plans for a US$1bn project in Peru, which serves to highlight the relative attractiveness of Peru's mining sector relative to Chile, which has been struggling with the escalation of costs we saw over the past decade (which as our equity mining team published, pushed Chile from being the 5th most attractive country to produce copper in 2000, to the 23rd by 2013 — Peru ranks 7th). USD/PEN continues to trade in a narrow 2.76-2.81 range, with near term support at 2.78.

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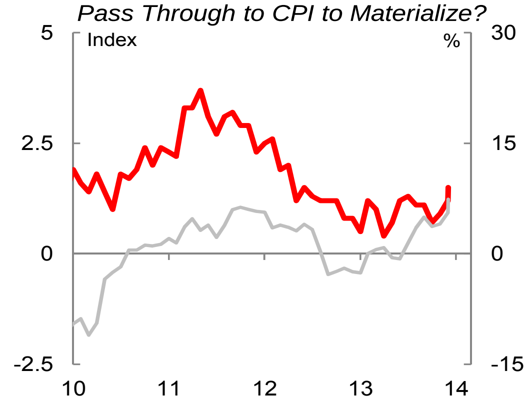
Key Data Preview

CANADA

Inflation is likely to bounce up to 2.1% y/y on a 0.4% m/m increase in consumer prices in April. We see core prices rising by 0.3% m/m and 1.6% y/y. Much as in the U.S., the key factors here are: a) higher gasoline prices (+1.7% m/m in April), b) base effects from last April, when CPI was unusually weak, and c) food price inflation. A wildcard, as we wrote in our article "Bank Of Canada On A Long Pause — But Rate Ambivalence Might Have To Go" *(Global Views, April 17, 2014)* is that the weaker C$ itself could be a cause of higher prices to some extent, with import prices rising of late (see chart). Other issues to watch for are whether or not mortgage costs drop as we have received steady reports of falling posted mortgage rates and a pull-back in natural gas prices that should cut into the energy price increase from the gasoline channel.

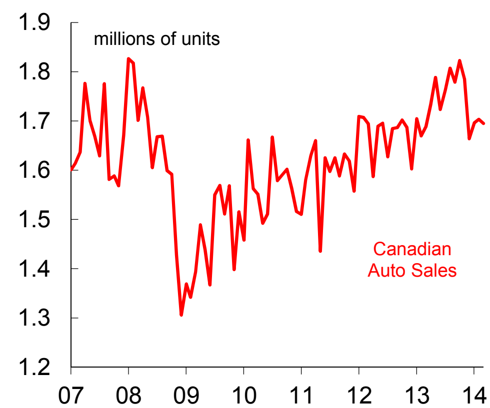
There are a number of signs pointing to a fairly flat Canadian **retail sales** print in March. We're looking for a 0.1% m/m number as an uptick in gasoline prices by 3.3% plays off against essentially flat vehicle sales (an annualized 1.69m vs. 1.7m in Feb. — see chart). Note, however, that vehicle dealers sell more than new cars and that gasoline prices aren't the only determinant of revenues at gasoline stations. Still, on balance those two factors ought to be supportive of retail sales. In terms of retail sales more generally, the survey of large retailers, our preferred metric for looking at broad retail sales, hadn't yet been released as we went to press. Looking at trends, however, retail sales have been fairly flat since September (+0.1% since then) and could be due for a slight bump up, although weak employment over that period justifies the soft retail spending to some extent.

Canada Import Prices
Pass Through to CPI to Materialize?



Source: Statistics Canada, Scotiabank Economics.

Canadian Auto Sales

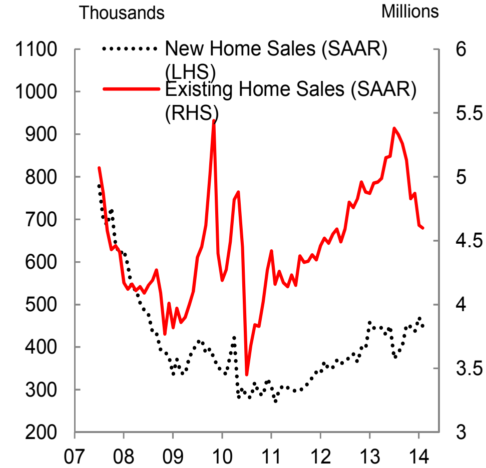


Source: Statistics Canada, Scotiabank Economics.

UNITED STATES

New and existing home sales have been one of the more enduring mysteries of 2014, with new home sales generally outperforming existing home sales — which have fallen precipitously over the past 9 months. The perplexing puzzle persevered until March — when new home sales fell off a cliff ending the discrepancy even as existing home sales were flat for a third month, leading to hope that they were carving out a bottom so to speak (see chart). Leading indicators in March point to the possibility of an improvement in existing home sales, with pending home sales up moderately, which signals good things for existing home sales. Foot traffic through model homes was soft (not great news for new homes). Mortgage purchase applications started to improve but remain well below peaks seen in mid-2013. The net has us expecting continued weakness in new home sales at an annualized 415k and ongoing stability in existing home sales, which we think will print an annualized 4.65m number.

U.S. Home Sales
Weak Since Mid-2013



Source: NAR, Census Bureau, Scotiabank Economics.

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EUROPE

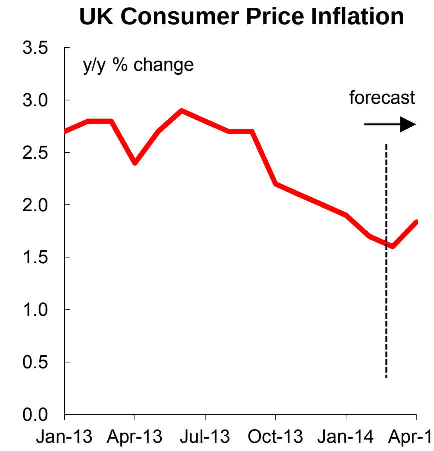
We expect headline CPI inflation in the UK to rebound from 1.6% y/y to 1.8% y/y in April. The increase is likely to reflect petrol price base effects and the impact of Easter on airfares, offset by smaller inflationary tax increases on alcohol and tobacco. The price of petrol fell by 1.8% m/m this time last year. That is set against virtually no change during this April, which on balance represents an addition to annual inflation of 0.08%. Easter occurred in March last year, as opposed to April this year. As such, airfares were lower than usual last April (down by almost 6% m/m) and will snap higher this year. Our online sample suggests that airfares rose by 15-20% m/m last month, which should add around 0.12% to headline inflation. The budget took sympathy on drinkers and the increase in taxes on alcohol was much lower than last year. That represents a drag of 0.07% from the CPI. Although Tesco has announced intensification in the supermarket food price war, this only began after the April sample was taken for the CPI. Nonetheless, that does point to some potential downside in the May data.

