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Global Views

Weekly commentary on economic and financial market developments

February 21, 2014

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

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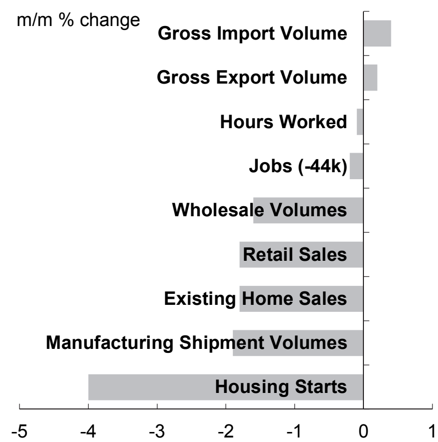
Another Test Of The Fed's Forward Guidance

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

Canada — Unfortunate Way To End A Decent Quarter

Only next Friday stands out by way of notable Canadian market risks, and until then, Canada will follow the broad global risks. On Friday, GDP lands for December and the quarter as a whole. The broad tone is likely to be one of ending a decent quarter on a sour note. **What's baked into monthly GDP figures is a 3.3% annualized and seasonally adjusted expansion in the economy** in Q4 over Q3 assuming a flat December in order to first focus on the effects of what we know by way of the Q3 hand-off and the first two-thirds of Q4. If December turns in a fair-sized decline in GDP over November as we think it will, then the quarter is more likely to come in at around 2½% annualized growth. That's still decent, could roughly equal downwardly revised US growth, and the December softness was at least in part weather-related which implies a transfer of some activity into future months. Recall that it was December 21st when a large ice storm hit Ontario eastward, and other parts of the country were reeling under heavier than seasonally normal snow and abnormal cold. Calgary, for instance, had its heaviest snow on record for the month of December. One often noted statistic is that Calgary received more snow this past December than all of January through March last year combined.

Poor End To A Decent Quarter



Source: Statistics Canada, CMHC, CREA, Scotiabank Economics.

It is impossible to tell how much of the weakness in December's activity measures was due to weather, but the seasonally adjusted readings were negative across the board. Housing starts fell 4% m/m, and existing home sales fell 1.8% which combine to imply soft residential construction activity and housing related services. Total hours worked fell 0.1% m/m which would imply a drop in GDP unless labour productivity really ramped up which doesn't look to have been likely judging by the weakness in the activity measures. December was also the month when the Labour Force Survey printed -46k on jobs lost. The volume of manufacturing shipments fell 1.9%, wholesale trade volumes declined by 1.6%, and retail sales fell by a whopping 2.2% in volume terms. Finally, the volume of net exports fell as the volume of gross exports climbed 0.2% but the volume of gross imports was up by a stronger 0.4%.

Canada auctions 30 year real return bonds on Wednesday.

US — Fed Guidance Amid Further Weakness In The Interest Sensitive Sectors

Data risk will not be as elevated next week, but there are still some gems that will be closely watched for signs of further weakness that may be temporary and driven by weather effects alongside the lagged adjustment effects of higher fixed borrowing costs. The **interest sensitive sectors will be in the spotlight, and soft readings are expected**.

Housing indicators on tap will include new home sales and pending home sales with the latter serving as a guide to completed existing home sales that close 30-90 days later. Recall that new home sales react faster to developments like bad weather than existing home sales because of fewer lags in the paperwork, and so they'll be treated as a fresher guide for housing risks. After December's big 7% drop, a further but more moderate decline is expected for January's new home sales tally. Consensus thinks pending home sales will pick up somewhat in January, but probably for no other reason than the view that the large 8.7% m/m plunge in December poses a weak base effect. That was the second biggest drop on record back to 2001 when the indicator started, behind only the drop in mid-2010 following temporary homebuyers' stimulus. We think the risk to this consensus view is skewed to the downside as weather only got worse in January and other measures like model new home foot traffic fell sharply in January and **mortgage purchase applications are down by 27% from last Spring's seasonally adjusted peak and only a hair's width from fresh crisis-era lows** at least partly on weather effects (see chart). Also, the

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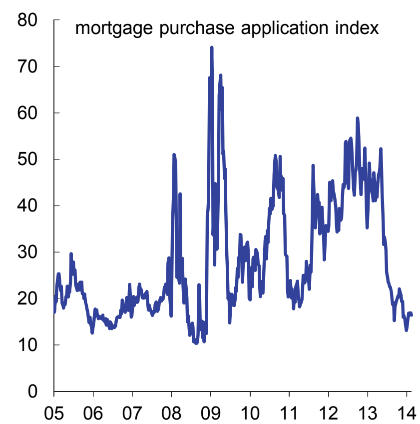
Conference Board's consumer confidence index can often swing markets, and is expected to hang on to gains registered in January notwithstanding labour market softness.

Durable goods orders will probably post the third decline in four months on Thursday. Boeing aircraft orders are one factor we use in piecing together the call, and they fell from 319 in December to only 38 in January and that will weigh significantly against the headline tally. More important will be whether orders for capital goods measured by the nondefence ex-air order book that serves as a proxy for business investment fell again for what would be the fourth time in five months.

Finally, **the bearish tone to the week's data will probably be reinforced by expectations that 2013Q4 GDP growth will be significantly revised down** from the initial 3.2% print to 2.5% largely on trade revisions as trade figures released after the initial GDP estimate were weaker than initially assumed. That would return growth to Q2 rates after a temporary acceleration to 4.1% in Q3.

Fresh Lows For Mortgage Demand?



Source: MBA, Scotiabank Economics.

The risk to next week's **heavy line-up of FOMC officials taking to the podium** is two-fold. First, do all nine of the speakers still believe that recent weakness across US activity measures is temporary and fully anticipated following the strong performance in 2013H2? They generally appeared to in the minutes to the January 28-29th FOMC meeting but another batch of weak readings has arrived since and downward revisions to Q4 GDP growth won't help. Second, we need more specifics insofar as the debate on forward guidance is concerned. The minutes to the January 28-29th FOMC meeting laid out five options, each of which were vague. They included: sticking to the existing quantitative thresholds like a 6.5% unemployment rate and 2% inflation; replacing that with qualitative guidance which Bullard supports and that we think is fairly likely; putting more emphasis upon financial stability risks that could cut in both dovish and hawkish ways on tardy or premature policy moves; strengthened reference to undershooting inflation goals, and; relying on the Summary of Economic Projections as a communications tool and hence specifically on the dispersion of views across FOMC officials on when to first hike the Fed funds target. The fact that the Fed is having this more advanced discussion is in itself a further strengthened sign that tightening is on their forecast radar screens. Look for Governors Tarullo and Stein, and regional Presidents George, Rosengren, Pianalto, Lockhart, Kocherlakota, Evans, and Plosser to possibly take a swing at each of these two primary issues affecting the outlook for tapering and the first fed funds hike. Heck, maybe even the former Fed Chairman will weigh in on Monday.

The US Treasury auctions 2s, 5s, and 7s next week.

Asia — Chinese Manufacturing And Abenomics

China, Japan and India will share much of the spotlight across Asian markets next week. While Chinese data is the most important to the global market tone, it arrives after the Friday close and that puts more of the week ahead's emphasis upon developments in the other two nations.

China releases the state's version of the purchasing managers' index for the manufacturing sector next Friday night. It is expected to cool for the third consecutive month but **avoid a contractionary signal in the manufacturing sector by a whisker** by hovering at the 50 dividing line. That would still stand in significant contrast to the private sector's PMI print that fell deeper into contraction territory this month. The private PMI is more skewed toward smaller manufacturers in export-oriented coastal cities than the state's version and may therefore be taking more of a hit as the PBoC's tightening efforts disproportionately impact smaller producers. The release of property prices for China's major cities into Monday's markets will also garner attention as the PBoC's efforts to cool access to credit continue to be stymied by persistently low money market rates and ongoing nationwide house price gains. The PBoC intensified such efforts this week through two repurchase transactions totaling about US$18 billion from short-

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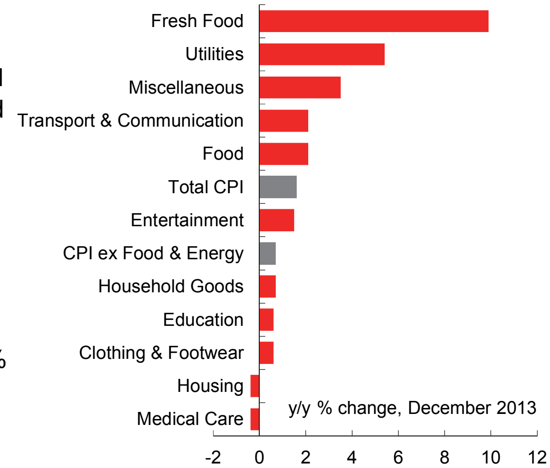
term money markets this past week as part of continued efforts stretching back to mid-year.

Here comes another round of Abe-hype, only this time, CPI inflation is expected to fall from the recent 1.6% y/y peak and that would further feed impressions that Abenomics is stalling out. The upturn in CPI inflation by December was still being heavily influenced by utility prices that were up 5.5% y/y due to the effects of yen depreciation on imported natural gas and oil prices, and higher electricity prices in the face of Japan's continued shutdown of all of its nuclear reactors. Take energy and food — which is also probably under upward pressure in part due to yen depreciation — out of CPI and it is only up 0.7% y/y as food prices themselves are up 2.2%. Most of the CPI effects of the Bank of Japan's efforts to depreciate the yen remain confined to a relative price shock to food and energy that crowds out spending power elsewhere in the economy on future second-round effects in the absence of a pickup in wage growth or credit access (see chart). Also due out from Japan will be expected gains in household spending and retail sales on what may be brought-forward activity in advance of April's 3% rise in the sales tax to 8% that then raises downside Q2 growth risks, a gain in industrial production on diversified strengths as one of the brighter spots in the economy, lower housing starts against a general upward trend, and a stable jobless rate. All of these releases are back-end loaded on the week.

Japan's Import Price Shock Is Distorting CPI



Source: MIAC, Scotiabank Economics.

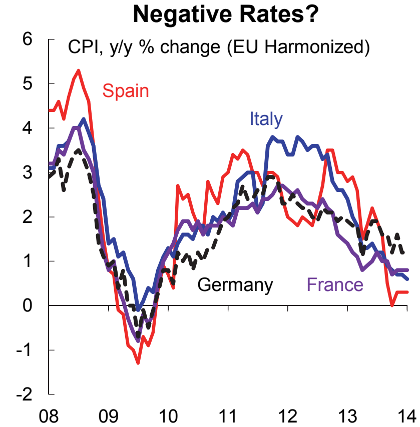
India's economy may continue to carve out a bottom on growth rates with Q4 GDP expected to come in at 4.8% y/y and thus unchanged from the Q3 pace. Take out early 2009, and that's still the weakest of the crisis era as growth sharply decelerated from the 8-11% range up until early 2011.

Tertiary releases of local market significance will include trade updates from New Zealand, South Korea, Philippines and Thailand alongside South Korean industrial production.

