

# Global Views

Weekly commentary on economic and financial market developments

February 28, 2014

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[derek.holt@scotiabank.com](mailto:derek.holt@scotiabank.com)**ECB, BoC, BoE And The Fed In The Spotlight**

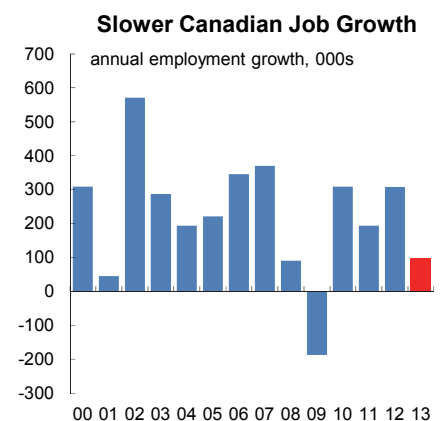
- Please see our full indicator, central bank, auction and event calendars on pp. A3-A9.

**Canada — More Wait-and-See BoC Talk**

Bank of Canada Governor Stephen Poloz's recent comments may have provided a hint of what to expect on the path to next Wednesday's rate statement (no press conference or MPR). **Our takeaway from his comments is to expect more of the same by way of dovish two-tail risks compared to the more one-sided slant to the risks communicated by Poloz's predecessor.** Poloz continues to talk of balanced risks in a more dovish manner than Carney who spoke unequivocally of the need for rates to eventually rise; indeed Poloz removed the vague hike bias entirely in favour of a more open-minded perspective. Our take on Poloz's comments nevertheless differs from the somewhat more hawkish slant provided by some media outlets that captured his remarks delivered to the press in Sydney at a G20 meeting. For one thing, Poloz's inflation remark was that the recent uptick to 1.5% doesn't represent "a fundamental pickup or reversal, it's still in that lackluster zone" but that "As I said, it's better than the opposite." True enough, but we continue to believe that the recent uptick was a head fake that will likely witness inflation falling right back down in the February print to be released on March 21st. That gives us cause to believe that the BoC's Q1 inflation forecast of 0.9% y/y remains on track and inflation continues to seriously underperform the BoC's target. The BoC will not sound less dovish next week only to see inflation drop again a few weeks later. On courting rate cut risks he responded to a question on whether this would further stoke household sector imbalances by ambiguously saying "Would we really want to take on the risk of making them worse? The answer is it depends on the balance of risks." On such ambiguity, enter our view that much depends upon the outcome to this Spring's housing market. Household imbalances are rather tidily being swept under the rug in the context of the weakest household debt growth on record since the moribund period of the early 1990s and the risk remains more skewed toward excessive cooling amid tightening measures that are still being introduced at the margin.

On the exchange rate, it is my personal belief that the BoC is much happier doing what it can in limited fashion to engineer a softer CAD but will of course never admit to doing so particularly given its late 1990s experience. What Poloz did say about the exchange rate is that "I can be totally agnostic. The currency will be driven around by those international things, and all we can really do is do a good job with our own domestic objective, and that's the inflation goal." However, sticking by the inflation goal is not inconsistent with the BoC doing what it can to depreciate CAD. Indeed, there is likely much more to be gained in raising inflation back to the 2% target by implicitly talking down the currency and stoking potential import price pressures than through a modest rate cut of 25-50bps. That in turn depends upon the BoC's assumption that a trade-weighted depreciation in CAD adds about a half-point to CPI inflation within a two year period of time. CAD-bulls should keep this in mind going forward. Further colour may also come from Senior Deputy Governor Tiff Macklem on the evening of the day of the rate statement but the fact that he is speaking within the BoC's blackout guidelines ([here](#)) and is only introducing someone downplays market risk. BoC Deputy Governor Murray also speaks the next day.