LATIN AMERICA

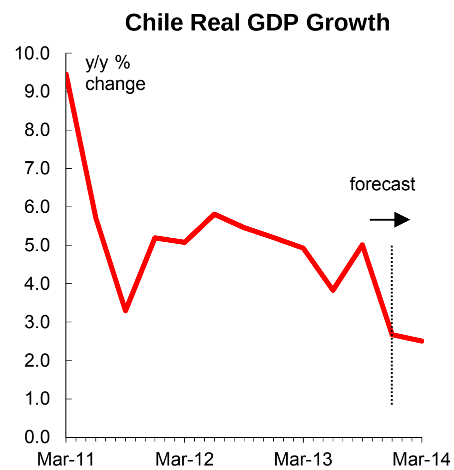
Chile's first-quarter GDP growth figures will be released on May 19th. We expect to see a continuation of the gradual deceleration trend witnessed in 2013, with momentum likely to pick up in the second half of 2014 supported by an improvement in global demand together with recuperating investment activity. Chile's real GDP advanced by 2.7% y/y in the final quarter of 2013; we expect the first-quarter gain to come in around the 2½% mark.

ASIA

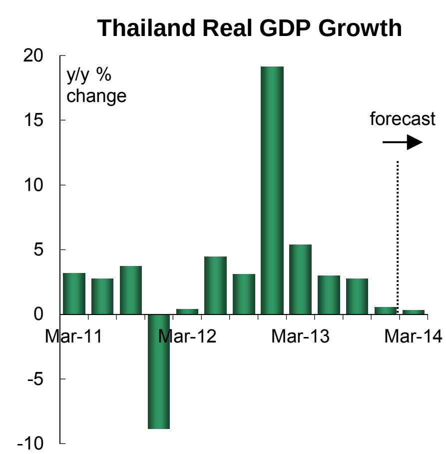
Thailand will release first-quarter GDP data on May 18th (EST). The country's economic outlook has continued to weaken given the persistent social and political unrest — which began in November 2013 — that has eroded consumer and business confidence. Weaker sentiment translates into lower economic growth through more sluggish household spending as well as delayed private sector investment. Moreover, the political crisis is postponing the implementation of large public sector infrastructure projects. Accordingly, we estimate that the Thai economy recorded negative growth in quarter-over-quarter terms, suppressing the annual gain to a meagre 0.3% y/y. In the final quarter of 2013, the nation's output expanded by 0.6% y/y.



Source: Bloomberg, Scotiabank Economics.



Source: Bloomberg, Scotiabank Economics



Source: Bloomberg, Scotiabank Economics.

Key Indicators for the week of May 19 – 23

North America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	05/20	08:30	Wholesale Trade (m/m)	Mar	0.3	0.4	1.1
US	05/21	07:00	MBA Mortgage Applications (w/w)	MAY 16	--	--	3.6
MX	05/21	09:00	Retail Sales (INEGI) (y/y)	Mar	--	--	-1.7
CA	05/22	08:30	Retail Sales (m/m)	Mar	0.1	0.2	0.5
CA	05/22	08:30	Retail Sales ex. Autos (m/m)	Mar	0.2	0.4	0.6
US	05/22	08:30	Continuing Claims (000s)	MAY 10	2650	2670	2667
US	05/22	08:30	Initial Jobless Claims (000s)	MAY 17	310	310	297
MX	05/22	09:00	Bi-Weekly Core CPI (% change)	May 15	--	0.1	-0.1
MX	05/22	09:00	Bi-Weekly CPI (% change)	May 15	--	0.1	-0.1
MX	05/22	09:00	Unemployment Rate (%)	Apr	--	--	4.8
US	05/22	10:00	Existing Home Sales (mn a.r.)	Apr	4.65	4.69	4.59
US	05/22	10:00	Existing Home Sales (m/m)	Apr	--	2.2	-0.2
US	05/22	10:00	Leading Indicators (m/m)	Apr	--	0.3	0.8
CA	05/23	08:30	Core X8 CPI (m/m)	Apr	0.3	0.2	0.3
CA	05/23	08:30	Core X8 CPI (y/y)	Apr	1.5	1.4	1.3
CA	05/23	08:30	CPI, All items (m/m)	Apr	0.4	0.3	0.6
CA	05/23	08:30	CPI, All items (y/y)	Apr	2.1	2.0	1.5
CA	05/23	08:30	CPI, All items (index)	Apr	--	124.9	124.8
CA	05/23	08:30	CPI SA, All items (m/m)	Apr	--	0.2	0.2
CA	05/23	08:30	Core CPI SA, All items (m/m)	Apr	--	--	0.1
MX	05/23	09:00	GDP (q/q)	1Q	--	0.5	0.2
MX	05/23	09:00	GDP (y/y)	1Q	--	1.9	0.7
MX	05/23	09:00	Global Economic Indicator IGAE (y/y)	Mar	--	--	1.7
US	05/23	10:00	New Home Sales (000s a.r.)	Apr	415	425	384