Europe — Germany In The Spotlight

Germany will drive much of the regional market tone and carry the potential to impact global markets next week. That's because **Germany will release a wave of economic updates.** IFO business confidence lands on Monday and key here will be whether the strong upward trend over the past year will be retained in the face of recent risks to the global economy and markets and we are skeptical regarding this consensus assumption. GDP revisions on Tuesday are expected to confirm the initial 0.4% non-annualized Q4/Q3 print. German CPI is expected to come in flat on Thursday but at only 1.3% y/y. When coupled with France's soft 0.7% y/y reading and other soft prints across the eurozone, European inflation readings will keep the pressure on the ECB to contemplate cutting into negative rate territory at the March 6th meeting (see chart). A stable 6.8% unemployment rate that same day plus an as-yet-undetermined release day for retail sales that could bounce higher in the wake of a big drop in December round out the releases.

Can The ECB Resist Negative Rates?



Source: Bloomberg, Scotiabank Economics.

Consensus expects no revision to the UK's Q4 GDP growth of 0.7% on Wednesday, and the release schedule will be rounded out by EC confidence gauges, French consumer spending, and Italian retail sales.

The EU also releases revised forecasts on Tuesday.

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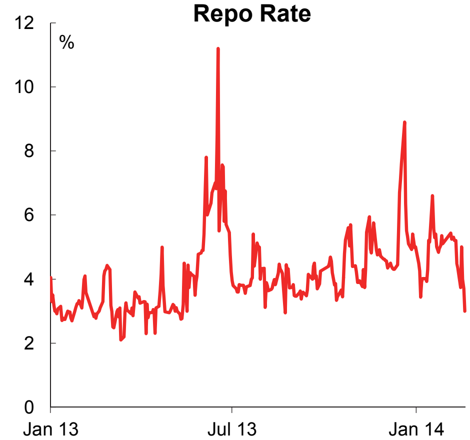
China Tightens Liquidity Conditions To Limit Credit Growth

The People's Bank of China (PBoC) withdrew liquidity from money markets on February 18th and 20th by issuing CNY48 billion (US$7.9 billion) and CNY60 billion (US$9.9 billion), respectively, in 14-day repurchase (repo) agreements.

The decision by the PBoC implies a bias to restrict credit availability by tightening liquidity conditions. Combatting excessive lending expansion is part of the Chinese administration's broader efforts to bring the economy to a sustainable growth trajectory by moving the nation towards a more consumer-based economy while decreasing its dependence on investment as a source of output gains.

China's 7-Day Interbank Repo Rate



Source: Bloomberg, Scotiabank Economics.

The PBoC is responding to market participants' persistent concerns regarding excessive credit growth which has contributed to increasing imbalances in China's domestic economy. In this context, the PBoC signaled on February 8th that increased volatility in money-market rates was in sight. The central bank uses 14-day repos as a short-term monetary policy instrument to absorb liquidity from the financial system. Prior to this week, the last time the central bank used repo issuance to drain liquidity from the system was in June. So far, there has not been a material upward impact on the 7-day repo rate; accordingly, a bias toward tighter monetary conditions will likely be sustained in the coming months, bringing the 7-day repo rate to above 4%.

The decisions follow a surge in lending, which is rather typical for the beginning of the year; new local-currency loans reached CNY1.32 trillion last month, a 23% increase from the January 2013 level. Yuan-dominated loans increased by 8% in 2013 as a whole. Meanwhile, aggregate financing — the broadest measure of credit — increased by a meager 1% y/y in January. Due to the authorities' efforts since May of last year to limit rapid lending growth, aggregate financing contracted by 14% y/y in the May-December period, compared with an increase of 63% y/y in the first four months of 2013.

Tighter monetary conditions to rein in credit growth will contribute to the re-alignment of the economy by slowing investment gains. In fact, the government has reduced its industrial production growth target to 9.5% for this year from 10% in 2013. Correspondingly, we project a real GDP expansion of 7⅓% for the current year, implying a slight deceleration from the 7.7% pace recorded both in 2012 and 2013.

Last month, the PBoC Monetary Policy Committee stressed that the performance of the Chinese financial sector and the economy was sound; against this backdrop, the authorities remain committed to introducing market-based interest rate reforms and to ensuring exchange rate stability. The recent depreciation of the CNY does not imply a change in policy direction, yet it highlights the heightened volatility affecting emerging-market asset classes. Through multiple mechanisms, the central bank actively intervenes in the local-currency market to guide the value of the exchange rate; the CNY appreciated by 3% in 2013. Looking ahead, non-deliverable forward (NDF) contracts imply a mid-market rate of 6.135 CNY per USD in the 12 months ahead, that is, a 0.7% depreciation from current levels. We expect the USDCNY rate to close 2014 at 5.98.

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Soft US Readings Are Mostly A Blend Of Temporary Factors

- **US markets are probably right to have so far largely looked through soft readings**

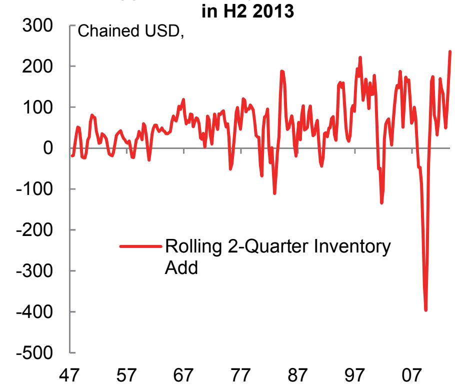
Markets appear to be mostly looking through recently soft readings on the US economy in favour of more upbeat longer-term views. This is evidenced by a fairly mild quarter-point rally in US 10s since the peak of 3% at the beginning of the year, a tiny 0.2% year-to-date loss on the S&P500, and the mixed performance of the USD so far this year that is up solidly against the rand and CAD, down against the yen, A$ and NZ$, and little changed against the Euro and pound sterling. **There are good reasons for this market bias to mostly look through recent data softening versus more alarmist fringe views that somehow the US economy is about to skid off the rails.** We offer a few of the factors that may have temporarily constrained a broad swath of activity measures stretching from nonfarm employment to retail sales, total consumption, durable goods orders, manufacturing surveys and housing indicators.

1. Temporary inventory excesses

An often overlooked consideration is that after US companies drove the strongest back-to-back inventory gains in history over 2013H2 (chart 1), some temporary moderation is to be expected. That could be part of why we are witnessing softness in production figures into Q1 as companies seek to cool the pace at which inventories are being run up. This includes soft readings for ISM that fell sharply in January to the lowest reading since last May, the Philly Fed business outlook gauge that slipped into contraction territory in the February print, and industrial production that fell in January for the first time in six months. In short, it's not all about the weather.

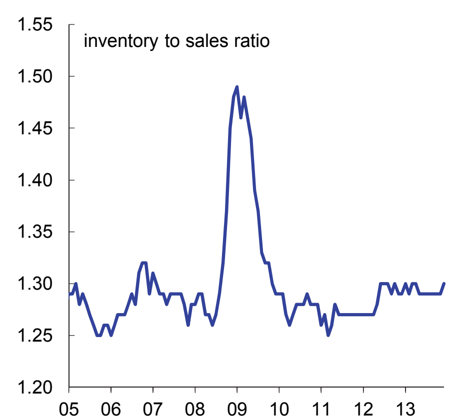
How inventories are managed from 2014Q1 onward is a tricky question. A shock to the demand side of the economy partly due to weather disruptions could result in higher Q1 inventory investment than we had previously assumed as a relative upside to GDP and partial offset to weakened activity measures. Then again, the supply side appears to be curtailing production in response to the demand side shock which may moderate a Q1 inventory build. Into Q2, we feel that the weather disruption effects upon higher frequency demand-side gauges in Q1 will result in the release of pent-up demand into Q2 and delayed inventory moderation. **Given that chart 2 shows a still generally well-behaved economy-wide industry to sales ratio, we believe near-term inventory over-building and the difficult to forecast shake-out effects on production represent a near-term technical correction along a more positive longer-run path for the US economy.**

Chart 1 **Biggest Inventory Add on Record in H2 2013**



Source: BEA, Scotiabank Economics

Chart 2 **Inventories Pose Few Problems**



Source: US Census Bureau, Scotiabank Economics.

2. Whether it's the weather

Yes this has been a harsh winter across much of North America. High natural gas prices are one piece of evidence (your salt-crusted shoes if you're in a particularly cold and snowy city are another). More empirically, according to the National Climatic Data Center, debilitating snow-storms hit the Northeast urban corridor for eight days in January and eight days in February (following five lost days in December — see table). **To the extent that this factor explains some of the recent weakness — and we think it does — it presents a case for downgrading Q1 growth and just bumping it into Q2.** The spring could bring us all out of hibernation and into a period of releasing pent-up demand after having delayed trips to car dealer lots and banks for mortgage pre-approvals.

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That's less of an explanation for nonfarm than other activity measures. The large extent of the disruption has been weighing on some sectors of the economy, particularly those that are most sensitive to extreme weather such as retail sales (see table), housing activity, and industrial production (counterintuitively, utilities output falls as storms hinder output). The impact of weather on jobs numbers is harder to quantify, and weakness in industrial sentiment is even harder to pin on the weather.

Also, the weakness hasn't only been in the storm-afflicted areas. Some of the additional difficulties with the 'blame it on the snow (and rain)' angle include weakness in housing activity and vehicle sales not only in the storm-wracked east coast but in the western U.S. too, which to us points to the possibility that while the weather is a factor in the weak data, it's not the sole cause.

3. Lagging government shutdown effects revealed

Remember how sanguine much of the coverage of the effects of Washington's shut down in October had become? Oops, not so fast according to this theory. Nobody believed Washington would be so silly as to skid off the rails at the hands of a Canadian-turned-southerner at the extreme edge of the conservative movement, so when it hit, it came in the form of an unanticipated shock. Lagged negative effects of the shutdown would hit over coming weeks and months. Consider the impact upon hiring from the initial determination to hire, then post, interview, interview again, offer, accept, give notice if any, and start that first day. But the last time a negative hit to hiring stemming from the government shutdown happened in the mid-1990s, it took a nanosecond to shake it off and revert higher when nonfarm went from a negative in January 1996 to over +400k in February. **Pent-up hiring demand could well be a factor with an out-sized nonfarm payrolls lift over coming months.**

In a bigger picture sense, fiscal drag should soon shake off the books by way of the direct negative effects on government spending and investment over 2013H2 (chart 3) and the indirect lagged effects on activity measures. It's conceivable that the US experiences on the order of about a percentage point less fiscal drag this year compared to last as this temporary factor dissipates. Reinforcing this argument was the ultimately successful suspension of the debt ceiling to March 15th 2015 and in practice considerably later than that after considering a seasonal surge in tax receipts and Treasury's access to emergency measures if necessary.

In all, we're still committed to a generally upbeat view for 2014-15 taken as a whole notwithstanding a bout of weakness so far at the start. Our view remains oriented toward a fairly strong bear flattener movement in the Treasury curve over 2014-15. For more on why, see our earlier piece, US Economic Outlook — Enter The Bear Flattener." There are indeed other considerations that have impacted US data such as the effects of Fed tapering on borrowing costs and hence interest sensitive sectors like housing and durables, but we believe these effects would be much milder in the absence of the temporary factors we have cited above.