**A pair of key releases both land on Friday but all of the market focus will be on Canadian jobs** as the trade figures to be released at the same time will be simply lost in the shuffle behind US and Canadian jobs. Consensus expects an average pace of job growth for February. At risk here is whether the reliance upon a gain in self-employment in January reverts lower and takes the headline with it. Weather effects may also disrupt the print as this is Canada's household survey which is more sensitive to weather effects than payroll-based surveys that require one to fully drop off payrolls for the whole reference period in order for a weather-related job hit to occur. That said, next week's Labour Force Survey could still show a weather-disruption of the pace of hiring. Barring specific technical factors, forecasting monthly job variations is largely futile in Canada given a lack of leading labour market indicators. Instead, we focus upon the trend which remains unkind to Canada by way of the weakest year for job growth in 2013 since the crisis unfolded (see chart).



Source: Statistics Canada, Scotiabank Economics.

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Canada conducts a 30 year auction on Thursday. Also, Canada's earnings season continues with 40 companies on the TSX set to release including our employer BNS and Magna International.

### **US — US Budget, Jobs, and the Unveiling of Stanley Fischer**

**It's a heavy week for US-centric risks to global markets through a combination of key data releases, fiscal policy directions and Fed speak.** The latter will include the **first serious unveiling of Fed vice-chairman designate Stanley Fischer** before the American public during his Senate nomination hearing and testimony at the start of the week. Fischer will have his best opportunity yet to share current thoughts and is widely viewed as a consensus builder who will probably reinforce much of Chair Yellen's views. Other FOMC nominees will be included in the nomination hearings such as Jerome Powell and Lael Brainard. Each of Lacker, Fisher, Williams, Dudley, Plosser and Lockhart also speak in a week chock full of Fed risk but note that only Dudley speaks in the wake of Friday's key nonfarm payrolls print.

**President Obama will send his budget proposals to Congress on Tuesday** and they are expected to continue to focus on mixed efforts to lessen income disparities, early education, and defense cuts.

**Data risk will be elevated from Monday straight through to Friday.** Monday's consumer spending figures will have to be revised sharply lower for the month of December and perhaps more of Q4 in order to close the gap between the 2.6% pace of inflation-adjusted consumption growth registered in GDP revisions and the monthly tracking of inflation-adjusted consumer spending gains that previously averaged out to a 3.3% lift in Q4. If that occurs, then **the risk is that the headline January consumer spending print unadjusted for inflation may come in significantly higher than consensus expectations for only a 0.1% lift as we go to print.** Controlling for revision risk will therefore be key in trading this report.

**Friday's nonfarm payrolls will be the marquee release of the week. We think it would take a big miss to the downside of consensus expectations for a 150k print for the Fed to even suggest that it is hesitant to reduce asset purchases by a further \$10 billion at the March 19th FOMC.** The extent to which foul weather may be disrupting hiring activity will encourage markets and policy makers to wait for potentially cleaner data over future months to draw firmer conclusions about what is really going on in job markets. We remain of the view that, at some point, pent-up hiring activity is likely to swing nonfarm payrolls sharply higher, but not yet. Recall that weather affects nonfarm payrolls in terms of potentially disrupting hiring activity but without causing people to drop off existing payrolls unless they are unable to get to work for the entire nonfarm reference period which is the pay period that includes the 12th of each month.

**Was January's plunge in the ISM manufacturing report a weather effect?** Probably, as a sudden five point drop in a single month is difficult not to pin, at least in part, on bad weather alongside other possible theories such as auto sector softness that was not captured in regional manufacturing surveys. Consensus is playing it safe in expecting a similarly soft reading for February. We're cautious about forecasting ISM at the best of times, but forecasting weather effects is even more outside of our comfort zone so we advise caution on the two tail risks.

Monday's vehicle sales; Wednesday's release of ADP payrolls, ISM-services, and the Fed's Beige Book of regional conditions; US trade on Friday; vehicle sales on Monday; and Thursday's factory orders round out the lesser data risks to markets.

