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Global Views

Weekly commentary on economic and financial market developments

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

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Central Banks, Chinese GDP And US Earnings To Dominate

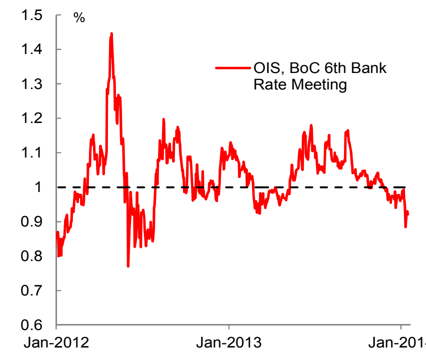
- **Please see our full indicator, central bank, auction and event calendars on pp. A3-A7.**

Canada — Not Pining For A Rate Cut Just Yet

Will the BoC take a stronger step in the direction of a rate cut bias next week? I think it's likely that they signal greater unease with respect to soft inflation and may modestly downgrade inflation forecasts at least in the near-term, but that **it will take until Summer before four pre-conditions to a more serious dialogue on rate cuts are established.** Last Fall we bucked consensus and began advising clients that the market's zero probability of a rate cut over 2014 should be more like 20-30% odds. As US shops and market flows caught on, the market overshot toward about 50% rate cut probabilities. In essence, markets cut rates before the BoC over this period and that added to CAD's woes. We think markets are now at the outer bound of our comfort zone for pricing rate cuts until we know more about the uncertain pre-conditions. Chart 1 shows where the market thinks the BoC's overnight rate will be six meetings from now and signals half of a quarter-point rate cut.

A very weak Spring housing market would be a necessary but not sufficient pre-condition for cutting. Seasonally adjusted home resales have fallen for three straight months. That is preliminary evidence that the resurgence in home sales last Spring and Summer was just brought forward from future demand on fears that the 90-120 day mortgage rate guarantees that dated back to the juicy pre-taper talk rates last Spring would be reset higher. A caution is that the housing volumes are light at this time of year and so the big test will continue to wait until the key Spring market when Canada comes out of hibernation.

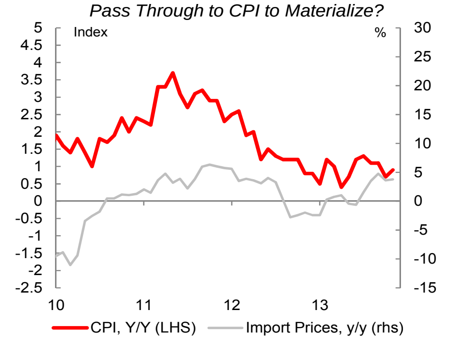
Market Going Too Far on BoC?



Source: Bloomberg, Scotiabank Economics

The second is that the BoC will be mindful of the speed of depreciation in CAD and the upside risks that poses to inflation. We're possibly in uncharted waters on CAD now as sentiment rapidly shifts from over-weight positions in the currency across many major global players. An uncontrolled further downward spiral in the currency would concern the BoC in terms of the possible influences on inflation. Import prices are already turning higher (see chart), but with limited pass-through into CPI. The BoC's past assumption has been that a 10% trade-weighted drop in CAD results in a three-tenths upside to CPI within 2 years. Also, **where I think consensus is wrong is in viewing CAD depreciation as a big source of net stimulus to the economy** which gets the chicken-and-egg dynamic dead wrong. When Canada's growth outperformance to the US ended in 2012, that set in motion the beginning of a trend toward CAD depreciation that has been further aggravated by a more dovish BoC relative to the less dovish Fed and which follows the relative fundamentals story. CAD's rise over the prior decade was heavily driven by relative growth outperformance and if that gig is up, as I think it is, then currency traders have full cause to continue to depreciate the currency. That's not new stimulus to the economy; it's repricing lower growth fundamentals relative to the US in this cycle.

Canada Import Prices
Pass Through to CPI to Materialize?



Source: Statistics Canada, Scotiabank Economics

Third, **the BoC would need evidence of continued softness in inflation** over coming months (even though it has already undershot BoC forecasts for the past three years). **Continued softness in exports is the final criteria. If we get all four pre-conditions (weak housing, still soft inflation and export growth, and avoid a much sharper depreciation in the currency) then the BoC may seriously begin to entertain cuts by Spring and have the political cover of soft housing and the weakest household debt growth since the moribund early 1990s to justify it.**

Canada also releases December CPI which is expected to drift back over 1% y/y before perhaps turning softer again later this winter. Manufacturing sales, wholesale trade, and retail sales are all expected to rise moderately and we'll firm up our December and Q4 GDP calls after their release.

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Asia-Pacific: Chinese GDP, And Will The BoJ Expand Stimulus?

Asian markets should leap to the front of the line of global market influences next week. Chinese data and the Bank of Japan's bias ahead of the sales tax increase in April will be key.

The BoJ issues a policy update on Wednesday and has three meetings to consider further monetary policy stimulus ahead of a big turn of events in April. As Japan embarks upon raising the sales tax by a whopping three percentage points from 5% currently and starting in April we expect the economy to pay a stiff price at least in Q2 with the question being how much longer a consumer shock lasts beyond Q2. BoJ Governor Kuroda has demonstrated a bias toward more policy easing if needed to attempt to mitigate the consequences for the economy. Whether he has enough support across the fractious BoJ is one of the uncertainties. Raising unsterilized bond buying limits would be one obvious tool that could be employed to push JGB yields lower yet alongside broadening asset purchases. An already attractive carry into Treasuries for massive Japanese real money could well operate to the advantage of Treasury yields if flows get pushed more out of JGBs into Treasuries.

Chinese Q4 GDP will land first thing Monday into Asian markets and ahead of the European open such that closed US markets will play catch-up on Tuesday. Consensus expects Q4 growth to come in at 7.6% y/y, slightly softer than 7.8% the year before, and leave the full year at 7.7%. The dispersion of views within the Bloomberg consensus runs from 7.1% to 7.9% and is skewed toward the 7.5-7.7% range. Industrial production and retail sales for December will also be released into the Monday open and both are expected to remain strong. Retail sales are tough to rely upon as a true gauge of Chinese consumer spending because, unlike most of the West, China records a sale when the product arrives at the retailer instead of when consumers buy it and therefore one never really knows how much product was directed to feed consumer demand versus inventories. Later in the week, China releases the private sector's purchasing managers index for the manufacturing sector which is expected to continue to hover near a 50 reading that signals flat output.

Australia releases December CPI on Tuesday. The country has also experienced a marginal softening in inflationary pressures over 2013 with the Q3 print landing at 2.2%. **Consensus thinks the disinflationary pattern may be bottoming in Australia.**

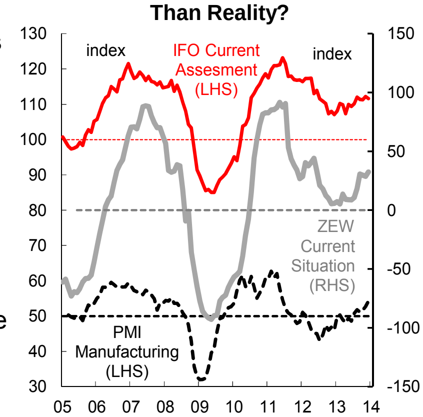
Tertiary releases that do not have the capability of influencing the global market tone but that will influence regional markets include South Korean Q4 GDP which is expected to continue a mildly accelerating pattern, an expected 25bps rate cut by the Bank of Thailand on Wednesday in the context of ongoing political protests, New Zealand CPI and trade for RBNZ watchers, and Malaysian CPI.

Europe — Soaring Sentiment, Weak Growth

Our regular readers know that we're not the biggest fans of sentiment surveys as actions speak louder than words when it comes to gauging the strength of the economy. If you disagree — and you have the support of the very short-term sensitivity to sentiment surveys — then you will have plenty to whet your appetite next week.

Witness the accompanying chart that shows Germany's key sentiment surveys. They got the direction right as the European recession came to an end, but overshot in terms of the still-tepid rate of economic recovery. **Germany releases two of its three sentiment prints next week** including manufacturing and service sector purchasing managers' indices (Thursday), and the ZEW investor sentiment gauge (Tuesday). The IFO release for business confidence arrives the week after. I would think these surveys will continue to be constructive in tone as sentiment toward the US recovery improves and binary policy risks settle down.

European Sentiment Stronger Than Reality?



Source: Bloomberg, IFO Institute, ZEW, Markit, Scotiabank Economics.

UK markets will be focused on the Bank of England's policy threshold and interest rate guidance. That's because the unemployment rate will be updated on Wednesday, and that same day offers up the minutes to the

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last Bank of England meeting. The risk is that the BoE minutes appear dated in favour of focusing upon the unemployment rate. As the unemployment rate continues to draw closer to the BoE's 7% threshold far faster than the Carney-led Monetary Policy Council had expected, the risk remains pointed toward markets not believing the bias on the timing of rate hikes. Our view remains that one of the more ill-advised experiments in contemporary monetary policy has been the advent of a policy bias conditioned upon unemployment rates in some of the anglo-saxon economies because of the shakiness of the unemployment rate's reliability as a gauge of labour markets and broader economic activity.

More minor releases will include sentiment surveys for the rest of Europe, and Italian industrial sales and orders along with retail sales. Also note that **the IMF issues new forecasts** on Tuesday. After IMF head Christine Lagarde recently flagged deflation worries, we would expect a particular emphasis upon understanding global inflation dynamics in order to back up her assertions. **My bias is that what we're dealing with is disinflationary pressures, not broad global deflation risks** when the latter is properly defined to be a sustained, economy-wide drop in many prices that shifts expectations toward continued price declines which then result in postponed consumption and investment on the hopes of getting product cheaper later. That downward spiral effect is not in evidence today as all measures of inflation expectations remain reasonably firm. Further, much of the price risk is focused upon commodities including oil, and that's more of a relative price shock than a deflationary spiral. A relative price shock marked by falling energy prices compared to other prices can actually prove constructive to the economy on the second round influences by freeing up disposable income for spending on more discretionary items beyond household staples.

United States — Calm Before The Fed

After a week in which it was virtually the only game in town, US markets will be less of the focus in global markets next week. The US starts the week closed on Monday for Martin Luther King day. Fed officials then slip into the communications blackout period by mid-week and ahead of the following week's FOMC statement (Chairman Bernanke's last). **Earnings will dominate the rest of the week's market tone.**

Seventy firms listed on the S&P500 release Q4 earnings reports next week following the holiday on Monday. Among the names are Johnson & Johnson, Delta, IBM, General Dynamics, Netflix, McDonald's, Starbucks, Honeywell, Procter & Gamble, Xerox, State Street. Of the 52 firms that have released earnings on the S&P500 thus far, 60% have beaten analysts' expectations with a net beat ratio of 7.2%.

Data risk will be very light with only home resales on tap for Thursday. Consensus thinks that resales may be carving out a bottom with expectations for a small rise in the December print. We're less convinced, and point to lagged effects of large declines in pending home sales that close all the paperwork and count as a resale 30-90 days later on average. Pending sales were falling up to October and were flat in November as we await December results later this month. **Near-term data risk aside, it is important to continue to separate what is happening to resales from the more important new home segment.** We say more important because resales are mostly just a paper swap with little value added in the form of ancillary services. New home sales trigger much more powerful construction multipliers. Over the past year, resales have declined partly because of fewer short sales and foreclosure sales that in turn are related to more optimism regarding rising house prices. This has also affected pending home sales. The rise in the 30-year fixed mortgage rate since taper talk began last Spring clearly has not helped, but it is not the only influence. Also consider diminishing shadow inventories of foreclosed product that banks are sitting on and potentially stretched to include listings waiting in the wings. As shadow product falls, there is less of it to come back on the market in resales and that is also a cyclical weight — but a constructive one. What new home sales have going for them is that falling shadow inventories of resale product combine with a record low in unsold new homes as far back as we can look since the early 1960s to create a relative paucity of supply. As rates back up, we expect lenders to ease mortgage access due to improved spreads. Even if new home sales show some rate sensitivity not offset by improved mortgage access, builders increasingly do not have much of a choice other than to put more shovels in the ground as combined resale and new home inventories get leaner and leaner.

The US Treasury auctions 10 year TIPS next week.

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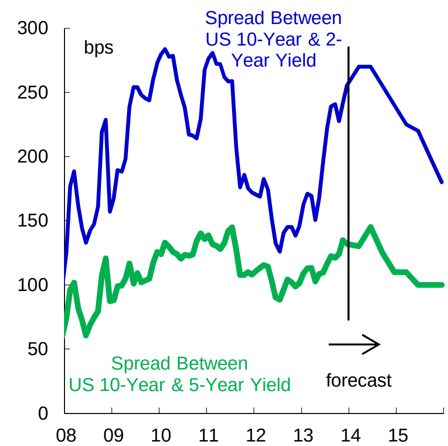
US Outlook Summary — Enter The Bear Flattener

- **A strengthening US economy has us expecting that the yield curve will flatten.**

We view this recovery as having only just begun in earnest and believe in a fairly bullish outlook with upside risks to our growth and interest rate forecasts. In contrast to the tail risk offered up within the range of consensus opinions that the expansion is already growing old and threatens to turn south, we think the bigger tail risk to consensus forecast opinions over 2014-15 lies in the direction of a stronger-than-expected US recovery with Bloomberg's consensus at 2.6% in 2014 and 3% growth in 2015.

Therefore, whereas the past couple of years have been all about Treasury curve steepening to among the wider 10s minus 2s spreads on record, **we view the next two years as being about a shift toward a bear flattener environment**. Because we think the Fed's forward rate guidance will be more directly challenged by markets going forward, we see risk of fairly aggressive changes in the shape of the yield curve.

On To The Bear Flattener?



Source: Bloomberg, Scotiabank Economics.

The following is a summary of our key arguments underpinning our thesis:

a) **Still a young expansion:** This may be an older expansion than the post-war average as many more bearish observers have noted, but it's still much shorter than many of them.

b) **Plenty of spare capacity amidst a weak expansion:** The current expansion has also been the weakest of any post-war recovery. That too would counsel against viewing this as an expansion that risks fizzling out. A still-large output gap and no evidence of inflationary pressures or excessive inventory cycles argue against an exhausted cycle facing overheating risks.

c) **Key parts of the economy have a very bullish outlook**:

i) *Positive inventory cycle*: The inventory cycle has often caused problems in the past but it is showing few warning signs now.

ii) *Housing construction upsides*: New home demand can withstand a rate shock as mortgage credit becomes more readily available due to wider lending margins, and in the context of much leaner new and existing home inventories. Builders will have no choice but to put shovels in the ground to meet improving new home sales demand.

iii) *Household balance sheets are solid*: Broader US household sector drivers have strengthened. The household debt service burden lies at its lowest on record. Household net worth is at its highest on record. A string of house price gains, improving job markets, and still-low borrowing costs are major positives.

iv) *The energy sector will continue to post substantial gains in our view:* The annual pace of increase in crude oil production continues to grow and this is feeding three positive effects: Higher exploration and appraisal activity, higher infrastructure spending, and a rapidly falling US petroleum products trade deficit.

v) *Better government balance sheet:* Less fiscal drag should easily mean half to three-quarters of a percentage point less downside risk to growth this year versus last.