It's Been a Long Winter…

Start Date	End Date	Storm Category *	
12/13/2013	12/16/2013	2	Significant
12/30/2013	1/3/2014	2	Significant
1/20/2014	1/22/2014	1	Notable
1/29/2014	2/4/2014	3	Major
2/11/2014	2/14/2014	3	Major

Source: NOAA, Scotiabank Economics

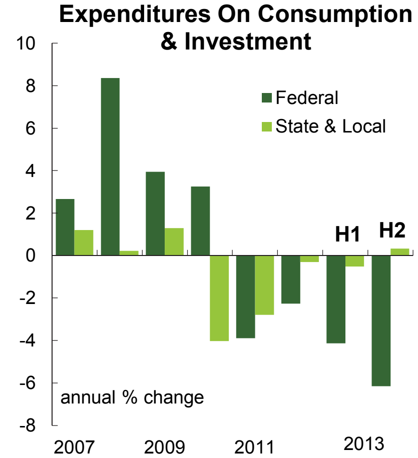
* (High Number = High Storm Extent)

Big Northeast Storms Cause Big Drops in Retail Sales… (But Effects Ebb For Smaller Storms)

Retail Sales During Months With Significant Northeast Snowstorms					Deviation of Storm from 3-Month Average (% Points)
		Retail Sales, M/M % Change			
Storm	Storm Rank	T-1	Storm	T+1	
March-93	1	0.8	-0.8	1.6	-1.33
January-96	2	0.8	-0.8	1.6	-1.33
February-03	3	0.5	-1.4	1.8	-1.70
January-05	4	1.2	-0.6	0.9	-1.10
February-07	5	-0.5	0.2	1	-0.03
February-10	6	0	0.1	2.2	-0.67
February-94	7	-0.6	1.6	1.9	0.63

Source: NOAA, Census Bureau, Scotiabank Economics

Chart 3 **Change In Real Government Expenditures On Consumption & Investment**



Source: BEA, Scotiabank Economics.

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Manitoba — Still Resilient

- **Various sectors contribute to the province's solid outlook.**

Rotating from robust crop production, mining investment and housing construction last year to higher mineral, manufacturing, and private-sector services output in 2014, Manitoba's economic diversification should continue to underpin its expansion. Over the forecast period, Manitoba may face the closure of major metal-processing capacity, but other factors should sustain its momentum, such as the strengthening U.S. economic outlook, the softer Canadian dollar, and investment in hydroelectric and transmission projects.

Manitoba: Economic Outlook

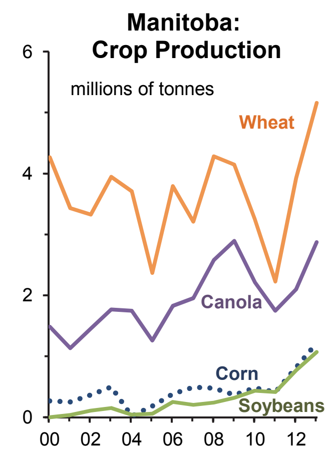
Pop., July 1/13: 1.3m, 3.6% of Cda, 1.2% y/y change
Net Immigration: +13,700, Q3 12 to Q2 13
Net Interprovincial Migration: -4,200, Q3 12 to Q2 13

	2000-12	13f	14f	15f
Real GDP, % change	2.3	2.4	2.3	2.4
Employment, % change	1.2	0.5	0.8	1.2
Employ./Pop.* Rate, %	64.9	65.0	64.9	65.1
Unemployment Rate, %	5.0	5.4	5.3	5.2
Housing Starts, 000s	4.8	7.5	6.4	6.0
Auto Sales, 000s	45	54	55	56

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

Modest export gains are anticipated for Manitoba in 2014, supported by higher bus, aerospace and mineral shipments. Crop receipts, however, are unlikely to replicate their 2013 performance due to lower prices. Last year, soybeans and wheat accounted for nearly two-thirds of Manitoba's otherwise broad-based, 11% gain in the value of its international exports.

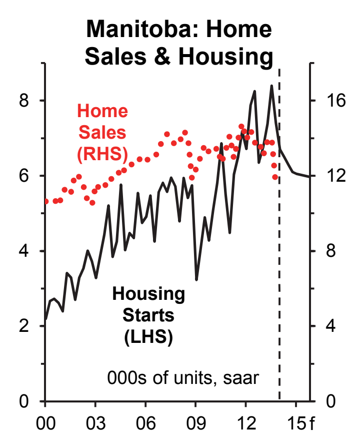
Agricultural production may weaken in 2014, after record crop yields boosted wheat, corn, canola and soybean harvests by more than 30% each in 2013 (*see chart*). However, manufacturing shipments are likely to advance this year, assisted by a recovery in bus and aerospace deliveries. Higher U.S. state and municipal orders are raising the prospects for bus production, while an expanding aerospace plant will make a new generation of parts.



Source: Statistics Canada.

Rising mining investment in Manitoba last year is setting the stage for solid mineral output gains in 2014 and 2015, as production ramps up at the Lalor gold-zinc-copper mine and begins at the Reed copper mine. With the closure of the Thompson nickel smelter & refinery in 2015 announced several years ago, uncertainty exists, though investment in additional capacity is under consideration. In 2013, Manitoba witnessed a double-digit decline in petroleum drilling activity and a drop in the range of 4% for oil production, though both remained historically high.

A higher heating load from cold weather is expected to continue boosting Manitoba's electricity sales in early 2014. Favourable water conditions and the completion of the Wuskwatim hydro project increased Manitoba's electricity sales receipts by 17.2% y/y for the first ten months of 2013. This rise was led by power sales to the U.S., where the recovering economy lifted volumes, and higher natural gas prices pushed up power rates in the wholesale spot market. This year and next, capital spending is ramping up on the Bipole III transmission line and Keeyask hydroelectric project.



Source: CMHC, CREA.

A new $50 million data centre opened in Winnipeg this February, with another set to open in 2015. Factors favouring Manitoba as a location include its colder climate used to cool servers and its low non-residential power rates. A major computer distributor also has decided to locate its sole Canadian business-service centre in the province.

A double-digit correction in housing starts is expected for Manitoba in 2014, following a 10-year surge (*see chart*). Cushioning the downside in starts is net immigration that continues to sustain historically high population gains. After mixed employment performance for Manitoba in 2013, job creation is expected to pick up this year. Consumer spending should advance as well, even though housing-related consumption growth may soften.

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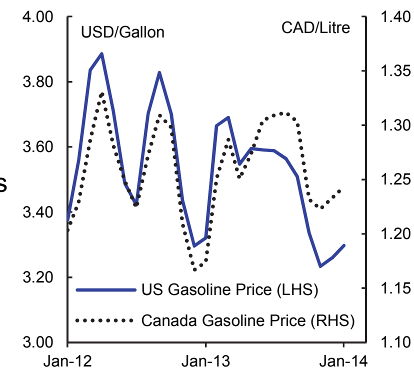
Risk Of Bank Of Canada Easing May Be Revisited

- **After an upside surprise, inflation may well crash back down and reignite BoC cut risks.**

After rising at a greater than expected pace of 1.5% y/y in January, we think headline Canadian inflation could well drop back down to 1% or possibly less in a month's time. **While short-term OIS and CAD pricing have backed away from easing risks, market pricing could raise cut risks again over coming weeks.**

That's because of the way in which base effects will shake out of the Canadian CPI print going forward. True, base effects of gasoline prices that carry about a 5-6% weight in both the United States and Canada operate very differently in each country. As chart 1 shows, the year-ago comparison is less of a downside risk to Canadian inflation than it is in the US. In Canada, average gasoline prices were 6% higher in Jan 2014 over a year ago, but then 1% higher in Feb '14 over last year. That contrasts with the US that was up 5% y/y in January and then down 10% y/y in February.

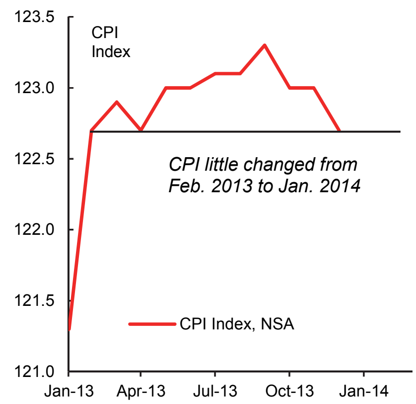
Canada & U.S. Gasoline Prices
Softer in the U.S. than in Canada



Source: Bloomberg, Scotiabank Economics.

Year-ago CPI base effects, however, must be considered in their totality and not just in terms of narrow categories. To this effect, and as chart 2 demonstrates, the reason why January CPI soared on year-ago terms had to do with a very soft start to the overall index last year. That effect shook out the following month in February 2013 when the base effects off of which to forecast y/y inflation reverted higher. As support for this contention, consider that the eleven month tracking of headline inflation from last February until this past January had only 0.3% baked in to year-ago inflation readings. It would take a month-over-month seasonally unadjusted rise in headline inflation of more than 0.7% for headline inflation to come in at more than 1% a month from now when February CPI is released.

Canadian CPI: Flat Since Feb. 2013



Source: Statistics Canada, Scotiabank Economics.

That's not impossible but is improbable in our view. Even if such a month-over-month rise occurs, it would still drop the year-ago rate significantly with the risk of possibly retesting inflation lows in the 0.3-0.5% y/y range set over 2013H1. Put in the direction of the opposite tail risk, it would take a 1.2% m/m rise in seasonally unadjusted CPI in February over January to drive the year-ago rate to be the same 1.5% rate that was registered in January.

These arguments represent the possibility of a near-term peak in inflationary pressures that would conform to Bank of Canada expectations for moderated inflation risk over the duration of the quarter. The BoC's forecast for average Q1 headline inflation from the January edition of the Monetary Policy Report is 0.9% y/y and that remains within reach.

A risk to this view is the sharp rise in tobacco taxes in the recent Federal Budget. The Federal Budget hiked the tobacco tax by 23.5% effective February 12th. We estimate that this effect will add 0.3% m/m to CPI spread across the next February CPI print and March given that the hike occurred in mid-February and given a tobacco weight of about 1.1% in CPI. Having said that, the tobacco tax hike is a one-off effect that distorts for a couple of months on m/m changes and for a year on year-ago effects before the effect drops out and the 0.3% headline lift dissipates after next February/March. The BoC would look through this effect.

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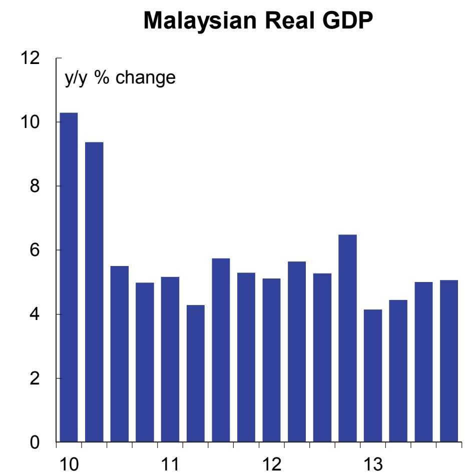
Malaysian Economic Outlook 2014-15

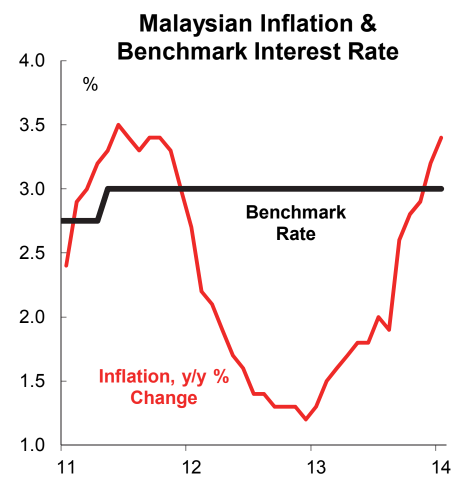
- **Malaysia enjoys a sound economic growth outlook; inflation is on the rise due to temporary factors.**

Malaysia's economic performance remains relatively healthy. Output increased by 5.1% y/y in the final quarter of 2013, compared with a 5.0% gain in the July-September period; real GDP growth was 4.7% in 2013 as a whole, slower than the 5.6% advance in 2012. We expect the Malaysian economy to expand by 5% on average in 2014-15. Activity continues to be driven by domestic demand, particularly household spending and investment, though exports have picked up as of late. Private consumption is underpinned by rising incomes and supportive labour market conditions. Investment activity is sustained by private sector outlays in the services, manufacturing and mining sectors. With China and major advanced economies being among the most important export destinations, their economic performance will be significant for Malaysian exporters. As global growth picks up, we expect net exports to provide support to economic activity in the coming quarters.