Europe

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
GE	05/20	02:00	Producer Prices (m/m)	Apr	--	0.0	-0.3
UK	05/20	04:30	CPI (m/m)	Apr	0.3	0.3	0.2
UK	05/20	04:30	CPI (y/y)	Apr	1.8	1.7	1.6
UK	05/20	04:30	DCLG House Prices (y/y)	Mar	9.9	9.4	9.1
UK	05/20	04:30	PPI Input (m/m)	Apr	0.0	-0.2	-0.6
UK	05/20	04:30	PPI Output (m/m)	Apr	0.1	0.2	0.2
UK	05/20	04:30	RPI (m/m)	Apr	0.5	0.5	0.2
UK	05/20	04:30	RPI (y/y)	Apr	2.7	2.6	2.5
EC	05/21	04:00	Current Account (€ bn)	Mar	--	--	21.9
UK	05/21	04:30	Retail Sales ex. Auto Fuel (m/m)	Apr	0.3	0.5	-0.4
UK	05/21	04:30	Retail Sales with Auto Fuel (m/m)	Apr	0.0	0.4	0.1
EC	05/21	10:00	Consumer Confidence	May A	-8.3	-8.3	-8.6
FR	05/22	03:00	Manufacturing PMI	May P	--	51.0	51.2
FR	05/22	03:00	Services PMI	May P	--	50.2	50.4
GE	05/22	03:30	Manufacturing PMI	May P	--	54.0	54.1
GE	05/22	03:30	Services PMI	May P	--	54.5	54.7
EC	05/22	04:00	Composite PMI	May P	54.0	53.9	54.0
EC	05/22	04:00	Manufacturing PMI	May P	53.0	53.2	53.4
EC	05/22	04:00	Services PMI	May P	53.5	53.0	53.1
UK	05/22	04:30	Business Investment (q/q)	1Q P	--	2.2	2.4
UK	05/22	04:30	GDP (q/q)	1Q P	0.8	0.8	0.8
UK	05/22	04:30	Index of Services (m/m)	Mar	0.3	0.3	0.2
UK	05/22	04:30	PSNB ex. Interventions (£ bn)	Apr	5.0	4.5	6.7
TU	05/22	07:00	**Benchmark Repo Rate (%)**	**May 22**	**10.00**	**10.00**	**10.00**
GE	05/23	04:00	IFO Business Climate Survey	May	110.8	110.9	111.2
GE	05/23	04:00	IFO Current Assessment Survey	May	115.5	115.4	115.3
GE	05/23	04:00	IFO Expectations Survey	May	106.4	106.5	107.3

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

Key Indicators for the week of May 19 – 23

Asia Pacific

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
SK	05/17		Department Store Sales (y/y)	Apr	--	--	-1.1
NZ	05/18	18:45	Producer Price - Inputs (q/q)	1Q	--	--	-0.7
NZ	05/18	18:45	Producer Price - Outputs (q/q)	1Q	--	--	-0.4
JN	05/18	19:50	Machine Orders (m/m)	Mar	--	5.8	-8.8
TH	05/18	22:30	GDP (y/y)	1Q	0.3	0.5	0.6
HK	05/19	04:30	Unemployment Rate (%)	Apr	3.1	3.1	3.1
SK	05/19	17:00	PPI (y/y)	Apr	--	--	-0.5
AU	05/19	20:00	Conference Board Leading Index (%)	Mar	--	--	0.3
SI	05/19	20:00	Real GDP (y/y)	1Q F	5.4	5.4	5.1
HK	05/19		**Composite Interest Rate (%)**	**Apr**	**--**	**--**	**0.41**
PH	05/19		Balance of Payments (US$ mn)	Apr	--	--	-296.0
JN	05/20	00:30	All Industry Activity Index (m/m)	Mar	--	1.6	-1.1
JN	05/20	01:00	Coincident Index CI	Mar F	114.0	--	114.0
JN	05/20	01:00	Leading Index CI	Mar F	106.5	--	106.5
JN	05/20	01:30	Nationwide Department Store Sales (y/y)	Apr	--	--	25.4
TA	05/20	04:00	Export Orders (y/y)	Apr	--	5.2	5.9
TA	05/20	04:20	Current Account Balance (US$ mn)	1Q	--	--	17138.0
JN	05/20	19:50	Merchandise Trade Balance (¥ bn)	Apr	--	-646.3	-1446.0
JN	05/20	19:50	Adjusted Merchandise Trade Balance (¥ bn)	Apr	--	-639.9	-1714.2
JN	05/20	19:50	Merchandise Trade Exports (y/y)	Apr	--	4.8	1.8
JN	05/20	19:50	Merchandise Trade Imports (y/y)	Apr	--	1.6	18.1
AU	05/20	21:30	Wage Cost Index (q/q)	1Q	--	0.7	0.7
JN	05/21	01:00	Supermarket Sales (y/y)	Apr	--	--	9.4
MA	05/21	05:00	CPI (y/y)	Apr	3.5	3.5	3.5
TA	05/21	20:30	Unemployment Rate (%)	Apr	4.1	4.1	4.1
NZ	05/21	21:00	ANZ Consumer Confidence Index	May	--	--	133.5
CH	05/21	21:45	HSBC Flash China Manufacturing PMI	May P	--	48.3	48.1
JN	05/21		**BoJ Monetary Base Target (¥ tn)**	**May 21**	**270**	**270**	**270**
HK	05/22	04:30	CPI (y/y)	Apr	3.4	3.6	3.9
SI	05/23	01:00	CPI (y/y)	Apr	--	--	1.2
TA	05/23	04:00	Commercial Sales (y/y)	Apr	--	1.4	1.5
TA	05/23	04:00	Industrial Production (y/y)	Apr	--	3.6	3.1
TA	05/23	05:00	Real GDP (y/y)	1Q F	3.0	3.0	3.0
TH	05/23		Customs Exports (y/y)	Apr	--	--	-3.1
TH	05/23		Customs Imports (y/y)	Apr	--	--	-14.2
TH	05/23		Customs Trade Balance (US$ mn)	Apr	--	--	1459.6

Latin America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CL	05/19	08:30	GDP (y/y)	1Q	2.5	2.4	2.7
CO	05/20	17:00	Trade Balance (US$ mn)	Mar	--	--	-505.6
BZ	05/22	08:00	Unemployment Rate (%)	Apr	--	5.1	5.0
BZ	05/23	09:30	Current Account (US$ mn)	Apr	--	--	-6248.0