This is a summary of our fuller report including charts which is available here.

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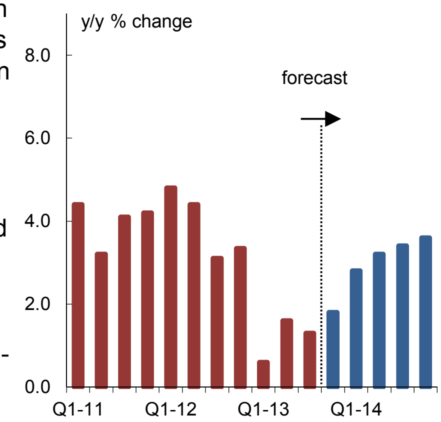
Mexico: 2014 Economic Outlook

- **GDP to accelerate in 2014; structural reforms a key factor.**

Mexico's economic activity will likely accelerate in the 2014-15 period, after a soft performance in 2013. Following an average growth rate of 1.1% y/y in the first three quarters, we estimate that GDP advanced by 1.3% in 2013 as a whole. Weak activity in the industrial sector, particularly in the construction segment, was the main contributor to the subdued economic performance, which was also exacerbated by a moderation in the services sector momentum. Public expenditure growth decelerated in 2013, and we anticipate the pace to rebound this year. Furthermore, the automotive industry (which accounts for 30% of non-oil exports) will continue to be solid with new investment plans already underway. In July, the government unveiled a plan to invest in infrastructure projects in the coming five years, which could start boosting construction in 2014. In addition, the recent energy reform approval will begin to have a positive effect over the medium-term, improving economic projections. In line with stronger US growth in 2014 and an accelerating local economy, we estimate that output will increase by 3⅓% in 2014 and by 3¾% in 2015.

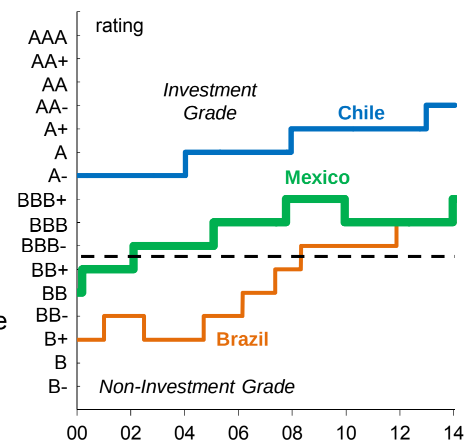
Mexican Real GDP



Source: Bloomberg, Scotiabank Economics.

Rebounding economic activity, the ongoing recovery in the US and domestic political developments will continue to shape the currency performance in the short-term. The Mexican peso (MXN) continues to trade around the 13 pesos per US dollar (USD) mark. In 2013, the MXN lost only 3% against the USD, being the best performer among its Latin American peers. Despite the mild reaction to the US Federal Reserve (Fed) monetary policy adjustment in December, the USDMXN will likely weaken in the coming months. Nonetheless, we foresee that the currency adjustment will be gradual and orderly.

S&P Sovereign Debt Rating



Source: S&P, Scotiabank Economics.

Mexico's creditworthiness continues to improve. In 2013, both Standard & Poor's and Fitch upgraded Mexico's long-term sovereign credit rating by one notch to "BBB+" with a "stable" outlook, highlighting the potential of the structural reforms undertaken by the current administration (particularly in the energy sector) to boost the country's potential growth. Moody's maintains a sovereign credit rating of "Baa1" with a "stable" outlook. Mexico currently ranks as the country with the second-lowest five-year credit default swaps (CDS) among major economies in Latin America. Foreign holdings of Mexican government bonds account for 56% of the total, making the country vulnerable to unexpected shifts in capital flows.

The inflation rate will likely increase in the short-term, as a result of the fiscal reform approved last year; however, we expect this effect to be temporary and inflation to decelerate to within the central bank's official range (2-4%) by 2015. The central bank loosened monetary conditions, reducing the reference rate by 50 bps to 3.50% in the second half of 2013, in response to the weaker economic performance, lower inflation and contained price expectations. We expect the current monetary policy stance to be maintained in first half of 2014.

The political environment in Mexico has been shaped by several structural reforms legislated in the last 18 months. So far, telecommunications, education, labour, financial, fiscal and energy reforms have been approved. However, the secondary laws in many of these reforms are still to be finished, with the energy sector rules taking the centre of investors' attention. Containing drug-related violence, establishing closer relations with the US (particularly on immigration and trade issues) and pursuing business-friendly policies to promote foreign investment will remain key focus areas for President Peña Nieto's administration.

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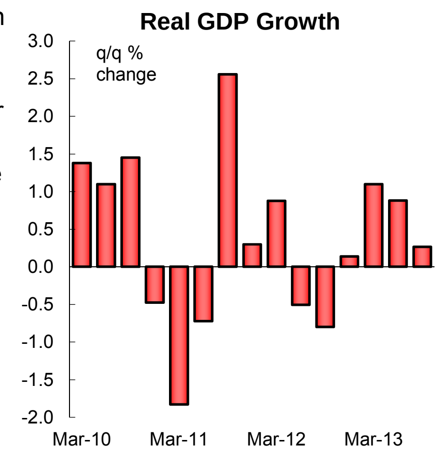
Japan's Economic Outlook 2014-15

- **Productivity-boosting reforms required to make the ongoing recovery sustainable.**

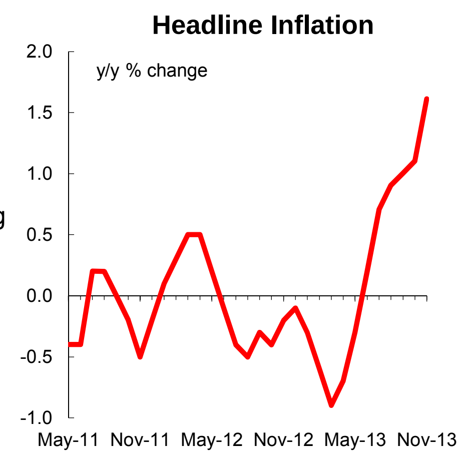
The Japanese economy continues to recuperate at a moderate pace, reflecting Japanese policymakers' success so far in implementing an economic revival strategy. Nevertheless, the sustainability of the ongoing recovery is still debatable as the administration of Prime Minister Shinzo Abe has yet to record accomplishment in executing the third arrow of his revival plan which focuses on long-term structural reforms to complement the already announced fiscal and monetary measures.

Japanese real GDP expanded by around 1¾% in 2013 as a whole, with a similar pace anticipated for 2014. Output growth will likely record a marked pick-up in the run-up to the April 2014 increase in the consumption tax rate, particularly in terms of household spending. Over a longer time horizon, consumer spending prospects are adversely impacted by a shrinking labour force. The government is supporting the economy through fiscal stimulus measures despite weak public finances; in December, it approved supplementary public spending, mainly to be directed to infrastructure, to cushion the tax rate hike's subsequent squeeze on domestic demand. In 2015, economic growth will likely decelerate to around 1¼% in the absence of various successfully implemented productivity-boosting reforms.



Source: Bloomberg.

Inflation is slowly approaching the Bank of Japan's (BoJ) 2% inflation target. The consumer price index (of all items less fresh food) increased by 1.2% y/y in November, after emerging from deflationary territory in mid-2013. The April consumption tax rate increase, which will take the rate from 5% to 8%, will temporarily bring inflation to the target in mid-2014. Apart from this, significant yen depreciation (18% against the US dollar in 2013) combined with the central bank's monetary stimulus efforts should translate into modest price gains in the coming quarters, though the inflation rate will likely hover around 1½% y/y at the end of 2014. The BoJ will continue its quantitative and qualitative monetary easing scheme in the coming quarters, expanding the nation's monetary base at an annual pace of ¥60-70 trillion (by around 35% in 2014 as a whole). In our view, there is potential for further easing measures in the first half of 2014 if the tax hike leads to a stalling of ongoing economic momentum. The monetary policy divergence of the BoJ and other major central banks in advanced economies is the key factor behind the ongoing correction in the Japanese yen; we expect the currency to close this year at 109 vis-à-vis the US dollar, implying a further 3% depreciation.



Source: Bloomberg.

Japan's tax revenues (as a share of GDP) are currently significantly below the OECD average, while public finances are increasingly pressured by social security costs related to an aging population; in this context, the consumption tax increase will be a key element in the administration's fiscal consolidation efforts. The tax rate hike will raise around ¥8 trillion (1.6% of GDP) annually; a second phase of the tax rise (from 8% to 10%) is planned — though not yet confirmed — for October 2015. The decision in December to supplement public spending by ¥5.5 trillion (equivalent to 1.1% of GDP) adds to the previous stimulus measures of ¥13.1 trillion put together in January 2013; the supplementary package does not require issuance of new government bonds due to a pick-up in tax revenues that reflect the ongoing economic recovery. Japan's budget deficit will likely average 8% of GDP in 2014-15, down from around 10% in 2012-13. Despite frail public finances, the government has no difficulties in refinancing itself at very low rates; over 90% of Japanese public debt is purchased domestically.

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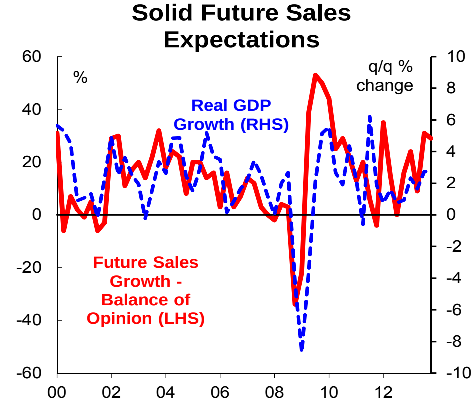
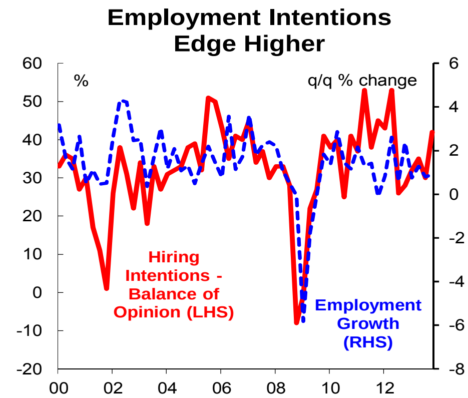
Increased Canadian Business Optimism

- **The Bank of Canada's fourth quarter Business Outlook Survey points to improving Canadian activity in 2014.**

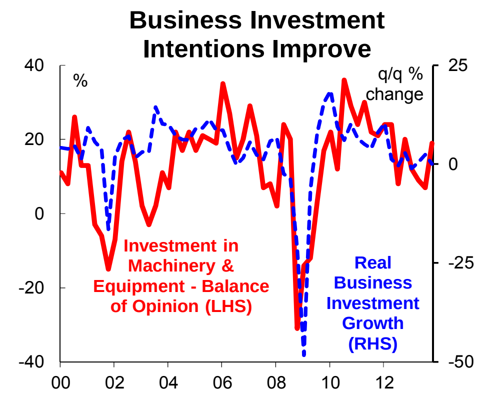
The Canadian economy has underperformed over the past two years, held back by lacklustre growth in the United States, slowing emerging market demand and softening commodity prices. Canadian businesses also continue to struggle with subdued domestic demand, which has weighed on sales and expansion plans in some sectors. These challenges have led to disappointing economic data, particularly for Canadian exports, business investment, employment and inflation.



Notwithstanding these headwinds, the outlook for the Canadian economy is more encouraging over the next two years. Canadian real GDP growth is forecast to gain momentum, rising from 1.8% last year to 2.4% in 2014 and 2.5% in 2015. Growth will piggyback on a sustained pick-up south of the border, especially car sales and residential construction. These forecasts are consistent with the results from the Bank of Canada's Q4 Business Outlook Survey, which provides a good indication of where the economy is headed *(top chart).* While the survey of about 100 firms across Canada suggests business activity varies by regions and sectors, it reveals that businesses are more optimistic and remain confident about prospects over the next twelve months. The balance of opinion (the % of respondents reporting stronger growth minus the % reporting weaker growth) on future sales expectations remains elevated, supported by stronger U.S. demand and improving orders from foreign customers. As a result, Canadian exports should receive a boost, reinforcing a greater contribution to real GDP growth from trade in 2014, with further support provided by the weaker Canadian dollar.



Improving business sentiment in Q4 and higher sales expectations for 2014 have also manifested in higher employment and investment intentions over the next twelve months. The survey revealed more Canadian firms plan to add workers this year, lifting employment expectations to its highest level since mid-2012 *(middle chart)*. This follows the unexpectedly large job losses in December of roughly 46,000 positions, highlighting the discrepancy between current and future employment conditions. We expect Canadian unemployment will continue to edge down, as the U.S. economy gains traction and reinforces a pick-up in manufacturing activity and domestic demand.



Source: The Bank of Canada's Business Outlook Survey, Statistics Canada, Scotiabank Economics

Following soft capital spending in 2013, investment intentions in machinery and equipment also rose to its highest level in a year at 19% in Q4 *(bottom chart)*. This was largely driven by an increase in firms planning short-term projects aimed at upgrading existing technology, particularly in the service sector. Meanwhile, investment intentions remained lacklustre in other segments, notably goods-producing industries, as Canadian firms continue to postpone major investment plans to expand capacity until the U.S. recovery and the domestic economy are on a stronger footing. To that end, rising global orders and improving economic momentum in other major trading partners bode well for the outlook and growth in Canadian business investment, which is forecast to rise from 1.1% in 2013 to over 5% on average through 2015. However, more Canadian businesses anticipate higher input prices next year, alongside a weaker Canadian dollar and firming commodity prices, which will be difficult to pass on to customers, given fierce competition in export markets and Canada's modest growth profile.

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Hollande's Economic Agenda For France

The need for further action to support the supply side…

- Following French President Hollande's press conference, there have been numerous comments on the U-turn designed to move French economic policy toward a supply-side program. Comments in the French press even compared this speech with the radical change orchestrated by former French President Mitterrand in 1983/1984 when he decided to switch from a demand-side policy to a more rigorous one dedicated to controlling inflation and budget spending and reducing speculation on the French Franc (what we called "la rigueur"), also after two years in power. It is true that this was the first time that comments like "boosting production to restore confidence" were so emphasised by President Hollande. However, we tend to view this speech as a clarification than a complete U-turn.