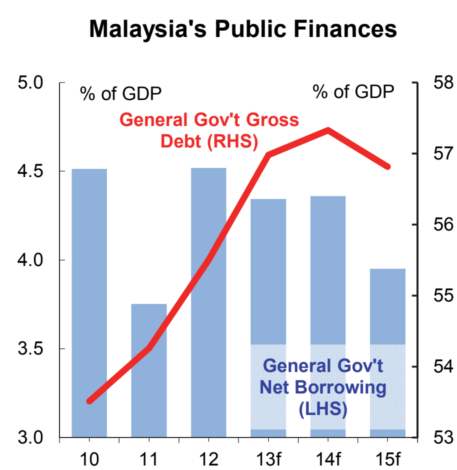
Source: Bloomberg, Scotiabank Economics.

Inflation is on the rise reflecting recent cuts in gasoline and sugar subsidies, as well as a hike in electricity prices in January. The consumer price index increased by 3.4% y/y in January compared with an average gain of 1.6% in the first half of 2013. The planned implementation of a goods and services tax in 2015 will lead to another temporary pick-up in inflation. We expect headline inflation to hover near 3½% y/y at the end of 2015. The Malaysian central bank will likely keep the overnight policy rate unchanged at 3.0% in the coming months; the most recent shift was an increase in May 2011. Healthy domestic demand and an improving external environment will likely trigger a moderate monetary tightening bias in mid-2014.



Source: Bloomberg, Scotiabank Economics.

Public finances are Malaysia's weakest link, with the fiscal deficit expected to hover around 4% of GDP through 2015. While some subsidies were cut recently to strengthen the fiscal position, dependence on petroleum-related revenues and the postponement of the introduction of the goods and services tax until April 2015 will maintain pressure on public finances, delaying the process of fiscal consolidation. The current account surplus narrowed significantly in 2013 due to subdued exports and strong imports; improving conditions in advanced economies will help reverse this trend, taking the surplus to 4¾% GDP by 2015 from 3¾% in 2013.



Source: IMF, Scotiabank Economics.

The Malaysian ringgit (MYR) is facing a depreciating bias due to the US Federal Reserve's monetary policy normalization and price adjustments in the emerging-market asset class. While the Malaysian authorities maintain a managed float policy for the MYR against a trade-weighted currency basket, periods of higher volatility will likely occur in the near term. The MYR lost close to 7% vis-à-vis the US dollar (USD) in 2013; we expect the currency to close 2014 at 3.4 per USD, implying a further 4% depreciation over the year.

For further information regarding the economic outlook for Malaysia, please refer to the Malaysia Executive Briefing report, published on February 21st.

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Pricing Latam Subordinated Bank Debt

The following article was published on February 20, 2014.

Basel III-compliant bonds should play an increasingly important role in the financing of emerging market banks going forwards. Banco Santander Mexico's subordinated bond, the first Basel-III compliant bond in Latin America, was issued in December at a significant spread to the senior bonds, but that spread has compressed somewhat since then. We cover the similarities and differences between that bond and other Latin American subordinated bonds and discuss how the market should price those differences.

Banco Santander Mexico's subordinated bond issuance last December was an important milestone, marking the first time a Basel III-compliant bond was issued in Latin America. That bond included principal write-down features linked to capitalization rates not found in prior subordinated debt issues, raising interesting questions as to how that debt should be priced.

Banco Santander case study

Santander Mexico worked with bank regulators last year to design a new instrument and to present it to investors in a comprehensible way. The key features were as follows: First, if the Tier 1 capital 1 ratio (Capital Básico 1) falls below 4.5%, then the bank may write down the principal amount of the notes by the amount necessary to restore that ratio to 7% (Santander's capital ratio last year was 11.7%). By our calculation, the write-down necessary to restore the capital ratio of Santander Mexico to the minimum level after a catastrophic loss would be $1bn, a substantial portion of the $1.3bn issued, and that is if the capital ratio fell to exactly 4.5%. If it fell below that, and the bank had not issued other loss-absorbing instruments, the write down could be 100%. Second, as an intermediate measure, if the total capital ratio (currently at 14.6%) falls below 8%, the bank may defer interest payments. Obviously, investors demanded a higher yield to buy this bond, since they could lose the principal of their investment, even as the bank continued to function and bank equity holders could theoretically still realize some value.

The issuance occurred in conjunction with a $1.3bn dividend paid to the parent and other stockholders, likely motivated by the desire to reduce holdings of excess core capital prior to the implementation of tax reforms that would have made such a dividend payment more costly. The parent also purchased 75% of the $1.3bn subordinated issue. The bank saw strong demand from retail investors enticed by the higher-than-normal coupon, which is consistent with the experience of European banks who have issued CoCo (Contingent convertible capital) bonds.[1]

Pricing subordinated bonds

The Santander bonds were issued at a spread differential of around 200bp to the bank's senior bonds, and as shown in Figure 1, subsequently compressed to around 150bp. In comparison, the average differential for CoCo subordinated bonds issued between 2009 and 2013 by mostly European banks was 3.9%, or nearly double that of Santander Mexico.[2] Still, the differential remains higher than that what we see in market pricing of BCP and Bancolombia subordinated bonds.

How different are the terms of the other subordinated Latin American bonds from those of the Basel III bond? In both the Basel III bond and the older subordinated bonds, bondholders generally have fewer rights then in other corporate bonds. For example, subordinated bonds in all three countries offer no rights of acceleration in the event of non-payment. Even for the senior bonds, acceleration rights are limited during intervention actions by the regulator.

Consider first the case of Bancolombia, where the differential between senior and subordinated bonds is only around 60bp. The Colombian Regulator can take possession of the bank when its capital falls below 40% of the legal minimum. That is actually not so different from the 4.5% trigger in the Santander issue, as that trigger is 43% of the minimum capital ratio required in Mexico. The primary difference then is that in the case of Santander, bondholders will automatically suffer losses, while in the case of Colombia the size of losses will ultimately depend on the residual value once more senior claims are paid. At least theoretically, Colombian bondholders could end up whole if the bank recovers fully.

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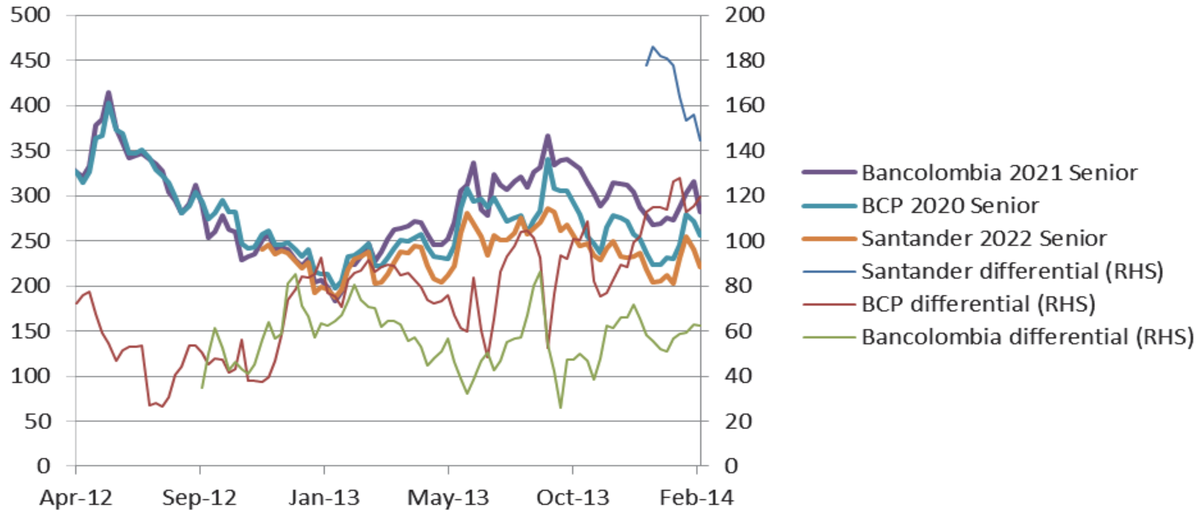
Figure 1. Differential between senior and subordinated bank bonds



Source: Bloomberg, Scotiabank

The terms for subordinated bonds of BCP are worse than those of Bancolombia in that the role of subordinated bonds in absorbing losses through a suspension of interest or even a write down of principal during an intervention by the regulator is explicitly permitted in the prospectus. Such an intervention is allowed under a variety of cases of financial difficulties and is mandatory if the deficit in regulatory capital exceeds 50%. Still, losses must be first absorbed by equity holders before they are passed onto bondholders. In contrast, Santander bondholders could theoretically suffer a full write-down, after which equity holders would actually be left better off than before.

In practice, we suspect that often the bank would not recover, and subordinated bondholders would not recover much value, whether those bonds were issued under Basel-III or not. We think that is especially true since the capital ratio trigger for the principal write-down is fairly low, making a recovery less likely. Consider that the large Mexican banks have a Capital Básico I ratio of 11% to 14%, making the write-down risk a very small tail event. The deferral of interest can occur prior to any write-down, with provisions for such deferment if the total capital ratio falls below 8%. The total capital ratio for large Mexican banks is currently between 14% and 16%. Such a deferral seems more likely than a write-down but the risk is hard to price.

Trends in banking regulations

While Mexico was the first country in Latin America to adopt Basel III in its regulatory framework in January of 2013, Brazil and Argentina soon followed. Other Latin American countries are also likely to adjust their regulations, whether in whole or in part. Thus, we could see more issuance of this type of debt going forwards, especially since the grandfathering clause under Basel-III is limited — that is, the portion of old non-Basel III compliant debt that counts towards regulatory capital decreases over time. The fact that credit penetration in many Latin American countries is low, with significant room to expand, also suggests more issuance is forthcoming.

Overall, the trend in banking regulations around the world is to correct incentives and “bail-in” the private sector, such that government money is not used to rescue banks unless private investors has already absorbed some of the losses. While countries are modifying regulations at different paces, we imagine laws should converge eventually, leading to a convergence of the spread differentials in senior-subordinated bonds as well.

Endnotes:

[1] Stefan Avdjiev, Anastasia Kartasheva, and Bilyana Bogdanova, “Cocos: a primer,” BIS working paper.
[2] BIS calculations based Dealogic data covering $13bn of CoCo issuance. That is a somewhat limited sample and we have not looked at the banks involved in this issuance.