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

Global Auctions for the week of May 19 – 23

North America

Country	Date	Time	Event
US	05/19	11:00	U.S. Fed To Purchase USD1.50-2.00 Bln Notes
US	05/19	11:30	U.S. to Sell 3-Month Bills
US	05/19	11:30	U.S. to Sell 6-Month Bills
CA	05/20	10:30	Canada to Sell CAD6.450 Bln 98-Day Bills
CA	05/20	10:30	Canada to Sell CAD2.400 Bln 168-Day Bills
CA	05/20	10:30	Canada to Sell CAD2.400 Bln 350-Day Bills
US	05/20	11:00	U.S. Fed To Purchase USD2.25-2.75 Bln Notes
US	05/20	11:30	U.S. to Sell 4-Week Bills
MX	05/20	12:30	1M T-Bill Yield
MX	05/20	12:30	1M T-Bill Bid/Cover Ratio
MX	05/20	12:30	1M T-Bill Amount Sold
MX	05/20	12:30	3M T-Bill Yield
MX	05/20	12:30	3M T-Bill Bid/Cover Ratio
MX	05/20	12:30	3M T-Bill Amount Sold
MX	05/20	12:30	6M T-Bill Yield
MX	05/20	12:30	6M T-Bill Bid/Cover Ratio
MX	05/20	12:30	6M T-Bill Amount Sold
MX	05/20	12:30	5Y Fixed Yield
MX	05/20	12:30	10Y I/L Yield
CA	05/21	12:00	Canada to Sell 2-Year Bonds
US	05/22	11:00	U.S. Fed To Purchase USD0.85-1.10 Bln Notes
US	05/22	13:00	U.S. to Sell 10-Year TIPS Reopening

Europe

Country	Date	Time	Event
BE	05/19	05:30	Belgium to Sell 3% 2019 Bonds
BE	05/19	05:30	Belgium to Sell 2.6% 2024 Bonds
NE	05/19	06:00	Netherlands to Sell 3-Month Bills
NE	05/19	06:00	Netherlands to Sell 6-Month Bills
SP	05/20	04:30	Spain to Sell 3-Month and 9-Month Bills
DE	05/20	04:30	Denmark to Sell Up To DKK5 BLN 1.75% 2024 Bonds
FI	05/20	05:30	Finland to Sell 2% 2024 Bonds
FI	05/20	05:30	Finland to Sell 2.625% 2042 Bonds
SW	05/21	05:03	Sweden to Sell SEK500 Mln 3.5% 2039 Bonds
SW	05/21	05:03	Sweden to Sell SEK3 Bln 5% 2020 Bonds
GE	05/21	05:30	Germany to Sell EUR5 Bln 2024 Bonds
PO	05/21	05:30	Portugal to Sell 3-Month and 12-Month Bills
SP	05/22	04:30	Spain to Sell Bonds
SW	05/22	05:03	Sweden to Sell SEK500 Mln 4% I/L 2020 Bonds

Source: Bloomberg, Scotiabank Economics.

Global Auctions for the week of May 19 – 23

Asia Pacific

Country	Date	Time	Event
JN	05/19	23:45	Japan to Sell 20-Year Bonds
JN	05/19	23:35	2M Bill Amount Sold
CH	05/20	23:00	China to Sell 10-Year Bonds
JN	05/21	23:35	Japan to Sell 3-Month Bill
CH	05/22	23:00	China to Sell 50-Year Bonds
JN	05/22	04:00	Japan Auction for Enhanced-Liquidity

Latin America

Country	Date	Time	Event
BZ	05/20	11:00	Brazil to Sell I/L Bonds due 5/15/2019 - NTN-B
BZ	05/20	11:00	Brazil to Sell I/L Bonds due 5/15/2023 - NTN-B
BZ	05/20	11:00	Brazil to Sell I/L Bonds due 8/15/2030 - NTN-B
BZ	05/20	11:00	Brazil to Sell I/L Bonds due 8/15/2040 - NTN-B
BZ	05/20	11:00	Brazil to Sell I/L Bonds due 8/15/2050 - NTN-B
CL	05/20	12:00	1M Bill Yield
CO	05/21	11:30	5Y UVR I/L Total Peso Bids
CO	05/21	11:30	7Y UVR I/L Total Peso Bids
CO	05/21	11:30	20Y UVR I/L Total Peso Bids
BZ	05/22	11:00	Brazil to Sell Bills due 4/1/2015 - LTN
BZ	05/22	11:00	Brazil to Sell Bills due 4/1/2016 - LTN
BZ	05/22	11:00	Brazil to Sell Bills due 1/1/2018 - LTN
CL	05/22	12:00	10Y BTU I/L Amount Sold
CL	05/22	12:00	20Y BTU I/L Amount Sold
CL	05/22	12:00	30Y BTU I/L Amount Sold
CL	05/22	12:00	1M Bill Yield
CL	05/22	12:00	10Y BTP Fixed Amount Sold
CL	05/22	12:00	20Y BTP Fixed Amount Sold
CL	05/22	12:00	30Y BTP Fixed Amount Sold

Source: Bloomberg, Scotiabank Economics.

Events for the week of May 19 – 23

North America

Country	Date	Time	Event
US	05/19	12:10	Fed's Williams and Fisher to Discuss Monetary Policy in Dallas
US	05/19	12:50	Former Fed Chairman Bernanke to Speak in Dallas
US	05/20	12:30	Fed's Plosser Speaks on the Economy in Washington
US	05/20	13:00	Fed's Dudley Speaks on Business Economics in New York
US	05/20		Arkansas Holds Primary Elections
US	05/20		Georgia Holds Primary Elections
US	05/20		Idaho Holds Primary Elections
US	05/20		Kentucky Holds Primary Elections
US	05/20		Oregon Holds Primary Elections
US	05/20		Pennsylvania Holds Primary Elections
US	05/21	10:00	Fed's Dudley Speaks on Regional Economy and Jobs in New York
US	05/21	11:00	Fed's Yellen Gives Commencement Speech at New York University
US	05/21	12:50	Fed's George Speaks on the Economy and Banking in Washington
US	05/21	13:30	Fed's Kocherlakota Speaks on Monetary Policy in Minneapolis
US	05/21	14:00	Fed Releases Minutes from April 29-30 FOMC Meeting
CA	05/21		British Colombia International LNG Conference
US	05/22	16:00	Fed's Williams to Speak in San Francisco
US	05/23	10:00	U.S. Releases New Home Sales Revisions