- Actually, this shift away from a pure demand-side policy — always cherished by French socialists — to a supply-side framework has already been taking place through very important steps:

    - **In November 2012, through the decision to cut corporates taxes** by €20 bn up to 2017 (CICE, Credit d'Impôt Compétivité Emploi) to boost their competiveness. This is estimated by the government to have cut labour costs by 4% last year and up to 6% from 2014. Its financing is made through lower government spending for half of it and higher taxation of consumers for the other half (specifically, a hike in the VAT rate in January 2014 and the introduction of a carbon tax). This scenario actually looks very similar to the one adopted by Germany more than 5 years ago when a 3-point hike in the VAT (2007) helped to finance a massive cut in corporates taxes (2008).

    - **In January 2013, through the implementation of a more flexible labour law** which enables firms to either adjust working hours and/or wages, ease labour lay-offs or increase mobility in case of economic difficulties. It was quite a significant move from a socialist government which 10 years ago introduced the 35-hours-per-week law. This also looks like a "copy and paste" of Germany's labour reform implemented in 2005. The firsts to jump into this new labour contract were the automakers which face strong competition. In the case of Renault for example, wages have been frozen while hours per week were increased by 6.5%.

    - **In September 2013 with the pension reform**. While criticism has been centred on the lack of structural reform in the short term, it is worth noticing that the government agreed to further increase the number of years (from 41.5 to 43 years) needed to receive a full pension over the medium term. It is worth remembering that during the previous pension reforms set up by the Sarkozy government, most of the current members of the socialist government showed their strong opposition. So, it was also a major cultural shift to finally endorse roughly the same decisions few years later.

… as France seems to be lagging the European recovery process?

- So, the political shift towards a supply-side policy is not new in our view although its strengthening by the President is clearly intended to eradicate the last resistance which could still exist inside the socialist party. The need for additional action is also important as, a few months ago, the French President seemed to suggest that the above-mentioned reforms were already strong enough to support the recovery and there was now the need for a "pause" in the reform agenda. Actually, the perception that France could be lagging the euro area recovery process could have been the trigger for such a move. It is true that, for this year, the consensus forecast expects a lower GDP growth for France vs. the EMU, at respectively +0.8% vs. 1.0% yoy. Furthermore, the latest leading indicators seemed to accentuate this risk. On the business side, the French PMI manufacturing index (which is usually the most leading one among all business surveys) moved down for the third month in row in December, while it reached its highest level in two years for the eurozone. On the consumer side, French confidence also moved lower in contrast to the upward trend seen for the rest of the area.

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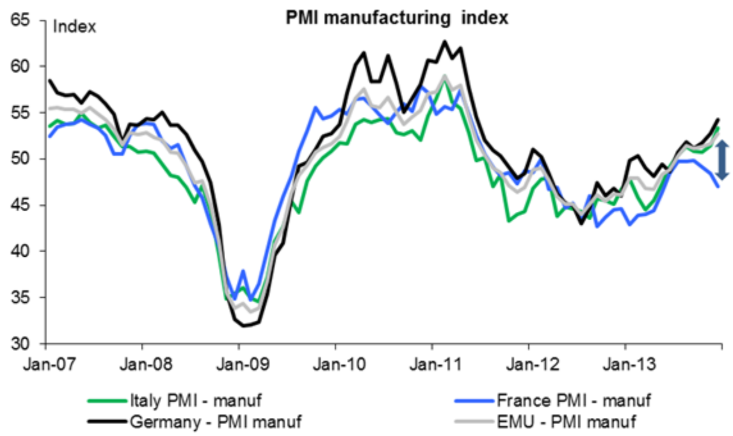
Chart 1: France business sentiment lagging behind

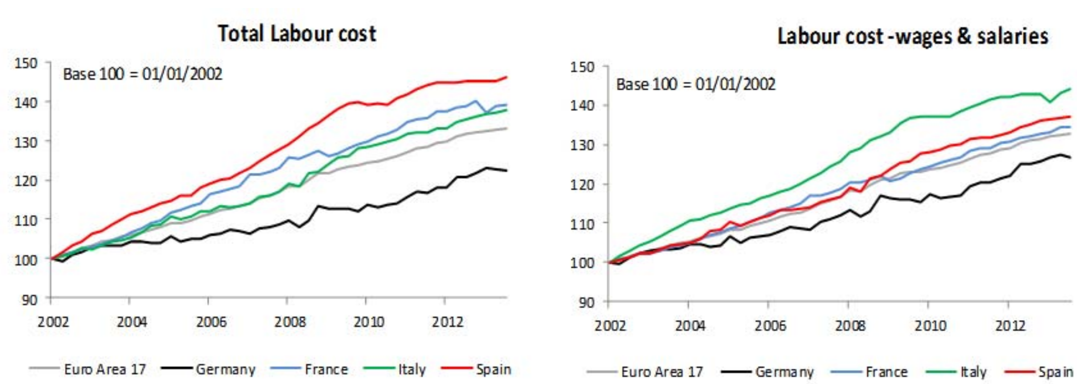


What are the additional steps being taken?

- Strengthening the shift to the supply-side policy through:

    - 1- **Additional cut in corporates taxes,** with the decision to suppress by 2017 the need for firms to finance the "family policy". This cost is estimated to be around €35 bn. In reality, the extra announced cut for businesses will actually be closer to €15 bn, as measures worth €20 bn were already accounted for with the CICE. The main difference is that, while the CICE was dedicated to only reducing labour costs for lower-wages employees, this decision will now involve a drop in labour costs for all employees. So, the impact will be broader based across sectors. Combined with the CICE, this will be equivalent to a 9% cut in French labour costs. As French labour costs have outpaced the EMU average by 6% to 7% over the past decade, they will move back into the average and help to restore France's lost competitiveness.

Chart 2: France's higher labour costs reflect higher social contribution costs



- Beyond this immediate financial benefit, shifting part of the burden linked to social contributions away from businesses could have also more long-term implications in restoring competitiveness. Indeed, it is worth noticing that the underperformance of France vs. the euro area in controlling labour costs over the past decade has mainly been linked to these "social contribution costs" as the trend in wages and salaries have moved roughly in line with the EMU average. The dynamics of these costs are usually difficult to assess at the corporate level as they are mainly linked to national arbitrages. So, this shift represents a possibility to remove a big external factor from firms' labour cost policy.

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- 2- **A stronger commitment to lower spending**. In the past two years, budget deficit reduction has been achieved through both higher taxation and tighter spending control. Further budget reduction remains a priority for the French government. However, at a time when the tax burden is seen as more and more unbearable by the French population, this additional support for businesses will involve primarily tighter government spending. The French president announced an extra €50 bn reduction for the coming three years after €15 bn last year (although it is worth noting that this €50 bn reduction does not mean a clear cut but rather a reduction from an expected neutral trend in spending). These reductions are likely to mainly impact social security, through lower health care spending and local administrations in particular, which represent respectively around 45% and 20% of total government spending, and have been running well above the trend seen at the central state's level.

Which uncertainties?

- For firms, there are, at this stage, some uncertainties regarding how quickly these additional cuts will be taking place. Beyond this, the President also seems to be suggesting that this extra cut will be delivered in exchange of certain commitments in terms of job creation for example. This is a way for President Hollande to give some guarantee to the left-wing of the socialist party which is always reluctant to freely support businesses. However, it remains to be seen how strongly these commitments will be addressed and therefore the room for manoeuvre for firms.

- On the spending side, behind the announced broad figures, few details have yet been released. The president seems to point in particular to a complete reform in the various French local administrations (regions, department, local communities) with the prospect to supress part of them. This would no doubt create major savings, as France remains an exception in Europe with its 36000 local communities. Compared to France, numerous countries have already reduced their "administrative layer cake". However, this willingness is not new and was also present under Sarkozy's government, although it was forced to move backwards under the pressure of local opposition. There will be local elections in France next March and the socialist party has so far a strong majority at the local level. Any strong victory from the right-wing opposition could impact the willingness to undertake this major reform.

Table 1: France's difficulty in reforming its "administrative layer cake"

Countries	Nomber of local communities in 1950	Nomber of local communities in 2007	Reduction in %
Sweden	2 281	290	-87
UK	1 118	238	-79
Belgium	2 359	596	-75
Austria	4 039	2 357	-42
Germany	14 338	8 414	-41
Finland	547	416	-24
Spain	9 214	8 111	-12
France	**38 800**	**36 783**	**-5**
Italy	7 781	8 101	4

Sources: Council of Europe, French Senate

Which credibility?

- The first credibility test could come as soon as next week with the release of January French business survey data and also the possibility of a rating change from Moody's. In theory, we would expect a bounce-back in French PMI data after the recent downtrend, although there is a risk that the new economic agenda could have come too late to positively impact this specific survey.

- From a rating agency's point of view, it should also be seen favourably. This new agenda was already welcomed by the president of the Banque de France for example. Last November, S&P further downgraded France's rating from "AA+" to "AA". In view of past history, there is a risk of seeing Moody's follow the same path next week with a downgrade from "Aa1" to "Aa2". However, this new agenda of both lower corporate taxation and tighter spending control should reduce the concern regarding France's loss of competitiveness and uncertain fiscal outlook, which were the key arguments behind the last downgrade by Moody's. It remains to be seen if Moody's is unimpressed by the recent announcement or is ready to give the administration the benefit of the doubt.

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UK: Reverse Guidance

- **The highlight of next week's UK economic calendar is going to be the labour report, where we see a very good chance that the unemployment rate falls by a further 0.2% points to 7.2%.**
- **Given the close proximity to the 7% threshold this could prompt the Bank of England to update its forward guidance programme.**
- **We had previously seen a case for the BoE to lower the unemployment threshold from 7.0% to 6.5% at the time of the February *Inflation Report* but we now have doubts that this will happen.**
- **In particular, we expect the updated BoE unemployment rate projection to show that level is not reached until mid-2016…**
- **…given the buoyancy of the economy, we have our doubts that the MPC will be prepared to tie its hands for another two years.**

Unemployment Rate — Fast Approaching 7%

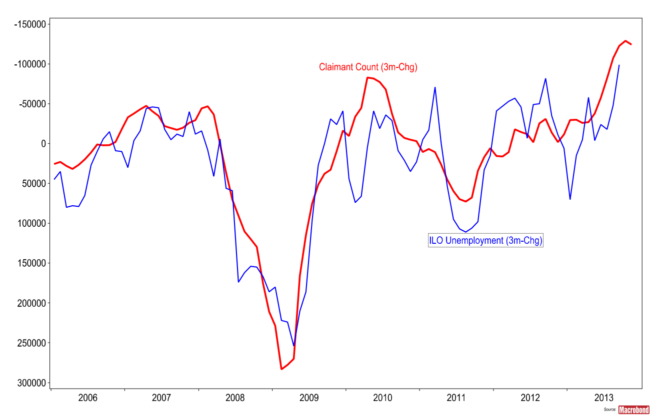
Last month the unemployment rate fell by far more than expected, down from 7.6% to 7.4%. In fact, on an unrounded basis the reading was 7.35% - hence we were within a whisker of an even lower print. As such, we believe that it should be very easy for the unemployment rate to fall to 7.3% in this week's November reading and more likely will fall to 7.2%. Table 1 below shows the cut-off point required in order to tip the unemployment rate down to 7.2%.

In short, the level of unemployment has to fall by at least 36k in the latest month (or 135k in the last 3 months). That compares to the 78k fall last month. Some forecasters may see the case for unemployment to take a pause for breath after such a big fall last month. However, given the relationship with the claimant count (which is one month ahead of the ILO measure) there is every reason for unemployment to be falling at a pace of 100k – 150k per quarter (Chart 1). The main obstruction to a further fall in the level of ILO unemployment is for resumed flows of previously inactive workers back into the labour force.

Table 1 — Cut-off for Unemployment Rate to Fall to 7.2%

	Employment		Unemployment		
	1m-Chg	3m-Chg	1m-Chg	3m-Chg	Rate (%)
Jul-13	59	80	-27	-24	7.7
Aug-13	33	155	0	-18	7.7
Sep-13	84	176	-21	-48	7.6
Oct-13	133	250	-78	-99	7.354
Nov-13	30	247	-36	-135	7.24
Dec-13	50	213	-30	-144	7.15

Chart 1: ILO vs Claimant Count Unemployment



Crossing the Threshold

Previously we had assumed that the Bank of England would modify its forward guidance programme as the 7% threshold approaches. In particular, in a speech last October Charlie Bean noted that:

> *"As a breach of the [unemployment] threshold becomes imminent, it seems likely that the committee will wish to provide further guidance on the future determinants of policy".*

and

> Provided there is enough slack in the economy the MPC could go as far as *"resetting the unemployment threshold to a new lower level,"*

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In light of this, our previous assumption was that the Bank would lower the unemployment rate threshold to 6.5% at the February *Inflation Report* - i.e. as the 7% threshold became imminent. However, we have changed our view on two fronts:

- Firstly, various survey measures of slack show that there is not a huge margin of spare capacity;
- Secondly, and more importantly in our view, moving the threshold down to 6.5% could imply a commitment to leaving Bank Rate unchanged for a further two years. While that might have been appropriate last summer, we doubt that the MPC really wants to tie its hands for another two years, particularly in the current environment of buoyant data.

More specifically, while our own forecast is that the unemployment rate could hit 6.5% by the end of 2014, we doubt that the Bank's updated projection will be as aggressive. The table and chart below shows our estimate of what the Bank's updated projection will look like. We have assumed that the Bank shifts the entire profile downwards by 0.4 percentage points across the entire profile (i.e. a parallel downward shift reflecting the surprise relative to the Bank's projection for the latest quarter).

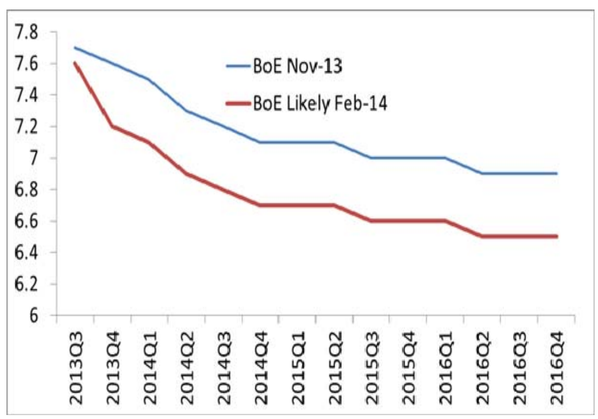
Clearly the BoE could be more aggressive and shift its unemployment rate forecast even further. That would mean the commitment to unchanged rates is less prolonged. In turn, this would be an easier sell to some of the more hawkish members of the MPC (not least Martin Weale who dissented against the first forward guidance programme). However, to shift the profile by such a huge margin could undermine the credibility of the programme. Continuing to peg forward guidance to an indicator that has proven to surprise massively relative to the Bank's forecast is unlikely to convince anyone.