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Latin America Week Ahead: For The Week Of February 24 - 28

It has been tough to get a clear read on recent US data, given the weather-related distortions that have added a layer of uncertainty to recent data releases, and which are expected to continue this week as an additional "polar vortex" is expected to hit North America. This week we are scheduled to receive a heavy pipeline of US economic activity indicators (from regional Fed indices, to US GDP), which risk being somewhat overlooked given they may be seen as distorted by weather-related effects. The turbulence in Venezuela and Ukraine which jointly account for 10% off the EMBI+ is worth watching.

Week-ahead views:

Brazil: The Brazilian government announced its fiscal targets for 2014, which highlight a widely expected / telegraphed 1.9% of GDP primary surplus target (1.55 pct pnts from the federal gov, and 0.35 pct pnts from local governments). The government plans to cut BRL44bn in primary spending, in order to achieve the BRL80.8bn primary surplus objective. The reactions of Fitch and Moody's to the fiscal target announcements were fairly constructive, with both agencies seemingly giving the government the "benefit of the doubt" while they wait for the fiscal results to materialize. In particular, Moody's described the targets as enough to maintain a "stable" ratings outlook and avoid further fiscal deterioration. The remaining question is how S&P will react. Additionally, the reduction in the looseness of fiscal policy (last year's target was also 1.9% of GDP, but was not met — which adds uncertainty to this year's) is likely to reduce the size of the BCB's overall tightening in our view. Based on IMF calculations, the "neutral settings" for the SELIC rate lie somewhere in the 4.5% to 5.5% real rate range, which if we take the Finance Minister's expectations for 2014 inflation of 5.3%, would suggest that with "neutral fiscal policy", the neutral nominal SELIC rate is somewhere within the 10% - 11% range (with a third angle to consider being BRL, as a weakening currency could further relax monetary conditions). In the aftermath of the fiscal target announcement, our sense is the BCB is likely to slow the pace of its tightening this week to a 25bps hike, followed by either one more +25bps hike, or a pause. The other major thing to look out for this week is the release of Q4 GDP, where there is an increasingly widely held view that the Brazilian economy will be found to be in the middle of a technical recession. We are currently neutral on BRL.

Chile: Following the BCCh's rate cut, and the continued dovish bias that was made evident in the statement, our sense is that market players are concerned the growth outlook may be more dire than previously anticipated. The combination of growth-centric concerns and the outlook for continued rate cuts has weighed on CLP, driving it to underperform the rest of the region's FX (-1.6% on the week). Next week's data includes a number of important releases about the health of the economy, including the manufacturing index, unemployment rate and retail sales; given the BCCh's apparently heightened concern over the growth outlook, we think these will be closely watched. Our bias remains to be long MXN/CLP.

Colombia: Next week includes a number of important economic indicators, as well as BanRep's MPC meeting. The central bank has been fairly clear that it does not plan to adjust the policy rate in the near term, while at the same time it welcomes further COP weakness. Our sense is that the key indicator to watch for when the FX weakness appetite will wane is CPI. In terms of indicators, Colombian industrial and retail confidence will be important to watch, but more importantly we are also set to receive unemployment and fiscal numbers. Last week we tactically took off our bias to be long COP/PEN (which was not a good call, as the trade continued to perform).

Mexico: PRI Senator Burgos said he expects secondary legislation on the energy front to be presented to the legislative branch in 2 weeks, while the telecoms legislation will likely be presented next week. Burgos said he still expects the major pending secondary legislation to be fully approved by the end of the spring legislative period on April 30th. In terms of data, the key indicators to watch next week are retail sales, the current account, CPI, and the trade balance, with CPI likely getting extra attention to see if bias shifts at Banxico are in the pipeline.

Peru: The week looks set to be fairly quiet, with the main event being the release of Q4 GDP, for which the market looks for an acceleration to +5.2% y/y following the +4.4% y/y print last quarter, which is consistent with the guidance for recovering activity we have seen from other data points over the past month. At this point, we are neutral on PEN.

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Key Data Preview

CANADA

We're looking for **Canadian GDP** to come in at -0.5% m/m for December, but at a stronger 2.5% q/q SAAR for Q4 as a whole. The strong quarterly number has to do with a number of factors, including: a) moderate retail sales volumes (tracking at 2.8% q/q SAAR — the figures in the GDP add-up are somewhat stronger), b) an uptick in numbers from the natural resources sector (tracking at +7.7% q/q SAAR), and c) a muddling through in the manufacturing sector (+3.8% q/q SAAR in terms of sales volumes — the figures in the GDP add up are somewhat softer). This combination of factors has the industry-add-up approach to GDP tracking for a gain in the 2.5% q/q SAAR range — even after accounting for a weak December (retail, manufacturing, wholesale trade, retail trade, hours worked — they were all soft in December). The challenge to the quarterly number is that some of the demand-side data that we would look to from an expenditure approach, particularly net trade, look rather soft (exports were down on the quarter by 1.3% q/q annualized, imports were up by 2.7%). From a supply-side perspective, total hours worked were essentially flat on the quarter too. This combination of factors explains why we're looking for the expenditure approach quarterly GDP number to come in at or below the rate of growth that the GDP-by-industry figures are pointing to.

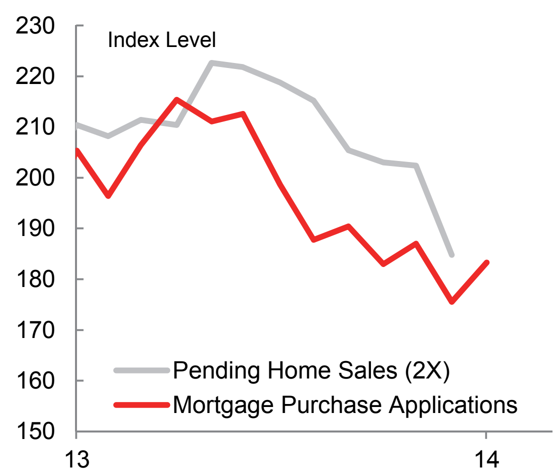
UNITED STATES

GDP revisions on Feb. 28 could throw markets for a loop. The issue is that quarterly trade figures look very different today than they had when the initial GDP figures were released on January 30. Markets were pleasantly surprised by the 3.2% q/q SAAR rate of GDP growth in Q4, and the cause of the surprise was a mix of a large inventory figure that prevented inventory drag from occurring (Q3's inventories add had been among the highest on record; Q4 essentially matched it) and a massive contribution from net trade. Exports were estimated to have grown by 11.4% q/q SAAR and imports to have been flat (+0.9% q/q SAAR), on net contributing 133bps to growth. Final trade data for the quarter released subsequently showed exports up by a slower 7.6% q/q and imports higher by 1.8% q/q, still a good quarter for trade, but one which we think results in a drop in contribution to GDP of roughly 70bps, with the headline falling to 2.5% q/q. Further downside risks come via the inventory channel.

Our forecast is for **durable goods** orders to come in near -1.3% m/m on softness in new orders of planes at Boeing. The risk here is that a large uptick in new orders at Boeing in December essentially wasn't registered in the durable goods orders figures — and could either be added back via revisions or added forwards into the January figures — or perhaps will simply be skipped. With that in mind, this is a fairly low conviction forecast due to unexpected developments in December. Autos could be a weak spot as production was soft and new orders tend to move pretty much in lock step with production in this sphere. In terms of survey data, the ISM fell on headline but was still positive; the same was true with respect to new orders.

The prognosis for **new home sales** for January isn't great after a fairly sharp drop in existing home sales for January. Pending home sales were weak, mortgage purchase applications were soft, and the weather wasn't cooperative for half of the country. We're looking for new home sales to fall by 3.4% m/m to an annualized 400k.

Housing Leading Indicators
Not Looking Up Lately...



Source: MBA, NAR, Scotiabank Economics

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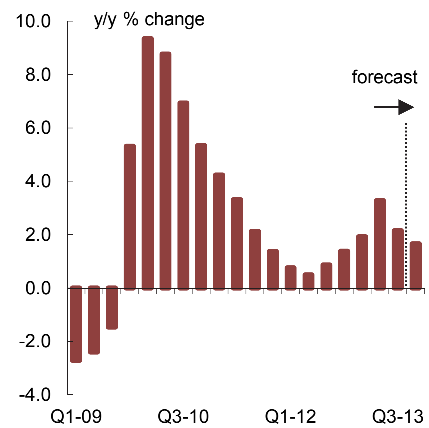
EUROPE

Next week's euro area inflation estimates will be closely watched for any implications for the next European Central Bank (ECB) meeting; both the final figure for January inflation (February 24th) and the preliminary data for February (27th-28th) will be reported. We expect the January inflation print for the euro area to be confirmed at 0.7% y/y (down from 0.8% in the prior month). For February, we expect a further slowdown in price gains, primarily due to energy price base effects. We forecast an aggregate inflation reading of 0.6% y/y, with the German index slowing to 1.0% from 1.2% and the Spanish reading down to 0.2% from 0.3%. Italian inflation should pick up modestly from 0.6% y/y to 0.7%, reflecting some payback in clothing and footwear prices after a large decline last month due to winter discounting. The consensus estimate for February euro area inflation is currently 0.7% y/y, so if our forecast for a 0.6% print proves correct, once again disappointing the broader market expectation, then the pressure on the ECB to implement additional policy easing at the next meeting (on March 6th) will certainly intensify. Other noteworthy data releases next week which could also impact the ECB's upcoming decision include the German IFO business sentiment survey and January euro area money supply (M3) growth. The March meeting will coincide with the publication of the updated staff macroeconomic projections, in which we expect to see the inflation forecast for this year lowered from 1.1% to around 0.9%.

LATIN AMERICA

Brazilian fourth-quarter real GDP will be released next week (February 27th). Brazil's economic performance has been disappointing since mid-2012. We anticipate a mild rebound of 0.4% q/q in the October-December period, taking the 2013 overall growth rate to close to 2⅓%. Based on the central bank's activity index, the economy contracted by 1.4% m/m in December, implying a quarterly average in negative territory. Although this reflects the weakness of the Brazilian economy, it has historically tended to diverge from the final GDP number. Nevertheless, the Brazilian activity is expected to continue at a very moderate pace, advancing by roughly 2% in 2014. The central bank has been tightening monetary conditions as a result of higher inflation, notwithstanding the weak economic conditions. Recently, the government revised the 2014 GDP growth forecast to 2.5% from 3.8%, expecting inflation to remain around 5.3% y/y throughout the year.

Brazilian Real GDP

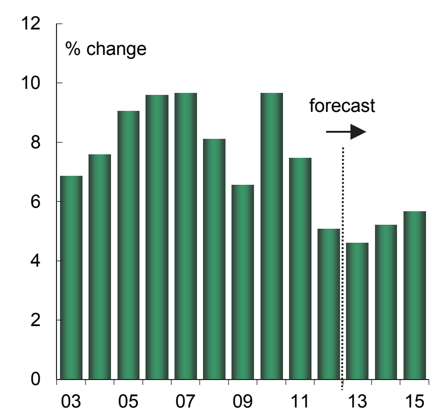


Source: Bloomberg, Scotiabank Economics.

ASIA

India will release fourth-quarter GDP data on February 28th. We assess that the country's economic performance remains muted for the time being, with output expanding by 4.6% y/y in the October-December period compared with a 4.8% gain in the prior quarter. Activity is restrained by a high cost of financing and a difficult business environment that reflects heavy bureaucracy and weak infrastructure, particularly in terms of transport, energy and information technology. We estimate that real GDP growth slowed to 4.6% in 2013 as a whole from an average of 8% in the prior ten years. Nevertheless, a modest turnaround will likely take place in the coming quarters, with output growth reaching 5.2% this year and 5.7% in 2015 on the back of improving agricultural performance (a favourable monsoon is expected), a recuperating export sector, and a pick-up in investment that reflects the authorities' efforts to clear structural bottlenecks delaying large industrial projects.