Europe

Country	Date	Time	Event
GE	05/17	05:00	Merkel Gives EU Election Campaign Speech in Neumuenster
GE	05/17	07:00	Merkel Gives EU Election Campaign Speech in Hamburg
SZ	05/20	02:30	SNB's Jordan, BOE's Carney Speak at Intl. Fin. Forum in Bern
EC	05/20	05:00	EC's Barnier, ECB's Nouy, EBA's Farkas in Frankfurt
SP	05/20	10:30	ECB's Linde Speaks in Frankfurt
GE	05/20	13:00	Merkel at EU Parliamentary Election Rally: Goerlitz
UK	05/21	04:30	Bank of England Minutes
SP	05/21	08:00	Bank of Spain's Duran Speaks in Brussels
GE	05/21	11:00	Merkel Gives EU Election Campaign Speech in Hof
GE	05/21	13:30	Merkel Gives EU Election Campaign Speech in Tauberbischofsheim
HU	05/22	05:00	Hungarian Central Bank President Matolcsy Speaks in London
TU	05/22	07:00	**Benchmark Repurchase Rate**
GE	05/22	09:00	Merkel Holds Speech at German Construction Industry Congress
RU	05/22		St. Petersburg International Economic Forum
EC	05/22		European Parliament Elections Take Place Throughout EU
PO	05/22		Portugal Releases Year-to-Date Budget Report
UK	05/22		U.K. Holds European Parliament, Local Elections
SP	05/23	03:30	ECB's Linde Speaks in Madrid
GE	05/23	11:00	Merkel Speech at EU Parliamentary Election Rally: Dusseldorf
GE	05/23	13:30	Merkel Gives EU Election Campaign Speech in Saarlouis
FR	05/23		France Sovereign Debt Rating May Be Published by Moody's
SP	05/23		Spain Sovereign Debt Rating Published by S&P
UK	05/23		U.K. Sovereign Debt Rating May Be Published by Moody's
UK			BOE's Carney Speaks at Conference in Bern, Switzerland

Source: Bloomberg, Scotiabank Economics.

Events for the week of May 19 – 23

Asia Pacific

Country	Date	Time	Event
HK	05/18		**Composite Interest Rate**
AU	05/19	21:30	RBA Minutes of May Meeting
AU	05/19	22:30	RBA's Debelle Speaks in Adelaide
JN	05/20		**BOJ 2014 Monetary Base Target**
JN	05/20		Bank of Japan Monetary Policy Statement
PH	05/20		World Economic Forum on East Asia

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	June 4, 2014	1.00	--
Federal Reserve – Federal Funds Target Rate	0.25	June 18, 2014	0.25	0.25
Banco de México – Overnight Rate	3.50	June 6, 2014	3.50	--

BoC: How will inflation upsides impact the BoC? We think that CPI on May 23 will show inflation at or above 2% y/y on headline and close to 1.5% y/y on core. Rising CPI in all likelihood will cause the BoC to revisit the implication in its monetary policy statement that the next move in interest rates could potentially be lower. For more on this see our Week Ahead column.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	0.25	June 5, 2014	0.25	--
Bank of England – Bank Rate	0.50	June 5, 2014	0.50	0.50
Swiss National Bank – Libor Target Rate	0.00	June 19, 2014	0.00	--
Central Bank of Russia – One-Week Auction Rate	7.50	June 16, 2014	7.50	--
Hungarian National Bank – Base Rate	2.50	May 27, 2014	2.50	2.50
Central Bank of the Republic of Turkey – 1 Wk Repo Rate	10.00	May 22, 2014	10.00	10.00
Sweden Riksbank – Repo Rate	0.75	July 3, 2014	0.75	--
Norges Bank – Deposit Rate	1.50	June 19, 2014	1.50	--

The **Turkish central bank** will likely leave interest rates unchanged - with the benchmark one-week repo rate at 10.00% - after next week's meeting. The inflation rate jumped by a full percentage point in April to 9.4% y/y and is now approaching double-digit territory, where it has not been in two years. Financial markets responded positively after the last meeting when monetary authorities resisted pressure from the government to ease policy now that the lira has begun to retrace its earlier sharp losses. The central bank has indicated that loosening will only come in "measured steps" and not until there is a meaningful slowdown in inflation.

Asia Pacific

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Reserve Bank of Australia – Cash Target Rate	2.50	June 3, 2014	2.50	--
Reserve Bank of New Zealand – Cash Rate	3.00	June 11, 2014	3.25	--
People's Bank of China – Lending Rate	6.00	TBA	--	--
Reserve Bank of India – Repo Rate	8.00	June 3, 2014	8.00	--
Bank of Korea – Bank Rate	2.50	June 11, 2014	2.50	--
Bank of Thailand – Repo Rate	2.00	June 18, 2014	2.00	--
Bank Indonesia – Reference Interest Rate	7.50	June 12, 2014	7.50	--

Latin America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	11.00	May 28, 2014	11.00	--
Banco Central de Chile – Overnight Rate	4.00	June 12, 2014	4.00	--
Banco de la República de Colombia – Lending Rate	3.50	May 30, 2014	3.25	3.25
Banco Central de Reserva del Perú – Reference Rate	4.00	June 12, 2014	4.00	4.00

Africa

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
South African Reserve Bank – Repo Rate	5.50	May 22, 2014	5.50	5.50

The **South African Reserve Bank** will remain on hold next week, with high inflation concerns outweighed by the economic deterioration in the first few months of the year. Inflation hit the top end of the 3-6% tolerance range in March and core inflation picked up to 5.5% y/y, its highest since January 2010. Meanwhile, growth prospects are plagued by the nation's longest-ever mining strike, electricity shortages and weak credit dynamics. The unemployment rate rose by over a percentage point to 25.2% in the first quarter after declining in the previous two quarters.

Forecasts at time of publication.