As such, we now believe that the BoE should allow the unemployment rate to hit 7% and then put forward guidance to rest. The programme was introduced at a time when the recovery in the economy was a distant hope and it wasn't long since there was speculation about further policy ease. Right now the economy is well on the road to recovery and forward guidance adds a layer of unnecessary complication. Forward guidance has served its purpose — job done.

Table 2: Likely Revision to BoE Unemployment Projection

	BoE Nov-13	BoE Likely Feb-14	Diff	Scotia
2013Q3	7.7	7.6	-0.1	7.6
2013Q4	7.6	7.2	-0.4	7.2
2014Q1	7.5	7.1	-0.4	6.9
2014Q2	7.3	6.9	-0.4	6.7
2014Q3	7.2	6.8	-0.4	6.6
2014Q4	7.1	6.7	-0.4	6.4
2015Q1	7.1	6.7	-0.4	6.2
2015Q2	7.1	6.7	-0.4	6
2015Q3	7	6.6	-0.4	5.8
2015Q4	7	6.6	-0.4	5.7
2016Q1	7	6.6	-0.4	5.5
2016Q2	6.9	6.5	-0.4	5.4
2016Q3	6.9	6.5	-0.4	5.3
2016Q4	6.9	6.5	-0.4	5.2

Chart 2: Likely Evolution in BoE Unemployment Rate



Old School BoE Forecasting

If, as we suspect, forward guidance is put to rest in February, the BoE will have to revert to the old fashioned approach of judging the medium term inflation outlook. Table 3 below shows our best guess of how the Bank's medium term inflation projection would look if the *Inflation Report* was today. To summarise, the downward surprise on the recent inflation prints coupled with the appreciation in the effective GBP exchange rate should bear down quite heavily on the Bank's latest projection. In November the Bank's 2-year inflation projection was 1.93% y/y. Based on the Bank's track record, that projection could be nudged down to as low as 1.75% y/y.

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Table 3: Likely Revisions to BoE Inflation Projection

			16/01/2014		
		Nov-13	Now	% Chg	Impact on BoE Inflation Projection
Oil*	Spot (USD)	106.5	106.5	0.0	-0.04
	Spot (GBP)	66.6	65.2	-2.1	
GBP*	Effective GBP	82.24	84.52	2.8	-0.28
Near quarter inflation fcast**		2.22	1.85	-0.37	-0.12
GDP forecast	2014	2.9	2.90	0	0
	2015	2.5	2.50	0	
FTSE All-Share*		3582	3610	0.8	+
Market rate expectations					-
Judgement (because of double counting)					0.25
					-0.19
* 15 working day average					
** average of first two quarters of profile					Forecast last time:
					1.93
					Becomes:
					1.74

We doubt that the Bank will push its projection that low. In particular, the sharp downward revision in the unemployment rate which is not included in Table 3 would argue for a less abrupt downward shift — probably to around 1.85%.

Nonetheless, the Bank's inflation projection has tended to be as much a signalling tool as well as an inflation projection. If forward guidance is not renewed in February, then there is a real danger that the market overreacts and prematurely prices in interest rate hikes and chokes off the recovery. Hence there is an incentive for the BoE to aim low on its medium term inflation projection.

Conclusion

We now expect the BoE to abandon its forward guidance programme once the 7% unemployment rate threshold is reached. The recovery is entrenched, we doubt the BoE will want to tie its hands for up to two years and its track record on forecasting the unemployment rate is poor. The challenge now is to manage the transition so that the market does not overreact and price rate hikes in prematurely.

If we are wrong and the BoE modifies the unemployment threshold, we suspect it would design the knockouts so that they are more easily triggered. In other words, the Bank could commit to leaving Bank Rate unchanged until unemployment falls to 6.5%, subject to some stringent conditions on the housing market, the path of wage inflation or the medium term inflation outlook.

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Latin America Week Ahead: For The Week Of January 20 - 24

This week's liquidity is likely to kick-off soft as the US bank holiday keeps market activity slow. However, there could still be some interesting price action to jump-start the week, as we get the release of Chinese GDP, industrial production, investment and retail sales overnight from Sunday — we see these data as particularly relevant for commodities and CLP. In addition to the Chinese economic activity data over the week-end, the commodity basket and related assets (i.e., much of LATAM FX — especially CLP) should be influenced by the release of Chinese HSBC/Markit flash manufacturing PMI. The other major piece of data that should be a global driver for next week is the Markit US preliminary PMI, feeding into expectations regarding the pace of Fed tapering. Besides the data releases, the IMF outlook for the world economy is likely to be closely watched, as well as comments from global leaders at the Davos meetings.

Week-ahead views:

Brazil: Following the BCB's COPOM decision to maintain the pace of 50bps hikes, this week's survey of economists will be interesting to watch in order to gauge how far the market expects the tightening cycle to stretch. However, given that the brief statement gave very little guidance over what to look for going forward, barring investors having a very strong view of whether inflation will remain persistently high, we believe there is not enough colour from the BCB to have a firm view. The key pieces for analyzing the potential path of the SELIC are likely to be the next IPCA inflation release, and COPOM minutes which we expect for next Thursday (January 23rd). In addition, we are set to get Brazilian current account & FDI, which are likely to be watched for signs that the deterioration of the current account has stopped on the back of BRL weakness, and whether the funding of the current account deficit has improved after it stopped being fully financed by FDI. As Brazilian fiscal policy comes under fire, and the country's growth potential comes into question, putting the country's credit ratings (and investor sentiment) at risk, President Rousseff is expected to focus on trying to reverse the negative views on these issues during her visit to Davos next week according to *Valor Economico*. Interestingly, according to the local news source, her aides have advised her to steer away from making promises on particular levels of primary surplus targets (which could risk eroding the confidence with respect to the fiscal prudence promises if no concrete target is set). Despite what we see as a still broadly weak Brazilian fundamental story, we feel the bad news is now priced in, and continue to see room for an improvement in the performance of BRL relative to other LATAM FX.

Chile: As expected, the BCCh left the policy rate unchanged with the statement describing the performance of the external economic drivers as broadly in line with central bank expectations, and highlighting that so far, the Fed's tapering impact on long-term interest rates has been modest. The tone of the statement remained biased towards loosening (it explicitly mentions that easing in monetary conditions may be necessary to meet the 3% inflation target), as domestic economic conditions are described as deteriorating in both the output and demand sides, with a particularly pronounced loss of dynamism in investment (which could be related to the dual shocks of the softening in base metals prices we saw in 2013-H1, and the uncertainty over policy and corporate taxes derived from the change of government). Additional fuel to the easing bias arguments is that the central bank sees inflationary pressures contained and close to target. Next week's BCCh bi-weekly traders survey will be watched for signs of when the market expects the next move, and if it looks for a single 25bps cut, or a more pronounced easing cycle. Our sense is that one or two 25bps cuts are likely, but that the cuts will be intermittent as the central bank monitors the economic impact of the gradual policy adjustment, and also the impact that external factors (i.e., Fed tapering) are having on both domestic and global financial markets.

Colombia: This week is scheduled to be quiet in the data front, with Colombian lending data being the major release expected. In our view, asset bubble concerns are among the major items related to the local economy being looked at by the central bank, which has indicated that it is now entering an "on hold for long" period as inflation is expected to start drifting upwards towards the 3% target, while real estate price concerns linger. The central bank has clarified that it would like to see COP depreciate modestly (around 5%), which suggests that the FX intervention program is likely to remain in place. We see little downside to USD/COP below 1950, based on both BanRep rhetoric and the Fed's shifting policy.

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Mexico: This week is fairly light in terms of the number of releases on the data front, but heavy in terms of their importance. The bi-weekly CPI will likely be watched as inflation continues to drift higher on the back of the fiscal reform which started impacting taxpayers with the start of the calendar year, and which Governor Carstens suggested could temporarily lead inflation to drift above 4%. In addition, the retail sales release will likely be watched for signs regarding the progression of the tentative economic rebound, and we see some risk of disappointment derived from weak consumer confidence (but data is likely to be volatile, given the still-young Mexican version of “Black Friday” — the “Buen Fin”). Finally, the Banamex survey will give us an indication of the trend of economists’ expectations for the new year. In terms of price action, our sense is that MXN and TIIE’s underperformance of the local cash bonds is due to investor hedging of local cash bond exposure, and we see risks that the USD/MXN could move up to somewhere into the 13.45-13.66 range, before markets stabilize as investors once again feel comfortable with valuations in a post-Fed tapering announcement world. We find the roughly 20bps currently in place in the “swapito” arbitrage as an indication that many investors have retained their Mexican cash bond exposure, but have cut duration and hedged the FX leg. We continue to like receiving 10-yr TIIE vs US 10-yr swaps on moves towards 400bps in the spread.

Peru: This looks set to be a very quiet week for Peru in the data front, leaving the sol to trade on the back of global sentiment, and BCRP intervention. In an environment where the rest of LATAM FX is losing ground to the greenback due to tapering-centric concerns, we continue to see the sol outperforming both due to its usual low beta nature, and also the BCRP’s FX activism.

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S&P 500 Q4/13 Earnings Preview

The following article was published on January 14, 2014.

String of record quarterly EPS expected to continue

- The S&P 500 earnings season is slowly getting underway with most major banks reporting this week (JP Morgan, Wells, BofA, Citi, and Goldman). A total of 27 S&P 500 companies are on deck this week and another 66 are slated to report next week according to Bloomberg data.

- We expect a robust Q4 earnings season driven by firmer global growth, expanding profit margins, and a lower USD. Companies having reported so far are also posting better-than-expected results, with 65% beating on the bottom line and 63% on the top line.

U.S. & European macro data improved in Q4

- **U.S.:** The U.S. and global economy have continued to improve in the last few months, despite the 16-day government shutdown in October. The firmer pace of global growth should offer strong support to S&P 500 earnings in Q4 and over the coming quarters, in our view. From the 10 U.S. macro indicators we track, six improved in Q4 relative to Q3 (see Exhibit 1). The ISM averaged 56.9 in Q4 vs. 55.8 in Q3, exports and industrial production improved as well as the capacity utilization rate. Consumer confidence tumbled due to the shutdown, but we would expect it to recover along with further gains in employment and home prices.

- **Europe:** The European economy pulled out of recession last summer and the recovery is progressing. We note improvements in both PMIs (manufacturing and services), firmer consumer confidence, as well as rising exports. Firmer activity in Europe bodes well for S&P 500 revenues as the region accounts for over one-third of S&P 500 foreign sales.

- **U.S. dollar lower:** The U.S. dollar index (DXY) retreated almost 2% against most major currencies in Q4. A lower USD should inflate revenues generated outside the United States and provide a boost to earnings.

Exhibit 1 - U.S. and European Macroeconomic Data: Q4/13 vs. Q3/13

	U.S.		Eurozone	
Economic data	**Q4/13 Avg.**	**Q3/13 Avg.**	**Q4/13 Avg.**	**Q3/13 Avg.**
ISM/PMI Manufacturing	56.9	55.8	51.9	50.9
ISM/PMI Services	54.1	56.3	51.3	50.9
LEI	97.9	96.5	n/a	101.3
Trade Exports (US$B / €M)	194.0	189.5	172.2	156.5
Industrial production (index)	100.7	99.5	99.2	100.1
Capacity utilization (%)*	78.6	78.0	82.3	82.5
Jobless claims (000s)	332	320	n/a	n/a
Consumer confidence	74.2	81.0	-14.5	-16.0
Retail sales (US$B; EU-volume)	15.6	15.7	97.3	97.7
Unemployment rate (%)	7.1	7.3	12.1	12.1
U.S. Dollar index (DXY)	80.3	81.9	n/a	n/a

* Germany capacity utilization rate.

Source: Scotiabank GBM Portfolio Strategy; Bloomberg.

- **Profit margins expansion set to continue in Q4.** S&P 500 profit margins have been hovering in the 9% + range for the past three years and proved wrong investors calling prematurely for margin compression. Profit margins are expected to rise further in Q4, hitting a new record high of 9.7%. On a 12-month trailing basis, the S&P 500 profit margin should increase to 9.6% as illustrated in Exhibit 2.

- We believe profit margins will remain well supported at around current levels over the coming quarters. Modest wage growth, weak commodity prices, and rising capacity utilization should support profit margins

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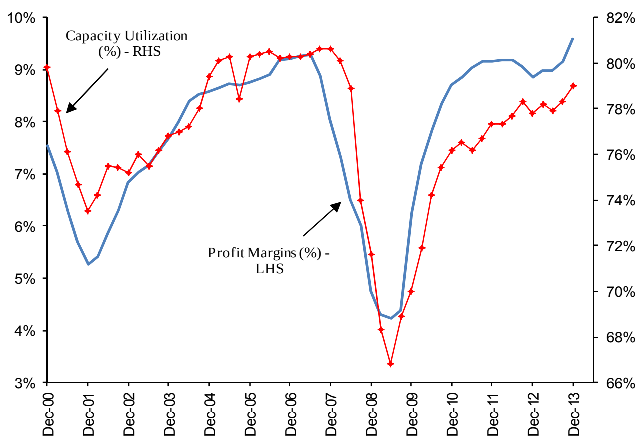
(Exhibit 2), in our view. In addition, with pension funding levels surging in 2013, lower plans contribution could also provide a boost to margins and earnings. Ford, 3M, and Deere all mentioned that their pension expenses will drop significantly in 2014, and they're probably not the only ones enjoying the uptrend in bond yields and equity prices.

- **Q4 early reporters beating expectations**. Twenty-four S&P 500 companies have already reported their Q4 results, with 65% beating on the bottom line and 63% on the top line. Excluding Micron, companies are beating EPS consensus by 1.4% on average (see Exhibit 3).

Exhibit 2 – S&P 500 Profit Margins vs. Capacity Utilization (%)



Source: Scotiabank GBM Portfolio Strategy, S&P.