India's Real GDP Growth



Source: Bloomberg, Scotiabank Economics.

Key Indicators for the week of February 24 – 28

North America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
MX	02/24	09:00	Bi-Weekly Core CPI (% change)	Feb 15	--	0.2	0.2
MX	02/24	09:00	Bi-Weekly CPI (% change)	Feb 15	0.37	0.2	0.1
MX	02/24	09:00	Unemployment Rate (%)	Jan	--	4.9	4.3
US	02/24	10:30	Dallas Fed. Manufacturing Activity	Feb	--	3.0	3.8
MX	02/25	09:00	Retail Sales (INEGI) (y/y)	Dec	--	0.5	1.9
US	02/25	09:00	S&P/Case-Shiller Home Price Index (m/m)	Dec	0.5	0.6	0.9
US	02/25	09:00	S&P/Case-Shiller Home Price Index (y/y)	Dec	--	13.4	13.7
US	02/25	10:00	Consumer Confidence Index	Feb	78.0	80.0	80.7
US	02/25	10:00	Richmond Fed Manufacturing Index	Feb	--	2.0	12.0
US	02/26	07:00	MBA Mortgage Applications (w/w)	FEB 21	--	--	-4.1
MX	02/26	09:00	Trade Balance (US$ mn)	Jan P	--	532.0	1645.0
US	02/26	10:00	New Home Sales (000s a.r.)	Jan	400	400	414
CA	02/27	08:30	Current Account (C$ bn a.r.)	4Q	--	-16.6	-15.5
US	02/27	08:30	Continuing Claims (000s)	FEB 15	2985	2995	2981
US	02/27	08:30	Initial Jobless Claims (000s)	FEB 22	335	335	336
US	02/27	08:30	Durable Goods Orders (m/m)	Jan	-1.3	-1.5	-4.2
US	02/27	08:30	Durable Goods Orders ex. Trans. (m/m)	Jan	0.1	-0.3	-1.3
CA	02/28	08:30	Real GDP (m/m)	Dec	-0.5	-0.3	0.2
CA	02/28	08:30	Real GDP (q/q a.r.)	4Q	2.5	2.7	2.7
US	02/28	08:30	GDP (q/q a.r.)	4Q S	2.6	2.6	3.2
US	02/28	08:30	GDP Deflator (q/q a.r.)	4Q S	--	1.3	1.3
US	02/28	09:45	Chicago PMI	Feb	--	56.4	59.6
US	02/28	09:55	U. of Michigan Consumer Sentiment	Feb F	--	81.2	81.2
US	02/28	10:00	Pending Home Sales (m/m)	Jan	--	1.8	-8.7

Europe

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
GE	02/24	04:00	IFO Business Climate Survey	Feb	110.2	110.5	110.6
GE	02/24	04:00	IFO Current Assessment Survey	Feb	112.8	112.8	112.4
GE	02/24	04:00	IFO Expectations Survey	Feb	107.4	108.1	108.9
EC	02/24	05:00	CPI (y/y)	Jan F	0.7	0.7	0.7
UK	02/24	07:59	Nationwide House Prices (m/m)	Feb	--	0.5	0.7
GE	02/25	02:00	Real GDP (q/q)	4Q F	0.4	0.4	0.4
GE	02/26	02:00	GfK Consumer Confidence Survey	Mar	--	8.2	8.2
UK	02/26	04:30	Business Investment (q/q)	4Q P	--	1.3	2.0
UK	02/26	04:30	GDP (q/q)	4Q P	0.7	0.7	0.7
UK	02/26	04:30	Index of Services (m/m)	Dec	--	0.4	0.4
FR	02/26	12:00	Total Jobseekers (000s)	Jan	--	3300.5	3303.2
FR	02/26	12:00	Jobseekers Net Change (000s)	Jan	--	2.2	10.2
SZ	02/27	01:45	GDP (y/y)	4Q	1.9	2.0	1.9
SP	02/27	03:00	Real GDP (q/q)	4Q F	0.3	0.3	0.3
GE	02/27	03:55	Unemployment Rate (%)	Feb	--	6.8	6.8
EC	02/27	05:00	Economic Confidence	Feb	--	100.7	100.9
EC	02/27	05:00	Industrial Confidence	Feb	--	-4.0	-3.9
GE	02/27	06:59	Retail Sales (m/m)	Jan	2.0	1.0	-1.7
GE	02/27	08:00	CPI (y/y)	Feb P	1.2	1.3	1.3
GE	02/27	08:00	CPI - EU Harmonized (m/m)	Feb P	0.6	0.7	-0.7
GE	02/27	08:00	CPI - EU Harmonized (y/y)	Feb P	1.0	1.1	1.2
UK	02/27	19:05	GfK Consumer Confidence Survey	Feb	--	-7.0	-7.0

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

Key Indicators for the week of February 24 – 28

Europe *(continued from previous page)*

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
FR	02/28	02:45	Consumer Spending (m/m)	Jan	-0.2	-0.6	-0.1
SP	02/28	03:00	CPI (y/y)	Feb P	--	0.1	0.2
SP	02/28	03:00	CPI - EU Harmonized (y/y)	Feb P	0.2	0.2	0.3
SW	02/28	03:30	GDP (y/y)	4Q	--	1.1	0.3
IT	02/28	04:00	Unemployment Rate (%)	4Q	--	12.6	12.3
PD	02/28	04:00	GDP (y/y)	4Q F	--	--	2.7
EC	02/28	05:00	Euro zone CPI Estimate (y/y)	Feb	0.6	0.7	0.7
EC	02/28	05:00	Unemployment Rate (%)	Jan	12.0	12.0	12.0
IT	02/28	05:00	CPI (y/y)	Feb P	--	0.7	0.7
IT	02/28	05:00	CPI - EU Harmonized (m/m)	Feb P	-0.1	-0.1	-2.1
IT	02/28	05:00	CPI - EU Harmonized (y/y)	Feb P	0.7	0.6	0.6

Asia Pacific

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
SI	02/24	00:00	CPI (y/y)	Jan	1.5	1.6	1.5
TA	02/24	03:00	Commercial Sales (y/y)	Jan	--	0.2	3.7
TA	02/24	03:00	Industrial Production (y/y)	Jan	--	-3.8	5.1
SK	02/24	06:59	Department Store Sales (y/y)	Jan	--	--	-0.3
TH	02/24	06:59	Customs Exports (y/y)	Jan	--	1.0	1.9
TH	02/24	06:59	Customs Imports (y/y)	Jan	--	-21.4	-9.9
TH	02/24	06:59	Customs Trade Balance (US$ mn)	Jan	--	-626.0	-285.0
PH	02/24	20:00	Imports (y/y)	Dec	--	--	0.5
PH	02/24	20:00	Trade Balance (US$ mn)	Dec	--	--	-944.0
HK	02/25	03:30	Exports (y/y)	Jan	--	-1.0	0.0
HK	02/25	03:30	Imports (y/y)	Jan	--	1.0	1.8
HK	02/25	03:30	Trade Balance (HKD bn)	Jan	--	-34.1	-54.4
SK	02/25	16:00	Consumer Confidence Index	Feb	--	--	109.0
TA	02/25	19:30	Unemployment Rate (%)	Jan	4.1	4.1	4.1
SI	02/26		Industrial Production (y/y)	Jan	--	6.8	6.2
HK	02/26	06:59	Annual GDP	2013	3.0	--	1.5
HK	02/26	06:59	Real GDP (y/y)	4Q	3.0	3.0	2.9
NZ	02/26	16:45	Trade Balance (NZD mn)	Jan	--	230.0	523.4
NZ	02/26	16:45	Exports (NZD bn)	Jan	--	4.1	4.8
NZ	02/26	16:45	Imports (NZD bn)	Jan	--	3.9	4.2
SK	02/26	18:00	Current Account (US$ mn)	Jan	--	--	6429.1
AU	02/26	19:30	Private Capital Expenditure	4Q	--	-1.3	3.6
TA	02/27	03:00	Leading Index (m/m)	Jan	--	--	0.5
TA	02/27	03:00	Coincident Index (m/m)	Jan	--	--	0.6
SK	02/27	16:00	Business Survey- Manufacturing	Mar	--	--	81.0
SK	02/27	16:00	Business Survey- Non-Manufacturing	Mar	--	--	71.0
SK	02/27	18:00	Industrial Production (y/y)	Jan	--	-1.5	2.6
SK	02/27	18:00	Cyclical Leading Index Change	Jan	--	--	0.5
JN	02/27	18:15	Markit/JMMA Manufacturing PMI	Feb	--	--	56.6
JN	02/27	18:30	Household Spending (y/y)	Jan	--	0.4	0.7
JN	02/27	18:30	Jobless Rate (%)	Jan	3.7	3.7	3.7
JN	02/27	18:30	National CPI (y/y)	Jan	1.5	1.3	1.6
JN	02/27	18:30	Tokyo CPI (y/y)	Feb	1.0	1.0	0.7
JN	02/27	18:50	Large Retailers' Sales (y/y)	Jan	--	0.9	0.2
JN	02/27	18:50	Retail Trade (y/y)	Jan	--	3.9	2.5
JN	02/27	18:50	Industrial Production (y/y)	Jan P	--	9.4	7.1

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

Key Indicators for the week of February 24 – 28

Asia Pacific *(continued from previous page)*

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
AU	02/27	19:30	Private Sector Credit (y/y)	Jan	--	4.1	3.9
JN	02/27	23:00	Vehicle Production (y/y)	Jan	--	--	12.2
JN	02/28		Housing Starts (y/y)	Jan	--	15.0	18.0
JN	02/28		Construction Orders (y/y)	Jan	--	--	4.9
TH	02/28	02:30	Exports (y/y)	Jan	--	--	1.8
TH	02/28	02:30	Imports (y/y)	Jan	--	--	-9.3
TH	02/28	02:30	Trade Balance (US$ mn)	Jan	--	--	1997.0
TH	02/28	02:30	Current Account Balance (US$ mn)	Jan	--	1725.0	2527.0
TH	02/28	02:30	Business Sentiment Index	Jan	--	--	45.0
IN	02/28	07:00	Real GDP (y/y)	4Q	4.6	4.8	4.8
SK	02/28	19:00	Exports (y/y)	Feb	--	2.7	-0.2
SK	02/28	19:00	Imports (y/y)	Feb	--	4.6	-0.8
SK	02/28	19:00	Trade Balance (US$ mn)	Feb	--	1700.0	760.0
CH	02/28	20:00	Manufacturing PMI	Feb	50.1	50.1	50.5

Latin America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
PE	02/24	06:59	GDP (y/y)	4Q	--	5.2	4.4
BZ	02/26	07:59	**SELIC Target Rate (%)**	Feb 26	10.75	10.75	10.50
BZ	02/27	07:00	GDP (IBGE) (q/q)	4Q	0.4	0.3	-0.5
BZ	02/27	07:00	GDP (IBGE) (y/y)	4Q	1.7	1.5	2.2
CO	02/28	06:59	**Overnight Lending Rate (%)**	Feb 28	3.25	3.25	3.25
CL	02/28	07:00	Industrial Production (y/y)	Jan	--	-2.5	0.2
CL	02/28	07:00	Retail Sales (y/y)	Jan	--	5.78	6.97
CL	02/28	07:00	Unemployment Rate (%)	Jan	--	5.9	5.7
CO	02/28	11:00	Urban Unemployment Rate (%)	Jan	--	12.1	9.7