Forecasts as at May 1, 2014*	2000-12	2013	2014f	2015f	2000-12	2013	2014f	2015f
Output and Inflation (annual % change)		Real GDP				Consumer Prices[2]		
World[1]	3.7	3.0	3.3	3.6				
Canada	2.2	2.0	2.2	2.5	2.1	0.9	1.7	1.8
United States	1.9	1.9	2.6	3.2	2.5	1.5	1.7	1.9
Mexico	2.4	1.1	2.7	3.7	4.7	4.0	4.2	4.0
United Kingdom	1.7	1.8	2.8	2.1	2.3	2.0	1.7	1.9
Euro Zone	1.3	-0.4	1.1	1.4	2.1	0.8	1.0	1.3
Japan	0.9	1.5	1.4	1.2	-0.3	1.6	2.3	1.9
Australia	3.1	2.4	2.7	2.9	3.0	2.7	2.9	2.9
China	9.3	7.7	7.3	7.0	2.4	2.5	2.8	3.5
India	7.2	4.6	5.2	5.7	6.7	6.4	5.5	6.5
South Korea	4.2	3.0	3.6	3.2	3.1	1.1	2.2	2.5
Thailand	4.2	2.8	2.5	4.0	2.7	1.7	2.5	2.8
Brazil	3.4	2.3	2.0	2.5	6.5	5.9	6.0	5.5
Chile	4.5	4.1	3.6	4.3	2.9	2.9	3.5	3.1
Peru	5.5	5.6	5.3	5.6	2.6	2.9	3.0	2.5

Central Bank Rates (%, end of period)	13Q4	14Q1f	14Q2f	14Q3f	14Q4f	15Q1f	15Q2f	15Q3f
Bank of Canada	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Federal Reserve	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.75
European Central Bank	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Bank of England	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.25
Swiss National Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Reserve Bank of Australia	2.50	2.50	2.50	2.50	2.75	3.00	3.25	3.50
Exchange Rates (end of period)								
Canadian Dollar (USDCAD)	1.06	1.11	1.10	1.11	1.12	1.14	1.14	1.12
Canadian Dollar (CADUSD)	0.94	0.90	0.91	0.90	0.89	0.88	0.88	0.89
Euro (EURUSD)	1.37	1.38	1.37	1.33	1.30	1.28	1.26	1.25
Sterling (GBPUSD)	1.66	1.67	1.70	1.68	1.67	1.65	1.63	1.61
Yen (USDJPY)	105	103	104	107	109	110	111	112
Australian Dollar (AUDUSD)	0.89	0.93	0.93	0.94	0.92	0.89	0.89	0.89
Chinese Yuan (USDCNY)	6.1	6.2	6.2	6.2	6.1	6.1	6.0	6.0
Mexican Peso (USDMXN)	13.0	13.1	13.1	13.2	13.4	13.5	13.5	13.5
Brazilian Real (USDBRL)	2.36	2.27	2.38	2.40	2.45	2.48	2.48	2.50

Commodities (annual average)	2000-12	2013	2014f	2015f
WTI Oil (US$/bbl)	60	98	99	92
Brent Oil (US$/bbl)	62	109	108	106
Nymex Natural Gas (US$/mmbtu)	5.45	3.73	5.20	4.75
Copper (US$/lb)	2.22	3.32	3.08	3.00
Zinc (US$/lb)	0.78	0.87	0.95	1.25
Nickel (US$/lb)	7.64	6.80	7.90	9.50
Gold, London PM Fix (US$/oz)	745	1,410	1,335	1,375
Pulp (US$/tonne)	730	941	985	985
Newsprint (US$/tonne)	585	608	607	630
Lumber (US$/mfbm)	274	356	385	400

[1] World GDP for 2003-12 are IMF PPP estimates; 2013-15f are Scotiabank Economics' estimates based on a 2012 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' report for additional forecasts & commentary.

North America

Canada	2013	13Q4	14Q1	Latest	
Real GDP (annual rates)	2.0	2.9			
Current Acc. Bal. (C$B, ar)	-60.7	-64.0			
Merch. Trade Bal. (C$B, ar)	-7.3	-9.5	2.6	1.0	(Mar)
Industrial Production	0.4	0.5	2.4	2.7	(Mar)
Housing Starts (000s)	188	194	175	195	(Apr)
Employment	1.3	1.0	0.8	0.8	(Apr)
Unemployment Rate (%)	7.1	7.0	7.0	6.9	(Apr)
Retail Sales	3.2	4.0		3.7	(Feb)
Auto Sales (000s)	1744	1758	1698	1695	(Mar)
CPI	0.9	0.9	1.4	1.5	(Mar)
IPPI	0.4	0.5	2.4	-2.7	(Mar)
Pre-tax Corp. Profits	-2.6	2.9			

United States	2013	13Q4	14Q1	Latest	
Real GDP (annual rates)	1.9	2.6	0.1		
Current Acc. Bal. (US$B, ar)	-379	-324			
Merch. Trade Bal. (US$B, ar)	-704	-687	-726	-729	(Mar)
Industrial Production	2.9	3.5	3.8	3.2	(Apr)
Housing Starts (millions)	0.93	1.03	0.92	1.07	(Apr)
Employment	1.7	1.8	1.7	1.7	(Apr)
Unemployment Rate (%)	7.4	7.0	6.7	6.3	(Apr)
Retail Sales	4.3	3.8	2.4	4.2	(Apr)
Auto Sales (millions)	15.5	15.6	15.6	16.0	(Apr)
CPI	1.5	1.2	1.4	2.0	(Apr)
PPI	1.2	0.8	1.5	3.1	(Apr)
Pre-tax Corp. Profits	3.4	4.8			

Mexico	2013	13Q4	14Q1	Latest	
Real GDP	1.1	0.7			
Current Acc. Bal. (US$B, ar)	-22.3	-18.6			
Merch. Trade Bal. (US$B, ar)	-1.0	7.4	-4.8	12.3	(Mar)
Industrial Production	-0.7	-0.4	1.6	3.4	(Mar)
CPI	3.8	3.7	4.2	3.5	(Apr)