Exhibit 3 – Most S&P 500 Q4 early reporters beat expectations

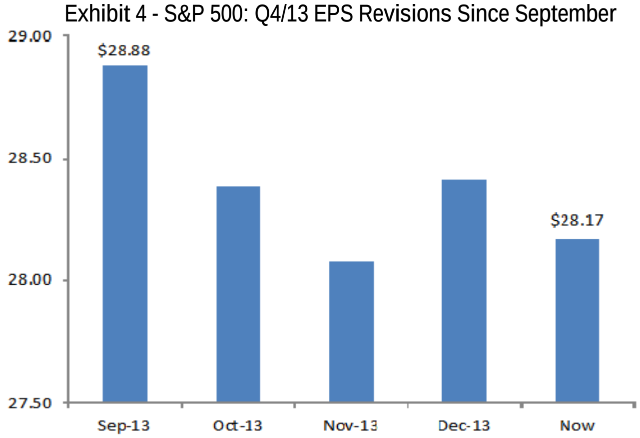
Company	Ticker	Sector	EPS Beat	Sales Beat
ALCOA INC	AA	Materials	-33%	4.5%
ACCENTURE	ACN	Technology	3%	1.4%
ADOBE SYSTEMS	ADBE	Technology	0%	1.0%
AUTOZONE INC	AZO	Discretionary	0%	-0.4%
BED BATH & BEYOND	BBBY	Discretionary	-2%	-0.7%
CONAGRA FOODS	CAG	Staples	12%	1.1%
CARNIVAL CORP	CCL	Discretionary	n/a	3.7%
COSTCO WHOLESALE	COST	Staples	-6%	-1.3%
CINTAS CORP	CTAS	Industrials	2%	1.7%
DARDEN RESTAURANTS	DRI	Discretionary	2%	-0.8%
FAMILY DOLLAR STORES	FDO	Discretionary	-1%	-0.3%
FEDEX CORP	FDX	Industrials	-4%	-0.9%
GENERAL MILLS	GIS	Staples	-5%	-1.3%
JABIL CIRCUIT INC	JBL	Technology	-6%	3.3%
CARMAX INC	KMX	Discretionary	-2%	1.5%
LENNAR CORP-A	LEN	Discretionary	20%	1.9%
MONSANTO CO	MON	Materials	5%	2.2%
MICRON TECHNOLOGY	MU	Technology	51%	8.7%
NIKE INC	NKE	Discretionary	2%	0.2%
ORACLE CORP	ORCL	Technology	3%	1.1%
PAYCHEX INC	PAYX	Technology	1%	2.0%
RED HAT INC	RHT	Technology	21%	3.5%
CONSTELLATION BRANDS	STZ	Staples	21%	4.2%
WALGREEN CO	WAG	Staples	0%	0.0%
Average beat (ex-Micron)			**1.4%**	**1.5%**
Beat ratio			**65.2%**	**62.5%**

Source: Scotiabank GBM Portfolio Strategy, Bloomberg.

- **Q4 numbers revised down.** Wall Street expectations for Q4 were too optimistic and have been reduced in the past few months (Exhibit 4). Q4 EPS forecasts have been cut 2.5% since September, declining from US$28.88 to US$28.17 currently.

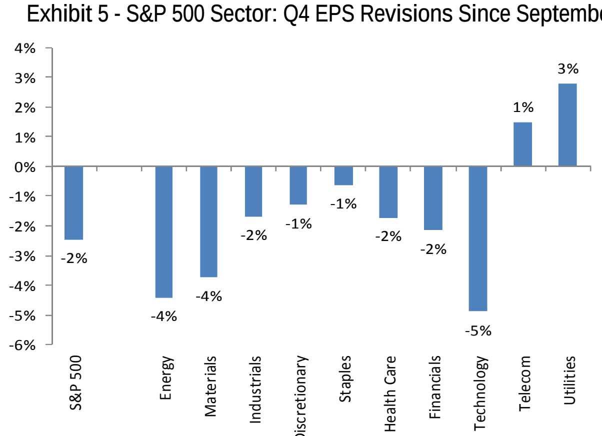
- Negative revisions have been broadly based, with eight of 10 S&P 500 sectors facing Q4 EPS cuts. Technology, Energy, and Materials Q4 EPS forecasts suffered the steepest decline (Exhibit 5). Telecom and Utilities sectors benefited from positive revisions.

Exhibit 4 - S&P 500: Q4/13 EPS Revisions Since September



Source: Scotiabank GBM Portfolio Strategy, S&P, Bloomberg.

Exhibit 5 - S&P 500 Sector: Q4 EPS Revisions Since September



Source: Scotiabank GBM Portfolio Strategy, S&P, Bloomberg.

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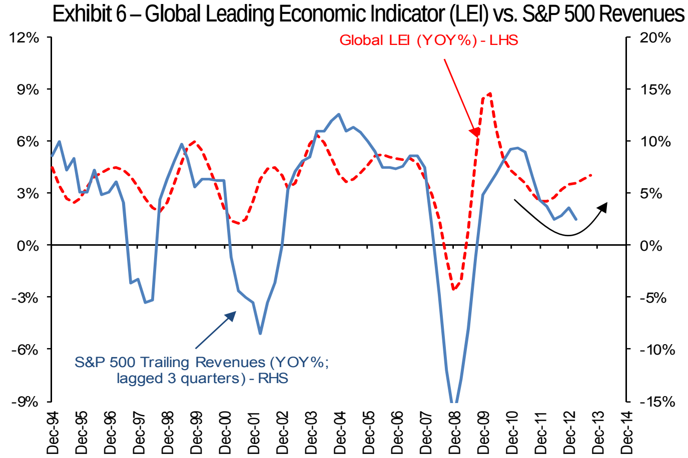
Another record quarter

- **Q4 overview**. S&P 500 earnings are expected to hit another record high in Q4. Bottom-up consensus is looking for a print of US$28.17 in Q4, pegging the S&P 500 EPS run-rate at US$113. Q4 EPS is expected to be up 4.7% sequentially and 21.7% YOY (elevated YOY comparison is partly due to a low base effect last year).

- **Trailing earnings**. S&P 500 EPS should end 2013 at around US$107 (+10.8%) compared to US$96.82 in 2012. S&P 500 EPS has rebounded 171% from the bottom hit during the financial crisis (US$39.62 in Q3/09).

- **Revenues.** The S&P 500 top line is expected to increase by a modest 1.0% YOY in Q4. Revenue growth should be negatively impacted by a 19% contraction in Financials revenues. Slumps in fixed income, currency, and commodity trading revenues, as well as tougher legislation, partly explain the top-line drop in the space. **Ex-financials, S&P 500 revenues would be up about 4% YOY in Q4.**

Exhibit 6 – Global Leading Economic Indicator (LEI) vs. S&P 500 Revenues



Source: Scotiabank GBM Portfolio Strategy, S&P, Bloomberg

- With about half of S&P 500 revenues generated outside the U.S., we expect the pick-up in global growth to lift S&P 500 revenues in coming quarters. As illustrated in Exhibit 6, the global leading economic indicator is suggesting that S&P 500 revenue growth should gain traction in 2014.

- **Sectors.** Nine of 10 S&P 500 sectors are expected to deliver positive YOY earnings growth in Q4, with six posting double-digit gains (see Exhibit 7). Industrials (+32% YOY), Financials (+30%), Materials (+20%), and Health Care (+19%) should report the strongest earnings improvement in Q4. On the other hand, Utilities (-2%), Staples (0%), and Discretionary (+8%) should post the weakest EPS growth in Q4.

Exhibit 7 - S&P 500 EPS – Q4/13 Bottom-Up Consensus

	Q4/13 E			Top-Line	Contribution	Sector	Profit
	$	QOQ	YOY	(YOY%)	to Earnings	Weighting	Margin (%)
S&P 500	**28.17**	**4.7%**	**21.7%**	**1.0%**	**100%**	**100%**	**9.7%**
Energy	11.47	12%	10%	10%	12%	10%	7%
Materials	3.35	-1%	20%	6%	3%	3%	7%
Industrials	6.42	-1%	32%	4%	10%	11%	9%
Discretionary	6.81	4%	8%	12%	11%	13%	7%
Staples	6.36	3%	0%	-3%	9%	10%	7%
Health Care	8.60	4%	19%	4%	11%	13%	9%
Financials	5.01	-3%	30%	-19%	18%	16%	15%
Technology	10.30	28%	10%	-1%	21%	19%	19%
Telecom	2.07	-17%	n/a	-2%	2%	2%	7%
Utilities	2.59	-37%	-2%	6%	3%	3%	8%
S&P 600	7.68	22%	46%	n/a	n/a	n/a	n/a

Source: Scotiabank GBM Portfolio Strategy; S&P.

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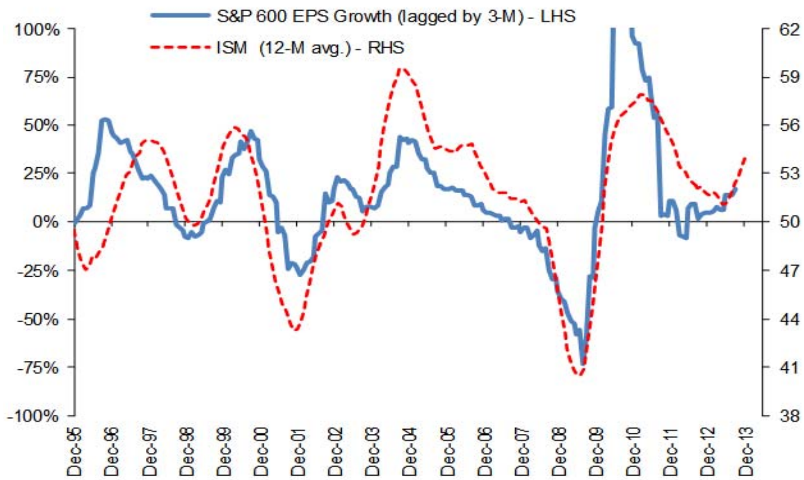
- **Small caps**. S&P 600 Q4 EPS is expected to hit US$7.68, a 22% sequential improvement and a 46% YOY increase. Although consensus numbers appear optimistic, small cap earnings growth should continue to benefit from the recovering U.S .economy. S&P 600 earnings growth has historically tracked the trend in the ISM index closely, as shown in Exhibit 8. Cyclical sectors are expected to deliver the strongest YOY earnings growth in Q4, with Materials, Technology, and Discretionary in the top spot.

Exhibit 8 - S&P 600 Earnings Growth vs. ISM Index



Source: Scotiabank GBM Portfolio Strategy; S&P.

- Exhibit 9 provides the S&P 500 earnings calendar covering the next few weeks. We have included only companies having confirmed their reporting date.

Exhibit 9 – S&P 500 Q4 Earnings Calendar

Company	Ticker	Reporting Date	Fiscal Period	Bloomberg Consensus
JPMorgan Chase	JPM	14-Jan	Q4 2013	$1.37
Wells Fargo & Co	WFC	14-Jan	Q4 2013	$0.98
Bank of America Corp	BAC	15-Jan	Q4 2013	$0.27
UnitedHealth Group Inc	UNH	16-Jan	Q4 2013	$1.41
Goldman Sachs Group	GS	16-Jan	Q4 2013	$4.14
Citigroup Inc	C	16-Jan	Q4 2013	$0.96
Capital One Financial	COF	16-Jan	Q4 2013	$1.58
Intel Corp	INTC	16-Jan	Q4 2013	$0.52
American Express Co	AXP	16-Jan	Q4 2013	$1.25
General Electric Co	GE	17-Jan	Q4 2013	$0.53
Bank of New York Mellon	BK	17-Jan	Q4 2013	$0.54
Morgan Stanley	MS	17-Jan	Q4 2013	$0.44
Schlumberger Ltd	SLB	17-Jan	Q4 2013	$1.33
Johnson & Johnson	JNJ	21-Jan	Q4 2013	$1.20
Verizon Communications Inc	VZ	21-Jan	Q4 2013	$0.62
Texas Instruments Inc	TXN	21-Jan	Q4 2013	$0.46
IBM	IBM	21-Jan	Q4 2013	$6.00
Halliburton Co	HAL	21-Jan	Q4 2013	$0.89
General Dynamics Corp	GD	22-Jan	Q4 2013	$1.76
US Bancorp/MN	USB	22-Jan	Q4 2013	$0.75
Abbott Laboratories	ABT	22-Jan	Q4 2013	$0.58
United Technologies Corp	UTX	22-Jan	Q4 2013	$1.53
Norfolk Southern Corp	NSC	22-Jan	Q4 2013	$1.50
eBay Inc	EBAY	22-Jan	Q4 2013	$0.81
Freeport-McMoRan	FCX	22-Jan	Q4 2013	$0.80
Lockheed Martin Corp	LMT	23-Jan	Q4 2013	$2.11
McDonald's Corp	MCD	23-Jan	Q4 2013	$1.39
Union Pacific Corp	UNP	23-Jan	Q4 2013	$2.49
Microsoft Corp	MSFT	23-Jan	Q2 2014	$0.69
Starbucks Corp	SBUX	23-Jan	Q1 2014	$0.69
Baxter International Inc	BAX	23-Jan	Q4 2013	$1.25
Procter & Gamble	PG	24-Jan	Q2 2014	$1.21
Honeywell International	HON	24-Jan	Q4 2013	$1.21
Bristol-Myers Squibb	BMY	24-Jan	Q4 2013	$0.43
Apple Inc	AAPL	27-Jan	Q1 2014	$14.02
Caterpillar Inc	CAT	27-Jan	Q4 2013	$1.29

Company	Ticker	Reporting Date	Fiscal Period	Bloomberg Consensus
Pfizer Inc	PFE	28-Jan	Q4 2013	$0.52
EI du Pont de Nemours	DD	28-Jan	Q4 2013	$0.55
AT&T Inc	T	28-Jan	Q4 2013	$0.51
Amgen Inc	AMGN	28-Jan	Q4 2013	$1.69
Comcast Corp	CMCSA	28-Jan	Q4 2013	$0.68
Boeing Co/The	BA	29-Jan	Q4 2013	$1.51
Dow Chemical Co/The	DOW	29-Jan	Q4 2013	$0.43
Southern Co/The	SO	29-Jan	Q4 2013	$0.46
Facebook Inc	FB	29-Jan	Q4 2013	$0.27
QUALCOMM Inc	QCOM	29-Jan	Q1 2014	$1.18
EMC Corp/MA	EMC	29-Jan	Q4 2013	$0.59
Colgate-Palmolive Co	CL	30-Jan	Q4 2013	$0.74
United Parcel Service	UPS	30-Jan	Q4 2013	$1.43
Eli Lilly & Co	LLY	30-Jan	Q4 2013	$0.73
ConocoPhillips	COP	30-Jan	Q4 2013	$1.47
Exxon Mobil Corp	XOM	30-Jan	Q4 2013	$1.95
Visa Inc	V	30-Jan	Q1 2014	$2.17
Raytheon Co	RTN	30-Jan	Q4 2013	$1.33
Google Inc	GOOG	30-Jan	Q4 2013	$12.31
3M Co	MMM	30-Jan	Q4 2013	$1.61
National Oilwell Varco	NOV	31-Jan	Q4 2013	$1.39
MasterCard Inc	MA	31-Jan	Q4 2013	$5.95
AbbVie Inc	ABBV	31-Jan	Q4 2013	$0.82
Chevron Corp	CVX	31-Jan	Q4 2013	$2.80
Simon Property Group	SPG	4-Feb	Q4 2013	$2.43
Merck & Co Inc	MRK	5-Feb	Q4 2013	$0.88
Time Warner Inc	TWX	5-Feb	Q4 2013	$1.15
Allstate Corp/The	ALL	5-Feb	Q4 2013	$1.37
Walt Disney Co/The	DIS	5-Feb	Q1 2014	$0.90
Exelon Corp	EXC	6-Feb	Q4 2013	$0.55
General Motors Co	GM	6-Feb	Q4 2013	$0.90
Philip Morris International	PM	6-Feb	Q4 2013	$1.37
CVS Caremark Corp	CVS	11-Feb	Q4 2013	$1.11
AIG	AIG	13-Feb	Q4 2013	$0.96
Apache Corp	APA	13-Feb	Q4 2013	$1.90

Source: Scotiabank GBM Portfolio Strategy, Bloomberg.