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

Global Auctions for the week of February 24 – 28

North America

Country	Date	Time	Event
US	02/24	11:00	U.S. Fed to Purchase USD2.50-3.00 Bln Notes
US	02/24	11:30	3M High Yield Rate
US	02/24	11:30	U.S. to Sell 3-Month Bills
US	02/24	11:30	U.S. to Sell 6-Month Bills
CA	02/25	10:30	Canada to Sell CAD5.9 Bln 98-Day Bills
CA	02/25	10:30	Canada to Sell CAD2.3 Bln 168-Day Bills
CA	02/25	10:30	Canada to Sell CAD2.3 Bln 350-Day Bills
US	02/25	11:00	U.S. Fed to Purchase USD2.25-2.75 Bln Notes
US	02/25	11:30	U.S. to Sell 4-Week Bills
US	02/25	13:00	U.S. to Sell 2-Year Notes
US	02/26	11:00	U.S. Fed to Purchase USD1.00-1.25 Bln Notes
US	02/26	11:30	2Y Floating Rate Note Discount Margin
CA	02/26	12:00	Canada to Sell 30-Year Real-Return Bonds
US	02/26	13:00	U.S. to Sell 2-Year Floating Rate Notes Reopening
US	02/26	13:00	U.S. to Sell 5-Year Notes
US	02/27	11:00	U.S. Fed to Purchase USD3.50-4.25 Bln Notes
US	02/27	13:00	U.S. to Sell 7-Year Notes
US	02/28	11:00	U.S. Fed to Purchase USD1.00-1.25 Bln Notes

Europe

Country	Date	Time	Event
GE	02/24	05:30	Germany to Sell EUR2 Bln 364-Day Bills
FR	02/24	08:50	France to Sell Bills
NE	02/25	04:30	Netherlands to Sell Bonds
SP	02/25	04:30	Spain to Sell 3-Month and 9-Month Bills
NO	02/25	06:00	Norway to Sell NOK4 Bln 2% 2023 Bonds
GE	02/26	05:30	Germany to Sell EUR3 Bln 2046 Bonds

Asia Pacific

Country	Date	Time	Event
AU	02/24	19:00	Australia Plans to Sell Indexed Linked Bonds
JN	02/24	22:45	Japan to Sell 40-Year Bonds
NZ	02/26	20:05	New Zealand Plans to Sell NZD200 Mln Nominal Bond
JN	02/26	22:35	Japan to Sell 3-Month Bill
JN	02/26	22:45	Japan to Sell 2-Year Bonds

Source: Bloomberg, Scotiabank Economics.

Events for the week of February 24 – 28

North America

Country	Date	Time	Event
US	02/24	08:45	Former Fed Chairman Greenspan Speaks at Economics Conference
CA	02/24	11:30	Economist Roubini Speaks at Economic Club of Canada
US	02/25	10:10	Fed's Tarullo Speaks at Economics Conference
US	02/25	15:00	IMF's Lagarde Speaks at Stanford on Economy and Innovation
US	02/26	12:00	Fed's Rosengren Speaks on Economy in Boston
US	02/26	19:30	Fed's Pianalto Speaks on Career in Wooster, Ohio
CA	02/27	07:15	Canada Liberal Party Leader Trudeau Speaks at Chamber
US	02/27	15:15	Fed's Lockhart, George to Speak on Banking Outlook in Atlanta
CA	02/28	07:45	Ontario PC Party Leader Hudak Speaks at Economic Club
US	02/28	10:15	Fed's Stein, Kocherlakota, Evans and Plosser Speak in New York

Europe

Country	Date	Time	Event
EC	02/22	23:30	ECB's Weidmann, Germany's Schaeuble Press Conference in Sydney
EC	02/24	04:00	EU-Brazil Summit in Brussels
GE	02/24	00:00	Merkel in Jerusalem for Fifth Germany-Israel Consultations
EC	02/25	07:45	Rehn Delivers EU's Economic Growth Forecasts in Brussels
EC	02/25	07:45	EU to publish its winter economic forecasts
PO	02/25		Portugal Releases Year-to-Date Budget Report
SW	02/26	03:30	Riksbank Publishes Minutes
UK	02/26	04:25	BOE's Ben Broadbent Speaks at Conference in London
EC	02/26	08:00	ECB's Mersch Speaks at Renminbi Forum in Luxembourg
EC	02/26	00:00	NATO Defense Ministers Hold Meeting in Brussels
EC	02/27	08:00	ECB's Weidmann Speaks in Frankfurt
EC	02/27	08:30	Bundesbank's Dombret Speaks in Frankfurt
FI	02/27	09:15	ECB's Liikanen Speaks on Markets and Regulation in Helsinki
SP	02/27	09:30	Spain, Portugal PMs Participate in Event in Madrid
EC	02/27	10:30	ECB's Knot, Fed's Richard Fisher,IMF's Blanchard in Frankfurt
EC	02/27	13:30	ECB's Draghi Speaks in Frankfurt
EC	02/27		EU-Brazil Summit in Brussels
AS	02/27	00:00	ECB's Nowotny, Praet, BoE's Haldane Speak at Vienna Conference
UK	02/28	05:00	BOE's Andrew Haldane speaks at conference in Vienna
EC	02/28	05:45	German Fin Min Schaeuble's Keynote Speech in Frankfurt
EC	02/28	06:00	ECB Announces 3-Year LTRO Repayment
EC	02/28	08:00	Germany's Buch Speaks in Frankfurt
EC	02/28	10:00	ECB's Lautenschlaeger Speaks in Frankfurt
UK	02/28	10:30	BOE Governor Mark Carney Speaks in Frankfurt
GE	02/28		Germany Sovereign Debt Rating May Be Published by Moody's

Source: Bloomberg, Scotiabank Economics.

Events for the week of February 24 – 28

Asia Pacific

Country	Date	Time	Event
AU	02/22	23:30	Spain Economy Minister Speaks in Sidney
NZ	02/25	18:45	Finance Minister English Speaks in Auckland
NZ	02/26	21:00	RBNZ Publishes Data on Low-Deposit Home Lending
NZ	02/26	21:00	RBNZ Publishes Monthly Assessment of Currency Flows
JN	02/27	02:00	BOJ Board Member Sato Speech

Latin America

Country	Date	Time	Event
BZ	02/26		**Selic Rate**
EC	02/27		EU-Brazil Summit in Brussels
CO	02/28		**Overnight Lending Rate**

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	March 5, 2014	1.00	--
Federal Reserve – Federal Funds Target Rate	0.25	March 19, 2014	0.25	--
Banco de México – Overnight Rate	3.50	March 21, 2014	3.50	--

Fed:The FOMC seems fairly committed to continuing with the tapering of its asset purchases moving forward (the term of choice is that there is a 'high bar' to an interruption). The curveball that the FOMC has thrown is with regard to its forward guidance: minutes from the January meeting imply that the Fed believes it needs to move away from its 6.5% unemployment rate threshold as it is close to being breached. The changes that it will have to make will be a subject of considerable speculation moving forward. **BoC**: The BoC has emphasized its concern that it is missing its inflation target to the downside; as we write in our article "BoC Cut Risks May be Revisited" we think that this theme still has legs despite CPI ticking up to 1.5% y/y in January – an outcome that we see as temporary.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	0.25	March 6, 2014	0.00	--
Bank of England – Bank Rate	0.50	March 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	March 14, 2014	5.50	--
Hungarian National Bank – Base Rate	2.70	March 25, 2014	2.70	--
Central Bank of the Republic of Turkey – 1 Wk Repo Rate	10.00	March 18, 2014	10.00	--
Sweden Riksbank – Repo Rate	0.75	April 9, 2014	0.75	--
Norges Bank – Deposit Rate	1.50	March 27, 2014	1.50	--

Asia Pacific

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Reserve Bank of Australia – Cash Target Rate	2.50	March 3, 2014	2.50	2.50
Reserve Bank of New Zealand – Cash Rate	2.50	March 12, 2014	2.75	2.75
People's Bank of China – Lending Rate	6.00	TBA	--	--
Reserve Bank of India – Repo Rate	8.00	April 1, 2014	8.00	--
Bank of Korea – Bank Rate	2.50	March 12, 2014	2.50	--
Bank of Thailand – Repo Rate	2.25	March 12, 2014	2.00	--
Bank Indonesia – Reference Interest Rate	7.50	March 13, 2014	7.50	--

Latin America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	10.50	February 26, 2014	10.75	10.75
Banco Central de Chile – Overnight Rate	4.25	March 13, 2014	4.50	--
Banco de la República de Colombia – Lending Rate	3.25	February 28, 2014	3.25	3.25
Banco Central de Reserva del Perú – Reference Rate	4.00	March 13, 2014	4.00	4.00

Brazil: Based on the recent slowdown in inflation (5.6% y/y in January vs. 5.9% in December), the weak economic performance (please refer to the Latin American Previews section of this report to read more about our GDP forecast) and the already elevated level of interest rates, we anticipate the tightening cycle in Brazil to be nearing completion. Accordingly, we expect the central bank to raise the reference rate by 25 basis points to 10.75%. **Colombia:** In our view, the central bank will maintain its stable monetary policy stance, leaving the reference rate unchanged at 3.25%. After three months below the lower limit of the central bank's tolerance range, headline inflation resumed its upward trend, advancing by 2.1% y/y in January. Additionally, economic activity has been picking up in recent quarters, implying a faster growth pace in 2014.