Europe

Euro Zone	2013	13Q4	14Q1	Latest	
Real GDP	-0.4	0.5	0.9		
Current Acc. Bal. (US$B, ar)	288	474		227	(Feb)
Merch. Trade Bal. (US$B, ar)	230.3	283.3		258.3	(Feb)
Industrial Production	-0.7	1.5	1.4	0.5	(Mar)
Unemployment Rate (%)	11.9	11.9	11.8	11.8	(Mar)
CPI	1.4	0.8	0.6	0.7	(Apr)

Germany	2013	13Q4	14Q1	Latest	
Real GDP	0.5	1.4	2.2		
Current Acc. Bal. (US$B, ar)	273.9	342.4	265.7	323.4	(Mar)
Merch. Trade Bal. (US$B, ar)	265.5	284.4	262.7	245.7	(Mar)
Industrial Production	0.1	3.1	4.1	3.0	(Mar)
Unemployment Rate (%)	6.9	6.9	6.7	6.7	(Apr)
CPI	1.5	1.3	1.2	1.3	(Apr)

France	2013	13Q4	14Q1	Latest	
Real GDP	0.4	0.8	0.8		
Current Acc. Bal. (US$B, ar)	-36.6	-13.1	-59.6	-43.4	(Mar)
Merch. Trade Bal. (US$B, ar)	-46.3	-46.1	-42.1	-42.9	(Mar)
Industrial Production	-0.5	0.7	-0.2	-0.8	(Mar)
Unemployment Rate (%)	10.3	10.2	10.4	10.4	(Mar)
CPI	0.9	0.6	0.7	0.7	(Apr)

United Kingdom	2013	13Q4	14Q1	Latest	
Real GDP	1.7	2.7	3.1		
Current Acc. Bal. (US$B, ar)	-111.5	-138.5			
Merch. Trade Bal. (US$B, ar)	-168.5	-172.8	-176.7	-169.1	(Mar)
Industrial Production	-0.3	2.3	2.5	2.3	(Mar)
Unemployment Rate (%)	7.6	7.2		6.8	(Feb)
CPI	2.6	2.1	1.7	1.6	(Mar)

Italy	2013	13Q4	14Q1	Latest	
Real GDP	-1.8	-0.9	-0.5		
Current Acc. Bal. (US$B, ar)	21.1	58.4		4.9	(Feb)
Merch. Trade Bal. (US$B, ar)	40.3	58.6	37.8	64.2	(Mar)
Industrial Production	-3.1	-0.4	0.0	-0.1	(Mar)
CPI	1.2	0.6	0.4	0.4	(Apr)

Russia	2013	13Q4	14Q1	Latest	
Real GDP	1.3	2.0			
Current Acc. Bal. (US$B, ar)	32.8	8.9			
Merch. Trade Bal. (US$B, ar)	15.0	15.7	17.0	19.7	(Mar)
Industrial Production	0.4	1.4	1.1	1.4	(Mar)
CPI	6.8	6.4	6.4	7.3	(Apr)

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

Source: Bloomberg, Global Insight, Scotiabank Economics.

Asia Pacific

Australia	2013	13Q4	14Q1	Latest	
Real GDP	2.4	2.8			
Current Acc. Bal. (US$B, ar)	-44.0	-41.6			
Merch. Trade Bal. (US$B, ar)	20.1	20.6	29.9	59.3	(Mar)
Industrial Production	3.6	2.8			
Unemployment Rate (%)	5.7	5.8	5.9	5.8	(Apr)
CPI	2.4	2.7	2.9		

Japan	2013	13Q4	14Q1	Latest	
Real GDP	1.6	2.5	2.7		
Current Acc. Bal. (US$B, ar)	33.6	-56.5	-32.6	13.7	(Mar)
Merch. Trade Bal. (US$B, ar)	-116.9	-150.0	-183.0	-201.1	(Mar)
Industrial Production	-0.6	5.8	8.3	7.5	(Mar)
Unemployment Rate (%)	4.0	3.9	3.6	3.6	(Mar)
CPI	0.4	1.4	1.5	1.6	(Mar)

South Korea	2013	13Q4	14Q1	Latest	
Real GDP	3.0	3.7	3.9		
Current Acc. Bal. (US$B, ar)	79.9	99.4	60.5	88.2	(Mar)
Merch. Trade Bal. (US$B, ar)	44.1	53.2	20.8	53.5	(Apr)
Industrial Production	0.2	0.6	1.3	2.8	(Mar)
CPI	1.3	1.1	1.1	1.5	(Apr)

China	2013	13Q4	14Q1	Latest	
Real GDP	7.7	7.7	7.4		
Current Acc. Bal. (US$B, ar)	182.8				
Merch. Trade Bal. (US$B, ar)	259.2	360.3	66.9	221.5	(Apr)
Industrial Production	9.7	9.7	8.8	8.7	(Apr)
CPI	2.5	2.5	2.4	1.8	(Apr)

Thailand	2013	13Q4	14Q1	Latest	
Real GDP	2.9	0.6			
Current Acc. Bal. (US$B, ar)	-2.8	3.0	8.2		
Merch. Trade Bal. (US$B, ar)	0.5	1.3	2.2	3.5	(Mar)
Industrial Production	-3.1	-6.7	-7.1	-10.6	(Mar)
CPI	2.2	1.7	2.0	2.4	(Apr)

India	2013	13Q4	14Q1	Latest	
Real GDP	4.6	4.7			
Current Acc. Bal. (US$B, ar)	-49.3	-4.2			
Merch. Trade Bal. (US$B, ar)	-12.8	-10.2	-9.5	-10.1	(Apr)
Industrial Production	0.6	-0.8	-0.5	-0.5	(Mar)
WPI	6.3	7.1	5.3	5.2	(Apr)

Indonesia	2013	13Q4	14Q1	Latest	
Real GDP	5.8	5.7			
Current Acc. Bal. (US$B, ar)	-29.1	-4.3			
Merch. Trade Bal. (US$B, ar)	-0.3	0.8	0.4	0.7	(Mar)
Industrial Production	6.0	1.5	3.8	4.9	(Mar)
CPI	6.4	8.0	7.8	7.3	(Apr)