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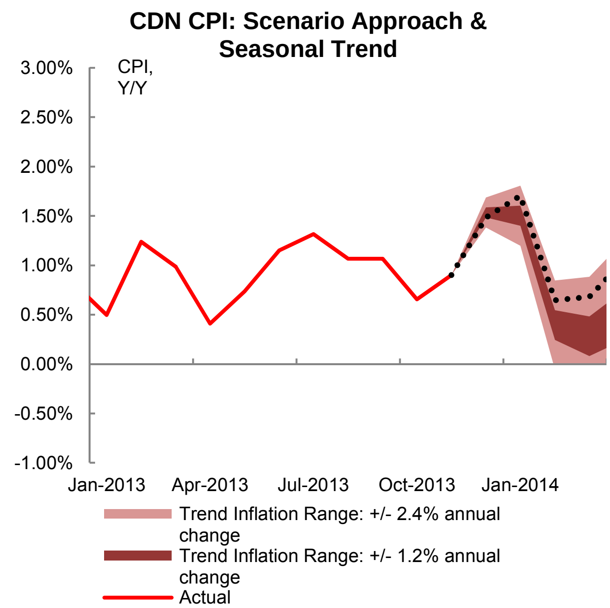
Key Data Preview

CANADA

We're looking for Canadian **CPI** to come in fairly flat at -0.1% m/m in December, resulting in a 1.4% y/y print. Our forecast is premised on a 0.8% m/m rise in gasoline prices on the month and a very steep increase in natural gas prices (spot natural gas prices were higher by close to 17% m/m) providing upwards pressure on the not-seasonally-adjusted monthly CPI level. That said, aside from an increase in energy-related costs, most other factors are pointing to a weak number. Seasonality weighs on the index pretty heavily in December, with prices for health and personal care goods, transportation, clothing and footwear, and recreation, education & reading typically falling in December. Soft foodstuff commodity prices and the ongoing retail competition in the grocery space point to food costs posting a modest negative. The other wildcard is the extent of seasonal discounting both in the clothing and in the airfares/vacation spaces. We expect a fairly weak core CPI monthly print in the -0.2% m/m range, which would translate into a 1.5% y/y number. Overall, we're expecting base effects to have CPI in the 1.5% y/y range in December and January before seeing it fall back to the 1% y/y level in February (see chart).



Source: Scotiabank Economics, Statistics Canada

Canadian **retail sales** numbers for November are a bit of question mark with our autos group expecting a drop in sales of new vehicles on the order of approximately 2% and a moderate drop-off in gasoline prices (-0.7% m/m) likely to weigh on the pricing side of sales at gasoline stations (although nowhere near as much as October's 5.5% m/m decline did). Note of course that gasoline stations sell more than gasoline and vehicle dealerships sell more than cars — so it's not just about vehicle sales and gasoline prices. Counteracting these factors, overall large retailers reported solid sales (+2% m/m in general with especially large numbers both at grocery stores and in the furniture category) although these metrics have been known to exaggerate monthly swings. The net has us looking for retail sales to come in flat with retail sales ex-autos coming in at 0.2% m/m

We're looking for **manufacturing sales** to rise by 0.2% m/m in November with the leading indicators pointing in markedly different directions. New orders numbers were up in October, although, as the chart to the right demonstrates, they have generally been fairly flat on a trend basis all year. In contrast, the export data in November, even after accounting for some meaningful downward revisions, still pointed to a moderate pace of expansion in exports of machinery and in particular exports of autos and parts. One of the major questions that we're left grappling with is whether or not the weaker CAD is passing through to exports and therefore overall domestic manufacturing. Frankly, our view is that any stimulus from the currency side for manufacturing will take quarters if not years to pass through, and in the meantime, it will be Canada's exposure to the U.S. (and the strength of U.S. demand) that matters the most — and not the relative exchange rate.

Source: Statistics Canada, Scotiabank Economics

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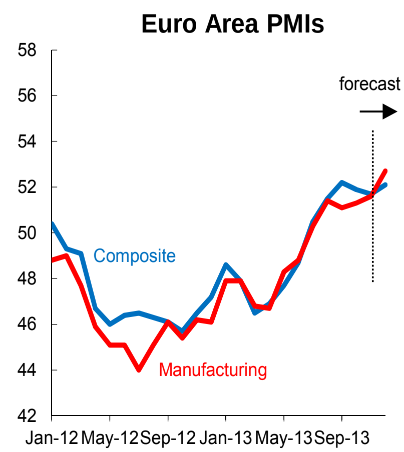
EUROPE

Several European business surveys are slated for release next week, among them the PMI surveys. For the euro area as a whole, we expect a further rise in the manufacturing index from 52.7 in December to 53.2 this month, as well as an uptick in the composite index from 52.1 to 52.6. While there is a risk that the lagging impact of the rise of the euro over the past six months may start to adversely affect business sentiment in the coming months, we think that the January report will likely continue to benefit from signs of strengthening global demand. Any weakness would nonetheless have a strong impact on markets' expectations regarding the European Central Bank's monetary policy stance and refuel expectations for additional easing measures. Indeed, at the last policy-setting meeting, President Draghi sounded slightly more dovish, suggesting three potential triggers for further action: a downside surprise on inflation, higher money market rates and renewing weakness in confidence.



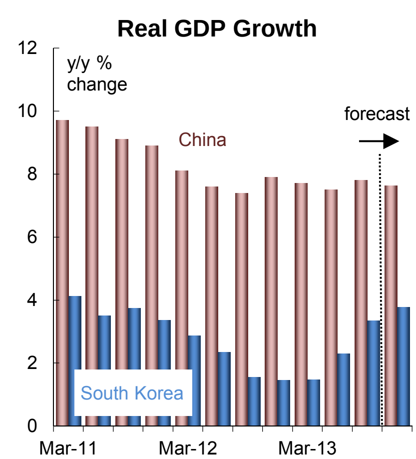
Source: Bloomberg, Scotiabank Economics.

LATIN AMERICA

Retail sales in Mexico seem to be recovering; however, November data — to be released on January 24th— should be taken carefully as the "Buen Fin" weekend (the Mexican equivalent to the US "Black Friday") fell in that month. In October, retail sales expanded by 0.80% m/m, the highest monthly expansion in nine months. However, in yearly terms sales continued to decrease, falling by 1.1% y/y, though this was the smallest contraction in three months. In 2012, the "Buen Fin" weekend, coupled with the early payout the year-end bonus, caused a rebound of 3.5% y/y (1.1% m/m) in retail sales. We expect a smaller increase in November 2013 retail sales, based on what some firms have stated. Although some signs of a pickup in consumption seem to be emerging, the Consumer Confidence Index released by the National Statistics Institute remains at its second lowest level since the end of 2011. We anticipate that the economy will gradually recover in the coming months, gaining momentum in the second quarter of the year. Government spending has recovered its pace, after the deceleration observed at the beginning of last year, which may also support consumption.

ASIA

China and South Korea will release GDP data for the fourth quarter of 2013 on January 19th and 22nd, respectively. We estimate that China's output increased by 7.6% y/y in the final quarter, marking a modest deceleration from the 7.8% y/y pace recorded in the July-September period. Such a gain will take the country's output growth to 7.7% in 2013 as a whole; while it falls short of the average expansion of almost 10% over the past 10 years, it is a remarkable gain, being more than four times the pace of expansion in North America or the UK. China's economic expansion trajectory is structurally shifting lower due to a transition to a new stage of economic development that relies more on productivity improvements than factor inputs. We estimate that the nation's output will advance by 7¼% on average in 2014 and 2015.



Source: Bloomberg, Scotiabank Economics.

South Korea's economy is performing well; the momentum is relatively broad-based with household consumption, government spending, and investment underpinning activity. Export recovery will continue to become more evident in the near term. We estimate that real GDP grew by 3.8% y/y in the final quarter of 2013, following a 3.3% gain in the prior three months. The nation's output growth likely reached 2¾% in 2013 as a whole, and we expect the pace to average 3.4% in 2014-15.

Key Indicators for the week of January 20 – 24

North America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	01/21	08:30	Manufacturing Shipments (m/m)	Nov	0.2	0.4	1.0
CA	01/21	08:30	Wholesale Trade (m/m)	Nov	0.4	0.5	1.4
US	01/22	07:00	MBA Mortgage Applications (w/w)	JAN 17	--	--	11.9
CA	01/22	10:00	**BoC Interest Rate Announcement (%)**	Jan 22	**1.00**	**1.00**	**1.00**
CA	01/23	08:30	Retail Sales (m/m)	Nov	0.0	0.2	-0.1
CA	01/23	08:30	Retail Sales ex. Autos (m/m)	Nov	0.2	0.3	0.4
US	01/23	08:30	Initial Jobless Claims (000s)	JAN 18	330	330	326
US	01/23	08:30	Continuing Claims (000s)	JAN 11	3000	2900	3030
MX	01/23	09:00	Bi-Weekly Core CPI (% change)	Jan 15	--	0.7	0.1
MX	01/23	09:00	Bi-Weekly CPI (% change)	Jan 15	0.7	0.7	0.3
US	01/23	10:00	Existing Home Sales (mn a.r.)	Dec	5.0	5.0	4.9
US	01/23	10:00	Existing Home Sales (m/m)	Dec	2.0	1.0	-4.3
US	01/23	10:00	Leading Indicators (m/m)	Dec	--	0.2	0.8
CA	01/24	08:30	CPI, All items (m/m)	Dec	-0.1	-0.2	0.0
CA	01/24	08:30	CPI, All items (y/y)	Dec	1.4	1.3	0.9
CA	01/24	08:30	Core X8 CPI (m/m)	Dec	-0.2	-0.4	-0.1
CA	01/24	08:30	Core X8 CPI (y/y)	Dec	1.5	1.3	1.1
CA	01/24	08:30	CPI SA, All items (m/m)	Dec	--	--	0.2
CA	01/24	08:30	Core CPI SA, All items (m/m)	Dec	--	--	0.0
MX	01/24	09:00	Retail Sales (INEGI) (y/y)	Nov	--	0.8	-1.1

Europe

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
GE	01/20	02:00	Producer Prices (m/m)	Dec	--	0.0	-0.1
EC	01/21	05:00	ZEW Survey (Economic Sentiment)	Jan	--	--	68.3
GE	01/21	05:00	ZEW Survey (Current Situation)	Jan	--	35.0	32.4
GE	01/21	05:00	ZEW Survey (Economic Sentiment)	Jan	66.0	64.0	62.0
TU	01/21	07:00	**Benchmark Repo Rate (%)**	**Jan 21**	**4.50**	**4.50**	**4.50**
HU	01/21	08:00	**Base Rate (%)**	**Jan 21**	**2.90**	**2.90**	**3.00**
UK	01/22	04:30	Average Weekly Earnings (3-month, y/y)	Nov	1.1	1.0	0.9
UK	01/22	04:30	Employment Change (3M/3M, 000s)	Nov	290.0	256.0	250.0
UK	01/22	04:30	Jobless Claims Change (000s)	Dec	-40.0	-32.0	-36.7
UK	01/22	04:30	PSNB ex. Interventions (£ bn)	Dec	15.0	14.0	16.5
UK	01/22	04:30	ILO Unemployment Rate (%)	Nov	7.2	7.3	7.4
IT	01/22	05:00	Current Account (€ mn)	Nov	--	--	4022
FR	01/23	03:00	Manufacturing PMI	Jan P	--	47.5	47.0
FR	01/23	03:00	Services PMI	Jan P	--	48.0	47.8
SP	01/23	03:00	Unemployment Rate (%)	4Q	--	26.0	26.0
GE	01/23	03:30	Manufacturing PMI	Jan A	--	54.6	54.3
GE	01/23	03:30	Services PMI	Jan A	--	54.0	53.5
EC	01/23	04:00	Current Account (€ bn)	Nov	--	--	21.8
EC	01/23	04:00	Composite PMI	Jan A	52.6	52.5	52.1
EC	01/23	04:00	Manufacturing PMI	Jan A	53.2	53.0	52.7
EC	01/23	04:00	Services PMI	Jan A	51.5	51.4	51.0
EC	01/23	10:00	Consumer Confidence	Jan A	--	-13.0	-13.6