Africa

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
South African Reserve Bank – Repo Rate	5.50	March 27, 2014	5.50	--

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

Forecasts as at January 30, 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	0.9	1.1	1.9
United States	1.9	1.9	3.0	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	1.8	2.3	2.0	2.2	2.4
Euro Zone	1.3	-0.5	0.9	1.3	2.1	0.8	1.2	1.4
Japan	0.9	1.6	1.2	1.2	-0.3	1.6	1.5	2.1
Australia	3.1	2.4	2.7	2.9	3.0	2.7	3.0	2.9
China	9.3	7.7	7.3	7.0	2.4	2.5	2.8	3.5
India	7.2	4.5	5.2	5.7	6.7	6.2	6.6	6.3
South Korea	4.3	2.8	3.4	3.5	3.1	1.1	2.2	2.5
Thailand	4.2	2.9	3.5	4.5	2.7	1.7	2.5	2.8
Brazil	3.4	2.2	2.3	2.5	6.5	6.0	6.0	5.5
Chile	4.5	4.4	4.4	4.7	2.9	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	1.13	1.15	1.12	1.11	1.10	1.10	1.10
Canadian Dollar (CADUSD)	0.94	0.88	0.87	0.89	0.90	0.91	0.91	0.91
Euro (EURUSD)	1.37	1.33	1.30	1.27	1.25	1.25	1.24	1.24
Sterling (GBPUSD)	1.66	1.65	1.66	1.65	1.64	1.64	1.63	1.61
Yen (USDJPY)	105	102	104	107	109	110	111	112
Australian Dollar (AUDUSD)	0.89	0.87	0.86	0.88	0.88	0.89	0.89	0.89
Chinese Yuan (USDCNY)	6.1	6.1	6.0	6.0	6.0	5.9	5.9	5.9
Mexican Peso (USDMXN)	13.0	13.5	13.1	13.2	13.4	13.4	13.4	13.5
Brazilian Real (USDBRL)	2.36	2.55	2.40	2.45	2.50	2.52	2.55	2.55

Commodities (annual average)	2000-12	2013	2014f	2015f
WTI Oil (US$/bbl)	60	98	95	92
Brent Oil (US$/bbl)	62	109	108	108
Nymex Natural Gas (US$/mmbtu)	5.45	3.73	5.20	4.75
Copper (US$/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	6.80	7.25	7.60
Gold, London PM Fix (US$/oz)	745	1,410	1,270	1,375
Pulp (US$/tonne)	730	941	970	970
Newsprint (US$/tonne)	585	608	612	645
Lumber (US$/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' report 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	-7.3	-7.4	-19.9	(Dec)
Industrial Production	1.1	-0.1	0.9	1.4	(Dec)
Housing Starts (000s)	215	190	195	180	(Jan)
Employment	1.2	1.2	1.3	0.8	(Jan)
Unemployment Rate (%)	7.3	7.1	7.1	7.0	(Jan)
Retail Sales	2.5	2.7	3.2	3.4	(Dec)
Auto Sales (000s)	1673	1748	1785	1795	(Nov)
CPI	1.5	0.8	1.1	1.5	(Jan)
IPPI	1.1	-0.1	0.9	-1.4	(Dec)
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	-700	-711	-706	(Dec)
Industrial Production	3.6	2.1	2.4	3.2	(Jan)
Housing Starts (millions)	0.78	0.87	0.88	0.88	(Jan)
Employment	1.7	1.6	1.8	1.7	(Jan)
Unemployment Rate (%)	8.1	7.5	7.2	6.6	(Jan)
Retail Sales	5.1	4.7	4.7	2.6	(Jan)
Auto Sales (millions)	14.4	15.5	15.7	15.2	(Jan)
CPI	2.1	1.4	1.6	1.6	(Jan)
PPI	1.9	1.5	1.2	1.5	(Jan)
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	19.7	(Dec)
Industrial Production	2.6	-0.3	-0.5	-0.3	(Dec)
CPI	4.1	4.5	3.4	4.5	(Jan)

Europe

Euro Zone	2012	13Q2	13Q3	Latest	
Real GDP	-0.6	-0.6	-0.3		
Current Acc. Bal. (US$B, ar)	162	293	259	547	(Dec)
Merch. Trade Bal. (US$B, ar)	122.0	267.9	209.1	229.2	(Dec)
Industrial Production	-2.5	-0.9	-1.1	1.2	(Dec)
Unemployment Rate (%)	11.3	12.0	12.1	11.9	(Dec)
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$B, ar)	240.8	240.3	235.2	386.6	(Dec)
Merch. Trade Bal. (US$B, ar)	245.2	251.7	261.3	304.7	(Dec)
Industrial Production	-0.5	-0.5	-0.1	2.9	(Dec)
Unemployment Rate (%)	6.8	6.9	6.8	6.8	(Jan)
CPI	2.0	1.5	1.6	1.3	(Jan)

France					
Real GDP	0.0	0.5	0.3		
Current Acc. Bal. (US$B, ar)	-57.3	-19.9	-49.7	-6.1	(Dec)
Merch. Trade Bal. (US$B, ar)	-52.1	-44.1	-47.7	-45.6	(Dec)
Industrial Production	-2.5	0.6	-1.3	0.5	(Dec)
Unemployment Rate (%)	10.2	10.8	10.9	10.8	(Dec)
CPI	2.0	0.8	0.9	0.7	(Jan)

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	-156.4	-183.8	-151.6	(Dec)
Industrial Production	-2.5	-0.7	-0.3	1.8	(Dec)
Unemployment Rate (%)	8.0	7.8	7.6	7.2	(Nov)
CPI	2.8	2.7	2.7	1.8	(Jan)

Italy					
Real GDP	-2.6	-2.3	-1.9		
Current Acc. Bal. (US$B, ar)	-8.1	20.2	28.5	30.4	(Dec)
Merch. Trade Bal. (US$B, ar)	12.4	49.4	41.4	59.5	(Dec)
Industrial Production	-6.4	-3.5	-3.8	-0.7	(Dec)
CPI	3.1	1.2	1.0	0.6	(Dec)

Russia					
Real GDP	3.4	1.2	1.2		
Current Acc. Bal. (US$B, ar)	72.0	2.6	0.6		
Merch. Trade Bal. (US$B, ar)	16.0	14.2	14.4	15.8	(Dec)
Industrial Production	3.4	0.8	0.6	0.4	(Dec)
CPI	5.1	7.2	6.4	6.1	(Jan)

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	12.6	57.1	(Dec)
Industrial Production	4.8	5.0	2.7		
Unemployment Rate (%)	5.2	5.6	5.7	6.0	(Jan)
CPI	1.8	2.4	2.2		

Japan	2012	13Q2	13Q3	Latest	
Real GDP	1.4	1.3	2.4		
Current Acc. Bal. (US$B, ar)	60.4	70.0	54.5	-74.1	(Dec)
Merch. Trade Bal. (US$B, ar)	-86.3	-88.1	-119.2	-210.0	(Jan)
Industrial Production	0.2	-3.1	1.9	5.7	(Dec)
Unemployment Rate (%)	4.4	4.0	4.0	3.7	(Dec)
CPI	0.0	-0.3	0.9	1.6	(Dec)

South Korea	2012	13Q2	13Q3	Latest	
Real GDP	2.0	2.3	3.3		
Current Acc. Bal. (US$B, ar)	48.1	79.2	75.9	77.1	(Dec)
Merch. Trade Bal. (US$B, ar)	28.5	57.6	43.1	9.1	(Jan)
Industrial Production	1.2	-1.7	1.0	1.2	(Dec)
CPI	2.2	1.2	1.4	1.1	(Jan)

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	264.5	244.4	382.4	(Jan)
Industrial Production	10.3	8.9	10.2	9.7	(Dec)
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	2.0	(Dec)
Industrial Production	2.1	-5.1	-3.9	-6.7	(Dec)
CPI	3.0	2.3	1.7	1.9	(Jan)

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	1.9	-0.6	(Dec)
WPI	7.5	4.8	6.6	5.0	(Jan)

Indonesia	2012	13Q2	13Q3	Latest	
Real GDP	6.2	5.8	5.6		
Current Acc. Bal. (US$B, ar)	-24.4	-10.0	-8.5		
Merch. Trade Bal. (US$B, ar)	-0.1	-1.0	-1.0	1.5	(Dec)
Industrial Production	4.1	6.8	7.2	0.6	(Dec)
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$B, ar)	-54.2	-74.2	-68.5		
Merch. Trade Bal. (US$B, ar)	19.4	8.3	5.9	-48.7	(Jan)
Industrial Production	-2.6	3.1	0.3	-3.0	(Dec)
CPI	5.4	6.6	6.1	5.6	(Jan)

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	-3.2	(Jan)
Industrial Production	3.4	1.4	4.9	2.3	(Dec)
CPI	3.0	1.7	2.2	2.8	(Jan)

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	0.6	(Dec)
Unemployment Rate (%)	7.0	5.7	5.8	6.4	(Jan)
CPI	3.7	2.5	3.1	3.1	(Jan)

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)	0.3	0.4	0.0	0.6	(Dec)
Industrial Production	-0.3	0.0	-1.5	1.5	(Dec)
CPI	3.2	2.1	2.3	2.1	(Jan)

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	Feb/14	Feb/21*	United States	13Q3	13Q4	Feb/14	Feb/21*
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	0.87	0.86	3-mo. T-bill	0.01	0.07	0.01	0.04
10-yr Gov't Bond	2.54	2.76	2.47	2.55	10-yr Gov't Bond	2.61	3.03	2.74	2.75
30-yr Gov't Bond	3.07	3.23	3.05	3.05	30-yr Gov't Bond	3.68	3.97	3.70	3.72
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US$B)	71.3	71.8	71.8	(Dec)	FX Reserves (US$B)	136.7	133.5	133.5	(Dec)
Germany					**France**				
3-mo. Interbank	0.15	0.24	0.25	0.23	3-mo. T-bill	0.06	0.15	0.14	0.14
10-yr Gov't Bond	1.78	1.93	1.68	1.67	10-yr Gov't Bond	2.32	2.56	2.28	2.26
FX Reserves (US$B)	65.7	67.4	67.4	(Dec)	FX Reserves (US$B)	54.6	50.8	50.8	(Dec)
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	0.14	0.17	3-mo. T-bill	0.40	0.40	0.40	0.39
FX Reserves (US$B)	332.5	331.2	331.2	(Dec)	10-yr Gov't Bond	2.72	3.02	2.79	2.79
					FX Reserves (US$B)	93.3	91.2	91.2	(Dec)
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	4.11	4.22
10-yr Gov't Bond	0.69	0.74	0.60	0.60	FX Reserves (US$B)	45.9	49.7	49.7	(Dec)
FX Reserves (US$B)	1240.8	1237.2	1237.2	(Dec)					

Exchange Rates (end of period)

USDCAD	1.03	1.06	1.10	1.11	¥/US$	98.27	105.31	101.80	102.69
CADUSD	0.97	0.94	0.91	0.90	US¢/Australian$	0.93	0.89	0.90	0.90
GBPUSD	1.619	1.656	1.675	1.669	Chinese Yuan/US$	6.12	6.05	6.07	6.09
EURUSD	1.353	1.374	1.369	1.375	South Korean Won/US$	1075	1050	1063	1072
JPYEUR	0.75	0.69	0.72	0.71	Mexican Peso/US$	13.091	13.037	13.242	13.269
USDCHF	0.90	0.89	0.89	0.89	Brazilian Real/US$	2.217	2.362	2.389	2.355

Equity Markets (index, end of period)

United States (DJIA)	15130	16577	16154	16172	U.K. (FT100)	6462	6749	6664	6834
United States (S&P500)	1682	1848	1839	1845	Germany (Dax)	8594	9552	9662	9663
Canada (S&P/TSX)	12787	13622	14055	14248	France (CAC40)	4143	4296	4340	4381
Mexico (IPC)	40185	42727	40711	39820	Japan (Nikkei)	14456	16291	14313	14866
Brazil (Bovespa)	52338	51507	48201	47460	Hong Kong (Hang Seng)	22860	23306	22298	22568
Italy (BCI)	950	1041	1111	1110	South Korea (Composite)	1997	2011	1940	1958

Commodity Prices (end of period)

Pulp (US$/tonne)	945	990	1010	1010	Copper (US$/lb)	3.31	3.35	3.25	3.27
Newsprint (US$/tonne)	605	605	605	605	Zinc (US$/lb)	0.85	0.95	0.93	0.93
Lumber (US$/mfbm)	359	372	362	366	Gold (US$/oz)	1326.50	1204.50	1320.00	1323.25
WTI Oil (US$/bbl)	102.33	98.42	100.30	102.23	Silver (US$/oz)	21.68	19.50	21.09	21.74
Natural Gas (US$/mmbtu)	3.56	4.23	5.21	6.07	CRB (index)	285.54	280.17	293.24	300.85

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

Emerging Markets Strategy

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Foreign Exchange Strategy

Scotiabank Economics

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