Latin America

Brazil	2013	13Q4	14Q1	Latest	
Real GDP	2.1	1.7			
Current Acc. Bal. (US$B, ar)	-81.1	-83.3	-100.7		
Merch. Trade Bal. (US$B, ar)	2.6	16.7	-24.3	6.1	(Apr)
Industrial Production	2.4	0.2	-0.5	-1.3	(Mar)
CPI	6.2	5.8	5.8	6.3	(Apr)

Chile	2013	13Q4	14Q1	Latest	
Real GDP	4.1	2.7			
Current Acc. Bal. (US$B, ar)	-4.3	-9.7			
Merch. Trade Bal. (US$B, ar)	8.0	3.1	10.7	11.4	(Apr)
Industrial Production	3.0	2.5	0.7	1.0	(Mar)
CPI	1.9	2.3	3.2	4.3	(Apr)

Peru	2013	13Q4	14Q1	Latest	
Real GDP	2.2	5.1			
Current Acc. Bal. (US$B, ar)	-10.2	-2.2			
Merch. Trade Bal. (US$B, ar)	0.1	0.2	-0.3	-0.4	(Mar)
Unemployment Rate (%)	5.9	5.8	6.8	6.3	(Apr)
CPI	2.8	2.9	3.4	3.5	(Apr)

Colombia	2013	13Q4	14Q1	Latest	
Real GDP	4.3	4.9			
Current Acc. Bal. (US$B, ar)	-12.7	-3.4			
Merch. Trade Bal. (US$B, ar)	0.2	0.1		-0.5	(Feb)
Industrial Production	-1.8	0.2	4.4	9.8	(Mar)
CPI	2.0	1.8	2.3	2.7	(Apr)

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

Source: Bloomberg, Global Insight, Scotiabank Economics.

Interest Rates (%, end of period)

Canada	13Q4	14Q1	May/09	May/16*	United States	13Q4	14Q1	May/09	May/16*
BoC Overnight Rate	1.00	1.00	1.00	1.00	Fed Funds Target Rate	0.25	0.25	0.25	0.25
3-mo. T-bill	0.92	0.89	0.92	0.93	3-mo. T-bill	0.07	0.03	0.02	0.02
10-yr Gov't Bond	2.76	2.46	2.36	2.27	10-yr Gov't Bond	3.03	2.72	2.62	2.51
30-yr Gov't Bond	3.23	2.96	2.90	2.80	30-yr Gov't Bond	3.97	3.56	3.46	3.33
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US$B)	71.8		77.0	(Feb)	FX Reserves (US$B)	133.5	133.2	133.2	(Mar)
Germany					**France**				
3-mo. Interbank	0.24	0.27	0.31	0.26	3-mo. T-bill	0.15	0.19	0.17	0.12
10-yr Gov't Bond	1.93	1.57	1.46	1.33	10-yr Gov't Bond	2.56	2.08	1.90	1.79
FX Reserves (US$B)	67.4	66.8	66.8	(Mar)	FX Reserves (US$B)	50.8	53.1	53.1	(Mar)
Euro Zone					**United Kingdom**				
Refinancing Rate	0.25	0.25	0.25	0.20	Repo Rate	0.50	0.50	0.50	0.50
Overnight Rate	0.45	0.69	0.22	0.18	3-mo. T-bill	0.40	0.39	0.38	0.39
FX Reserves (US$B)	331.0	338.2	338.2	(Mar)	10-yr Gov't Bond	3.02	2.74	2.69	2.57
					FX Reserves (US$B)	92.4	97.3	97.3	(Mar)
Japan					**Australia**				
Discount Rate	0.30	0.30	0.30	0.30	Cash Rate	2.50	2.50	2.50	2.50
3-mo. Libor	0.09	0.07	0.07	0.07	10-yr Gov't Bond	4.24	4.08	3.82	3.72
10-yr Gov't Bond	0.74	0.64	0.61	0.58	FX Reserves (US$B)	49.7	54.1	54.1	(Mar)
FX Reserves (US$B)	1237.2	1247.5	1247.5	(Mar)					

Exchange Rates (end of period)

USDCAD	1.06	1.11	1.09	1.09	¥/US$	105.31	103.23	101.86	101.50
CADUSD	0.94	0.91	0.92	0.92	US¢/Australian$	0.89	0.93	0.94	0.94
GBPUSD	1.656	1.666	1.685	1.683	Chinese Yuan/US$	6.05	6.22	6.23	6.23
EURUSD	1.374	1.377	1.376	1.371	South Korean Won/US$	1050	1065	1024	1024
JPYEUR	0.69	0.70	0.71	0.72	Mexican Peso/US$	13.037	13.058	12.948	12.921
USDCHF	0.89	0.88	0.89	0.89	Brazilian Real/US$	2.362	2.272	2.213	2.212

Equity Markets (index, end of period)

United States (DJIA)	16577	16458	16583	16461	U.K. (FT100)	6749	6598	6815	6846
United States (S&P500)	1848	1872	1878	1872	Germany (Dax)	9552	9556	9581	9611
Canada (S&P/TSX)	13622	14335	14534	14540	France (CAC40)	4296	4392	4477	4451
Mexico (IPC)	42727	40462	41641	41933	Japan (Nikkei)	16291	14828	14200	14097
Brazil (Bovespa)	51507	50415	53100	53859	Hong Kong (Hang Seng)	23306	22151	21863	22713
Italy (BCI)	1041	1181	1170	1133	South Korea (Composite)	2011	1986	1957	2013

Commodity Prices (end of period)

Pulp (US$/tonne)	990	1030	1030	1030	Copper (US$/lb)	3.35	3.01	3.07	3.15
Newsprint (US$/tonne)	605	605	605	605	Zinc (US$/lb)	0.95	0.90	0.92	0.93
Lumber (US$/mfbm)	372	354	346	347	Gold (US$/oz)	1204.50	1291.75	1291.25	1291.50
WTI Oil (US$/bbl)	98.42	101.58	99.99	102.12	Silver (US$/oz)	19.50	19.97	19.25	19.33
Natural Gas (US$/mmbtu)	4.23	4.37	4.53	4.43	CRB (index)	280.17	304.67	304.57	306.54

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

Emerging Markets Strategy

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