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

Key Indicators for the week of January 20 – 24

Asia Pacific

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
SK	01/19	16:00	PPI (y/y)	Dec	--	--	-0.9
CH	01/19	20:30	Business Climate Index	4Q	--	--	121.5
CH	01/19	21:00	Fixed Asset Investment YTD (y/y)	Dec	--	19.8	19.9
CH	01/19	21:00	Industrial Production (y/y)	Dec	9.8	9.8	10.0
CH	01/19	21:00	Real GDP (y/y)	4Q	7.6	7.6	7.8
CH	01/19	21:00	Retail Sales (y/y)	Dec	--	13.6	13.7
JN	01/19	23:30	Capacity Utilization (m/m)	Nov	--	--	1.2
JN	01/19	23:30	Industrial Production (y/y)	Nov F	5.0	--	5.0
JN	01/20	01:00	Machine Tool Orders (y/y)	Dec F	28.0	--	28.0
TA	01/20	03:00	Export Orders (y/y)	Dec	--	2.2	0.8
HK	01/20	03:30	Unemployment Rate (%)	Dec	3.3	3.3	3.3
SK	01/20	06:59	Department Store Sales (y/y)	Dec	--	--	5.3
NZ	01/20	16:45	Consumer Prices (y/y)	4Q	2.0	1.5	1.4
JN	01/21	00:00	Supermarket Sales (y/y)	Dec	--	--	0.7
HK	01/21	03:30	CPI (y/y)	Dec	--	4.3	4.3
NZ	01/21		REINZ House Sales (y/y)	Dec	--	--	-6.6
NZ	01/21		REINZ Housing Price Index (m/m)	Dec	--	--	1.2
AU	01/21	19:30	Consumer Prices (y/y)	4Q	2.5	2.4	2.2
TA	01/21	19:30	Unemployment Rate (%)	Dec	4.2	4.1	4.2
JN	01/21	23:30	All Industry Activity Index (m/m)	Nov	--	0.3	-0.2
JN	01/22	00:00	Coincident Index CI	Nov F	110.5	--	110.5
JN	01/22	00:00	Leading Index CI	Nov F	110.8	--	110.8
TH	01/22	02:30	**BoT Repo Rate (%)**	**Jan 22**	**2.00**	**2.00**	**2.25**
MA	01/22	04:00	CPI (y/y)	Dec	3.1	3.1	2.9
JN	01/22	07:59	**BoJ Monetary Base Target (¥ tn)**	**Jan 22**	**--**	**--**	**270.0**
NZ	01/22	16:30	Business NZ PMI	Dec	--	--	56.7
SK	01/22	18:00	GDP (y/y)	4Q P	3.8	3.9	3.3
AU	01/22	19:00	Consumer Inflation Expectation (%)	Jan	--	--	2.1
NZ	01/22	19:00	ANZ Consumer Confidence Index	Jan	--	--	129.4
CH	01/22	20:45	HSBC Flash China Manufacturing PMI	Jan	50.5	50.5	50.5
SI	01/23	00:00	CPI (y/y)	Dec	2.1	2.0	2.6
TA	01/23	03:00	Commercial Sales (y/y)	Dec	--	2.3	2.3
TA	01/23	03:00	Industrial Production (y/y)	Dec	--	2.2	-0.1
PH	01/23	20:00	Imports (y/y)	Nov	--	-3.5	-8.6
PH	01/23	20:00	Trade Balance (US$ mn)	Nov	--	-740.0	202.0
SI	01/24	00:00	Industrial Production (y/y)	Dec	--	-1.7	4.0

Latin America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
BZ	01/24	07:30	Current Account (US$ mn)	Dec	--	-7199.0	-5145.0

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

Global Auctions for the week of January 20 – 24

North America

Country	Date	Time	Event
US	01/21	11:00	U.S. Fed to Purchase USD1.00-1.50 Bln Notes
US	01/21	11:30	U.S. to Sell USD28 Bln 3-Month Bills
US	01/21	11:30	U.S. to Sell USD25 Bln 6-Month Bills
US	01/22	11:00	U.S. Fed to Purchase USD2.25-3.00 Bln Notes
US	01/22	11:30	U.S. to Sell 4-Week Bills
US	01/23	11:00	U.S. Fed to Purchase USD1.00-1.50 Bln Notes
US	01/23	13:00	U.S. to Sell USD15 Bln 10-Year TIPS
US	01/24	11:00	U.S. Fed to Purchase USD2.50-3.50 Bln Notes

Europe

Country	Date	Time	Event
NE	01/20	06:00	Netherlands to Sell Up to EUR2 Bln 97-Day Bills
NE	01/20	06:00	Netherlands to Sell Up to EUR2 Bln 159-Day Bills
FR	01/20	08:50	France to Sell Bills
DE	01/21	04:30	Denmark to Sell 1.5% 2023 Bonds
SP	01/21	04:30	Spain to Sell 6-Month and 12-Month Bills
DE	01/21	04:30	Denmark to Sell 4.5% 2039 Bonds
GE	01/22	05:30	Germany to Sell EUR4 Bln 0% 2015 Bonds
FR	01/23	04:50	France to Sell Bonds
UK	01/23	10:30	U.K. to Sell GBP3.25 Bln 2.25% 2023 Bonds

Asia Pacific

Country	Date	Time	Event
JN	01/20	22:35	2M Bill Amount Sold
JN	01/20	22:35	2M Bill Average Yield
JN	01/20	22:35	2M Bill Bid/Cover Ratio
JN	01/20	22:35	Japan to Sell 2-Month Bill
JN	01/20	22:45	5Y Note Amount Sold
JN	01/20	22:45	5Y Note Average Yield
JN	01/20	22:45	5Y Note Bid/Cover Ratio
JN	01/20	22:45	5Y Note Tail Yield
JN	01/20	22:45	Japan to Sell 5-Year Bonds
CH	01/21	22:00	China to Sell CNY 24 Bln 10-Year Bonds
JN	01/22	22:35	3M Discount Bill Amount Sold
JN	01/22	22:35	3M Discount Bill Average Yield
JN	01/22	22:35	3M Discount Bill Bid/Cover Ratio
JN	01/22	22:35	Japan to Sell 3-Month Bill
JN	01/22	22:45	20Y Bond Amount Sold
JN	01/22	22:45	20Y Bond Average Yield
JN	01/22	22:45	20Y Bond Bid/Cover Ratio
JN	01/22	22:45	20Y Bond Tail Yield
JN	01/22	22:45	Japan to Sell 20-Year Bonds

Source: Bloomberg, Scotiabank Economics.

Events for the week of January 20 – 24

North America

Country	Date	Time	Event
US	01/20		UN Security Council Session on the Middle East
US	01/21	09:30	IMF Releases Revisions to Its World Economic Outlook
CA	01/21	12:00	Canadian Minister Leitch Speaks at Empire Club
CA	01/22	10:00	Bank of Canada Rate Decision
CA	01/22	12:00	Chinese Ambassador Zhang Speaks at University of Toronto
CA	01/22	14:00	Canadian Deputy Minister Gilmour Speaks at C.D. Howe
CA	01/23	11:45	Toronto Mayor Ford Speaks at Economic Club of Canada

Europe

Country	Date	Time	Event
IT	01/18	05:00	Bank of Italy Releases the Quarterly Economic Bulletin
EC	01/20	03:30	EU Foreign Ministers Hold Meeting in Brussels
EC	01/20	04:00	EU to Suspend Some Sanctions on Iran
PO	01/20	06:00	Portugal Reports Monthly Economic Survey
GE	01/20	13:00	Merkel Addresses Deutsche Boerse Event in Frankfurt
SP	01/20	15:00	PM Rajoy Speak in Antena 3 ITW
EC	01/21	03:00	Serbia to Start EU Membership Negotiations
AS	01/21	04:00	ECB's Nowotny Briefs Business Journalists in Vienna
TU	01/21	07:00	Benchmark Repurchase Rate
HU	01/21	08:00	Central Bank Rate Decision
LX	01/21		EU Top Court Rules on U.K. Fight Over Short-Selling
EC	01/21		Turkey's Erdogan Meets EU Officials in Brussels
EC	01/22	08:30	Russia's Chizhov Briefs Brussels Press on EU-Russia Meeting
SZ	01/22		Geneva II Peace Talks Conference on Syria
SZ	JAN 22-25		World Economic Forum Annual Meeting in Davos
GE	JAN 22-23		Merkel, Cabinet of CDU, SPD Ministers Holds First Conclave
SP	01/23	12:00	Spain PM Participates in Davos Panel

Asia Pacific

Country	Date	Time	Event
JN	JAN 21-22		BOJ 2014 Monetary Base Target
TH	01/22	02:30	BoT Benchmark Interest Rate
IN	01/22	06:00	91 Day T-Bill Cutoff Yield
IN	01/22	06:00	364 Day T-Bill Cutoff Yield
CH	01/22	12:00	Chinese Ambassador Zhang Speaks at University of Toronto
SZ	01/22		Geneva II Peace Talks Conference on Syria
JN	01/23	00:00	Bank of Japan's Monthly Economic Report for January
NZ	01/23	16:00	N.Z. Government 5-Month Financial Statements

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	January 22, 2014	1.00	1.00
Federal Reserve – Federal Funds Target Rate	0.25	January 29, 2014	0.25	--
Banco de México – Overnight Rate	3.50	January 31, 2014	3.50	--

BoC: We expect the Bank of Canada to hold the Overnight Rate at 1% at its meeting on January 22 but to maintain (and perhaps even increase) the dovish tone that has pushed USDCAD to almost 1.10 and has caused fixed income markets to price in as much as a 50% probability of a rate cut this year (the probability has fallen somewhat in the last few days). The focus on soft CPI might diminish towards the end of the week when base effects lift headline inflation for December to the 1.5% y/y area on Jan. 24 – a factor which we expect will fade out once the February figures are released in March. **Fed**: With the Fed in blackout mode ahead of the Jan. 29 rate announcement, we're not expecting much on the monetary policy front this week.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	0.25	February 6, 2014	0.25	--
Bank of England – Bank Rate	0.50	February 6, 2014	0.50	0.50
Swiss National Bank – Libor Target Rate	0.00	March 20, 2014	0.00	--
Central Bank of Russia – One-Week Auction Rate	5.50	February 14, 2014	5.50	--
Hungarian National Bank – Base Rate	3.00	January 21, 2014	2.90	2.90
Central Bank of the Republic of Turkey – 1 Wk Repo Rate	4.50	January 21, 2014	4.50	4.50
Sweden Riksbank – Repo Rate	0.75	February 13, 2014	0.75	--
Norges Bank – Deposit Rate	1.50	March 27, 2014	1.50	--

The **Turkish Central Bank** is expected to once again leave interest rates unchanged. Although the bank faces pressure to raise rates, particularly on account of the weaker lira which lost 17% vis-à-vis the US dollar in 2013 and is down another 3% so far in 2014 and given that inflation is still above target at 7.4% y/y in December, monetary authorities have steadfastly rejected rate hikes for fear of choking off economic activity amid a far-reaching political corruption scandal. In announcing its monetary and exchange rate framework for 2014, the bank listed the overnight lending rate (currently set at 7.75%) as the "reference rate", no longer referring to the one-week repo rate as the "policy rate", and signalled its intention to continue intervening in FX markets to counter excessive lira movements. The **Hungarian National Bank** will likely lower its base rate next Tuesday for an 18th consecutive time on the basis of subdued inflation dynamics and a relatively contained currency response to the start of US Fed tapering. The headline rate posted a 43-year low of 0.4% y/y at the end of 2013. The central bank governor has said that he now expects the policy rate to bottom out between 2.5% and 3.0%, though smaller reductions are likely in the months ahead. We anticipate a 10 basis point cut next week, bringing the rate to 2.90%.

Asia Pacific

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Reserve Bank of Australia – Cash Target Rate	2.50	February 3, 2014	2.50	2.50
Reserve Bank of New Zealand – Cash Rate	2.50	January 29, 2014	2.50	2.50
People's Bank of China – Lending Rate	6.00	TBA	--	--
Reserve Bank of India – Repo Rate	7.75	January 28, 2014	7.75	--
Bank of Korea – Bank Rate	2.50	February 12, 2014	2.50	--
Bank of Thailand – Repo Rate	2.25	January 22, 2014	2.00	2.00
Bank Indonesia – Reference Interest Rate	7.50	February 13, 2014	7.50	--

The likelihood of a benchmark interest rate cut in **Thailand** has increased significantly over the past couple of weeks, as political turmoil persists and its adverse impacts on the domestic economy mount. At end-November, the Bank of Thailand lowered the policy rate by 25 basis points to 2.25%, and we expect another similar cut to take place next week.

Latin America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	10.50	February 26, 2014	11.00	--
Banco Central de Chile – Overnight Rate	4.50	February 18, 2014	4.50	--
Banco de la República de Colombia – Lending Rate	3.25	January 31, 2014	3.25	3.25
Banco Central de Reserva del Perú – Reference Rate	4.00	February 13, 2014	4.00	4.00

Africa

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
South African Reserve Bank – Repo Rate	5.00	January 29, 2014	5.00	5.00

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

Forecasts as at January 6, 2014*	2000-12	2013e	2014f	2015f	2000-12	2013e	2014f	2015f
Output and Inflation (annual % change)		Real GDP				Consumer Prices[2]		
World[1]	3.7	2.9	3.5	3.6				
Canada	2.2	1.8	2.4	2.5	2.1	1.0	1.3	1.8
United States	1.9	1.8	2.7	3.0	2.5	1.5	1.5	1.9
Mexico	2.4	1.3	3.3	3.7	4.7	3.9	4.3	4.0
United Kingdom	1.7	1.9	2.5	1.7	2.3	2.0	2.2	2.4
Euro Zone	1.3	-0.5	0.8	1.3	2.1	0.9	1.2	1.4
Japan	0.9	1.8	1.8	1.2	-0.3	1.4	1.5	2.1
Australia	3.1	2.4	2.7	2.9	3.0	2.5	3.0	2.9
China	9.3	7.7	7.3	7.0	2.4	3.0	3.3	3.9
India	7.2	4.5	5.2	5.7	6.7	7.3	7.2	6.7
South Korea	4.3	2.7	3.3	3.5	3.1	1.1	2.2	2.5
Thailand	4.2	3.2	4.0	4.5	2.7	1.7	2.5	2.9
Brazil	3.4	2.3	2.8	3.4	6.5	6.0	5.7	5.8
Chile	4.5	4.4	4.4	4.7	3.2	2.5	3.0	3.0
Peru	5.7	5.1	5.4	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	0.25	0.25
European Central Bank	0.25	0.00	0.00	0.00	0.00	0.00	0.00	0.00
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	1.07	1.08	1.07	1.07	1.06	1.06	1.06
Canadian Dollar (CADUSD)	0.94	0.93	0.93	0.93	0.93	0.94	0.94	0.94
Euro (EURUSD)	1.37	1.33	1.30	1.27	1.25	1.25	1.24	1.24
Sterling (GBPUSD)	1.66	1.63	1.61	1.60	1.59	1.58	1.57	1.56
Yen (USDJPY)	105	102	104	107	109	110	111	112
Australian Dollar (AUDUSD)	0.89	0.87	0.88	0.89	0.90	0.90	0.90	0.90
Chinese Yuan (USDCNY)	6.1	6.0	6.0	6.0	6.0	5.9	5.9	5.9
Mexican Peso (USDMXN)	13.0	13.2	13.1	13.2	13.4	13.4	13.4	13.5
Brazilian Real (USDBRL)	2.36	2.38	2.40	2.45	2.50	2.50	2.45	2.45

Commodities (annual average)	2000-12	2013	2014f	2015f
WTI Oil (US$/bbl)	60	98	92	90
Brent Oil (US$/bbl)	62	109	108	108
Nymex Natural Gas (US$/mmbtu)	5.45	3.73	3.85	4.00
Copper (US$/lb)	2.22	3.32	3.15	3.05
Zinc (US$/lb)	0.78	0.87	0.98	1.40
Nickel (US$/lb)	7.64	6.81	7.25	7.60
Gold, London PM Fix (US$/oz)	745	1,411	1,270	1,375
Pulp (US$/tonne)	730	941	970	970
Newsprint (US$/tonne)	585	608	615	650
Lumber (US$/mfbm)	274	356	390	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' (http://www.gbm.scotiabank.com/English/bns_econ/forecast.pdf) for additional forecasts & commentary.

North America

Canada	2012	13Q2	13Q3	Latest	
Real GDP (annual rates)	1.7	1.6	2.7		
Current Acc. Bal. (C$B, ar)	-62.2	-63.7	-61.9		
Merch. Trade Bal. (C$B, ar)	-12.0	-10.7	-10.2	-11.3	(Nov)
Industrial Production	1.1	-0.1	0.9	0.3	(Nov)
Housing Starts (000s)	215	190	195	190	(Dec)
Employment	1.2	1.2	1.3	0.6	(Dec)
Unemployment Rate (%)	7.3	7.1	7.1	7.2	(Dec)
Retail Sales	2.5	2.7	3.1	3.0	(Oct)
Auto Sales (000s)	1673	1744	1777	1827	(Oct)
CPI	1.5	0.8	1.1	0.9	(Nov)
IPPI	0.6	0.3	1.3	-0.8	(Oct)
Pre-tax Corp. Profits	-4.9	-8.2	-1.1		

United States	2012	13Q2	13Q3	Latest	
Real GDP (annual rates)	2.8	2.5	4.1		
Current Acc. Bal. (US$B, ar)	-440	-386	-379		
Merch. Trade Bal. (US$B, ar)	-741	-703	-715	-647	(Nov)
Industrial Production	3.6	2.1	2.4	3.7	(Dec)
Housing Starts (millions)	0.78	0.87	0.88	1.00	(Dec)
Employment	1.7	1.6	1.7	1.6	(Dec)
Unemployment Rate (%)	8.1	7.5	7.2	6.7	(Dec)
Retail Sales	5.1	4.7	4.7	4.0	(Dec)
Auto Sales (millions)	14.4	15.5	15.7	15.3	(Dec)
CPI	2.1	1.4	1.6	1.5	(Dec)
PPI	1.9	1.5	1.2	1.2	(Dec)
Pre-tax Corp. Profits	18.5	3.7	3.5		

Mexico					
Real GDP	3.9	1.6	1.3		
Current Acc. Bal. (US$B, ar)	-14.6	-19.9	-21.8		
Merch. Trade Bal. (US$B, ar)	0.0	-3.4	-4.1	4.1	(Nov)
Industrial Production	2.6	-0.3	-0.5	-1.4	(Nov)
CPI	4.1	4.5	3.4	4.0	(Dec)

Europe

Euro Zone	2012	13Q2	13Q3	Latest	
Real GDP	-0.6	-0.6	-0.3		
Current Acc. Bal. (US$B, ar)	162	276	285	429	(Oct)
Merch. Trade Bal. (US$B, ar)	122.0	272.2	220.9	321.5	(Oct)
Industrial Production	-2.5	-0.9	-1.1	-0.5	(Nov)
Unemployment Rate (%)	11.3	12.0	12.1	12.1	(Nov)
CPI	2.5	1.4	1.3	0.9	(Dec)

Germany	2012	13Q2	13Q3	Latest	
Real GDP	0.9	0.5	0.6		
Current Acc. Bal. (US$B, ar)	240.8	240.3	235.2	350.3	(Nov)
Merch. Trade Bal. (US$B, ar)	245.1	249.6	262.4	288.9	(Nov)
Industrial Production	-0.4	-0.5	-0.1	1.9	(Nov)
Unemployment Rate (%)	6.8	6.9	6.8	6.9	(Dec)
CPI	2.0	1.5	1.6	1.4	(Dec)

France					
Real GDP	0.0	0.5	0.2		
Current Acc. Bal. (US$B, ar)	-57.3	-19.9	-49.7	-61.3	(Nov)
Merch. Trade Bal. (US$B, ar)	-52.9	-43.2	-48.6	-50.5	(Nov)
Industrial Production	-2.5	0.6	-1.5	-1.4	(Nov)
Unemployment Rate (%)	10.2	10.8	10.9	10.8	(Nov)
CPI	2.0	0.8	0.9	0.7	(Dec)

United Kingdom					
Real GDP	0.3	2.0	1.9		
Current Acc. Bal. (US$B, ar)	-92.7	-35.3	-167.6		
Merch. Trade Bal. (US$B, ar)	-172.4	-155.9	-182.6	-182.1	(Nov)
Industrial Production	-2.5	-0.5	-0.1	-1.4	(Nov)
Unemployment Rate (%)	8.0	7.8	7.6	7.4	(Sep)
CPI	2.8	2.7	2.7	2.0	(Dec)

Italy					
Real GDP	-2.6	-2.2	-1.8		
Current Acc. Bal. (US$B, ar)	-8.1	20.2	32.8	65.8	(Oct)
Merch. Trade Bal. (US$B, ar)	12.4	49.4	41.4	50.0	(Nov)
Industrial Production	-6.4	-3.5	-3.8	-7.0	(Nov)
CPI	3.1	1.2	1.0	0.6	(Dec)

Russia					
Real GDP	3.4	1.2	1.2		
Current Acc. Bal. (US$B, ar)	74.8	3.4	0.6		
Merch. Trade Bal. (US$B, ar)	16.0	14.2	14.4	16.6	(Nov)
Industrial Production	-5.3	0.3	-0.1	-1.0	(Nov)
CPI	5.1	7.2	6.4	6.5	(Dec)

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

Source: Bloomberg, Global Insight, Scotiabank Economics.

Asia Pacific

Australia	2012	13Q2	13Q3	Latest
Real GDP	3.6	2.4	2.3	
Current Acc. Bal. (US$B, ar)	-64.1	-31.9	-52.8	
Merch. Trade Bal. (US$B, ar)	5.9	32.4	12.5	6.5 (Nov)
Industrial Production	4.8	5.0	2.7	
Unemployment Rate (%)	5.2	5.6	5.7	5.8 (Dec)
CPI	1.8	2.4	2.2	

Japan	2012	13Q2	13Q3	Latest
Real GDP	1.4	1.3	2.4	
Current Acc. Bal. (US$B, ar)	60.4	70.0	54.5	-71.1 (Nov)
Merch. Trade Bal. (US$B, ar)	-85.8	-89.1	-117.9	-161.5 (Nov)
Industrial Production	0.2	-3.1	1.9	-1.7 (Nov)
Unemployment Rate (%)	4.4	4.0	4.0	4.0 (Nov)
CPI	0.0	-0.3	0.9	1.4 (Nov)

South Korea	2012	13Q2	13Q3	Latest
Real GDP	2.0	2.3	3.3	
Current Acc. Bal. (US$B, ar)	48.1	79.2	75.9	72.4 (Nov)
Merch. Trade Bal. (US$B, ar)	28.3	57.6	43.1	43.8 (Dec)
Industrial Production	1.2	-1.7	1.0	-1.0 (Nov)
CPI	2.2	1.2	1.4	1.1 (Dec)

China	2012	13Q2	13Q3	Latest
Real GDP	10.4	7.5	7.8	
Current Acc. Bal. (US$B, ar)	193.1			
Merch. Trade Bal. (US$B, ar)	230.7	264.1	244.8	307.7 (Dec)
Industrial Production	10.3	8.9	10.2	10.0 (Nov)
CPI	2.5	2.7	3.1	2.5 (Dec)

Thailand	2012	13Q2	13Q3	Latest
Real GDP	6.5	2.9	2.7	
Current Acc. Bal. (US$B, ar)	-1.5	-7.2	-0.9	
Merch. Trade Bal. (US$B, ar)	0.5	-0.3	1.7	1.5 (Nov)
Industrial Production	2.1	-5.1	-3.8	-9.4 (Nov)
CPI	3.0	2.3	1.7	1.7 (Dec)

India	2012	13Q2	13Q3	Latest
Real GDP	5.1	4.4	4.8	
Current Acc. Bal. (US$B, ar)	-91.5	-21.8	-5.2	
Merch. Trade Bal. (US$B, ar)	-16.0	-16.7	-9.9	-10.1 (Dec)
Industrial Production	0.7	-1.0	1.7	-2.1 (Nov)
WPI	7.5	4.8	6.6	6.2 (Dec)

Indonesia	2012	13Q2	13Q3	Latest
Real GDP	6.2	5.8	5.6	
Current Acc. Bal. (US$B, ar)	-24.4	-10.0	-8.4	
Merch. Trade Bal. (US$B, ar)	-0.1	-1.0	-1.0	0.8 (Nov)
Industrial Production	4.1	7.1		12.4 (Aug)
CPI	4.3	5.6	8.6	8.4 (Dec)

Latin America

Brazil	2012	13Q2	13Q3	Latest
Real GDP	0.9	3.1	1.9	
Current Acc. Bal. (US$B, ar)	-54.2	-74.2	-68.4	
Merch. Trade Bal. (US$B, ar)	19.4	8.3	5.9	31.8 (Dec)
Industrial Production	-2.7	3.1	0.4	0.3 (Nov)
CPI	5.4	6.6	6.1	5.9 (Dec)

Chile	2012	13Q2	13Q3	Latest
Real GDP	5.6	4.0	4.7	
Current Acc. Bal. (US$B, ar)	0.0	-6.8	-13.8	
Merch. Trade Bal. (US$B, ar)	12.4	5.4	-1.8	1.8 (Dec)
Industrial Production	2.9	1.4	4.9	3.2 (Nov)
CPI	3.0	1.3	2.1	3.0 (Dec)

Peru	2012	13Q2	13Q3	Latest
Real GDP	9.2	5.6	4.4	
Current Acc. Bal. (US$B, ar)	-7.1	-3.1		
Merch. Trade Bal. (US$B, ar)	0.5	-0.1	0.1	-0.2 (Nov)
Unemployment Rate (%)	7.0	5.7	5.8	5.7 (Dec)
CPI	3.7	2.5	3.1	2.9 (Dec)

Colombia	2012	13Q2	13Q3	Latest
Real GDP	4.2	3.9	5.1	
Current Acc. Bal. (US$B, ar)	-12.1	-2.5	-3.6	
Merch. Trade Bal. (US$B, ar)	0.4	0.4	0.0	0.1 (Nov)
Industrial Production	-0.4	0.0	-1.7	-0.1 (Oct)
CPI	3.2	2.1	2.3	1.9 (Dec)

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

Source: Bloomberg, Global Insight, Scotiabank Economics.

Interest Rates (%, end of period)

Canada	13Q3	13Q4	Jan/10	Jan/17*	United States	13Q3	13Q4	Jan/10	Jan/17*
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	0.97	0.92	0.90	0.89	3-mo. T-bill	0.01	0.07	0.04	0.04
10-yr Gov't Bond	2.54	2.76	2.56	2.54	10-yr Gov't Bond	2.61	3.03	2.86	2.85
30-yr Gov't Bond	3.07	3.23	3.11	3.09	30-yr Gov't Bond	3.68	3.97	3.80	3.78
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US$B)	71.3		71.9	(Nov)	FX Reserves (US$B)	136.7		134.1	(Nov)
Germany					**France**				
3-mo. Interbank	0.15	0.24	0.24	0.26	3-mo. T-bill	0.06	0.15	0.11	0.16
10-yr Gov't Bond	1.78	1.93	1.84	1.77	10-yr Gov't Bond	2.32	2.56	2.50	2.42
FX Reserves (US$B)	65.7		65.8	(Nov)	FX Reserves (US$B)	54.6		51.7	(Nov)
Euro Zone					**United Kingdom**				
Refinancing Rate	0.50	0.25	0.25	0.25	Repo Rate	0.50	0.50	0.50	0.50
Overnight Rate	0.18	0.45	0.15	0.30	3-mo. T-bill	0.40	0.40	0.40	0.40
FX Reserves (US$B)	332.5		329.8	(Nov)	10-yr Gov't Bond	2.72	3.02	2.87	2.84
					FX Reserves (US$B)	93.3		93.9	(Nov)
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	0.09	0.08	0.08	10-yr Gov't Bond	3.81	4.24	4.27	4.10
10-yr Gov't Bond	0.69	0.74	0.70	0.67	FX Reserves (US$B)	45.9		51.4	(Nov)
FX Reserves (US$B)	1240.8		1244.5	(Nov)					

Exchange Rates (end of period)

USDCAD	1.03	1.06	1.09	1.10	¥/US$	98.27	105.31	104.18	104.32
CADUSD	0.97	0.94	0.92	0.91	US¢/Australian$	0.93	0.89	0.90	0.88
GBPUSD	1.619	1.656	1.648	1.644	Chinese Yuan/US$	6.12	6.05	6.05	6.05
EURUSD	1.353	1.374	1.367	1.358	South Korean Won/US$	1075	1050	1061	1060
JPYEUR	0.75	0.69	0.70	0.71	Mexican Peso/US$	13.091	13.037	12.968	13.281
USDCHF	0.90	0.89	0.90	0.91	Brazilian Real/US$	2.217	2.362	2.358	2.359

Equity Markets (index, end of period)

United States (DJIA)	15130	16577	16437	16429	U.K. (FT100)	6462	6749	6740	6816
United States (S&P500)	1682	1848	1842	1841	Germany (Dax)	8594	9552	9473	9733
Canada (S&P/TSX)	12787	13622	13748	13841	France (CAC40)	4143	4296	4251	4332
Mexico (IPC)	40185	42727	42459	42048	Japan (Nikkei)	14456	16291	15912	15734
Brazil (Bovespa)	52338	51507	49696	49389	Hong Kong (Hang Seng)	22860	23306	22846	23133
Italy (BCI)	950	1041	1068	1087	South Korea (Composite)	1997	2011	1939	1944

Commodity Prices (end of period)

Pulp (US$/tonne)	945	990	990	990	Copper (US$/lb)	3.31	3.35	3.30	3.35
Newsprint (US$/tonne)	605	605	605	605	Zinc (US$/lb)	0.85	0.95	0.92	0.94
Lumber (US$/mfbm)	359	372	372	376	Gold (US$/oz)	1326.50	1204.50	1244.25	1250.00
WTI Oil (US$/bbl)	102.33	98.42	92.72	94.01	Silver (US$/oz)	21.68	19.50	19.80	20.01
Natural Gas (US$/mmbtu)	3.56	4.23	4.05	4.35	CRB (index)	285.54	280.17	275.42	278.03

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

Fixed Income Strategy (London)

www.gbm.scotiabank.com

Fixed Income Strategy (Paris)

Foreign Exchange Strategy

Portfolio Strategy

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