### **Europe — Will The ECB Cut?**

By far the key risk facing European markets is next Thursday's ECB policy decision and the ensuing press conference held by President Draghi. With inflation running at 0.8% y/y and range-bound around persistently well-below target rates, market speculation on what the ECB can do by way of policy tools remains significant. This one is a tougher call. Recall that no one within the Bloomberg consensus of economists' opinions expected a rate cut at the February 6th meeting. This time, a **healthy 14 out of 54 economists are in the**

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**significant minority who are forecasting a small rate cut by the ECB** that would keep the policy rate just a hair's width above zero. Scotiabank's European economics and strategy team does not forecast a cut. In practice, a cut would do nothing to achieving higher inflation. The debate at the margin is whether or not to drive the policy rate into negative territory that would penalize banks for holding excess liquidity with the central bank and in theory motivate them to put that liquidity to work through lending channels. In practice, we're skeptical that a cut would have such effect as we assume the reason why banks are not lending has more to do with just a few basis points of interest rate risk. We think the ECB may wait for firmer evidence of deflation, and needs to have more conviction that greater financial instability would not be courted by a rate cut if, say, it accelerates net outflows from money markets.

The Bank of England is expected to issue a stand pat statement on Thursday after having recently rewritten its policy guidance to be in sync with the output gap framework for forecasting inflation that Governor Carney's previous employer — the Bank of Canada — has employed since the 1990s.

European data risk should be relatively light and focused upon German factory orders and industrial production, manufacturing PMIs out of the UK and Italy, France's unemployment rate, and the EC add-ups for retail sales and Q4 GDP.

### Asia-Pacific — What Is China's New GDP Target?

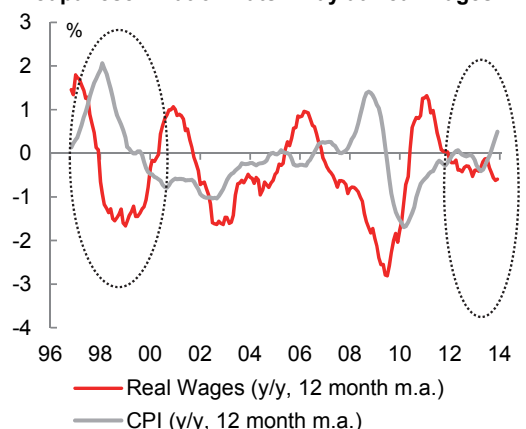
**China's annual meeting of the National People's Congress** will commence mid-week with many observers looking for hints regarding the policy mix that the government plans to employ in order to deflate real estate markets and control credit expansion — without hampering growth. **GDP targets are part of the policy meeting**, so expect some headlines and hair-splitting regarding the precise year-on-year GDP target (will it be 7.5%? 7%?). The target will be delivered by Premier Li Keqiang, who, according to a cable leaked via Wikileaks (which was not denied) once minimized the significance of Chinese GDP figures by saying that they are "man-made." The week will kick off with the release of the flash PMI by Markit ahead of Monday's open and the state's PMI over this coming weekend.

### Australian markets will have an RBA meeting as well as numbers on GDP and trade to grapple with

mid-week (the RBA meets on Tuesday, GDP figures are due out on Wednesday). The key question is how the RBA will position the recent uptick in inflation following the depreciation of the currency over 2013. Of late, the RBA has started to articulate the view that the currency has weakened enough, and growth anticipated to come in near 0.7% q/q (not annualized) should support its now-neutral tone.

The rest of what should be a busy week in Asia includes special elections in Thailand which could be a political flash point. This is to address the fact that elections in five provinces were disrupted in the national election on February 2nd. Data flow includes figures on CPI out of Thailand, Indonesia, and South Korea and trade figures out of Indonesia and South Korea. **Japanese wage figures will shed some light on the question of whether or not the much-needed wage bump that is required for Abenomics' reflation to work is forthcoming** as so far it is not (see chart). Bank Negara Malaysia will make a monetary policy statement on Friday too and it is expected to maintain its overnight rate at 3%.

Japanese Inflation Eats Away at Real Wages



Source: Bloomberg, Scotiabank Economics

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## We Are Winter

'WeAreWinter' is how the Canadian Olympic Committee branded the large Canadian contingent who successfully participated at the recently completed 2014 Sochi Winter Olympics (and those who will attend the upcoming Paralympics as well). And 'WeAreWinter' has also put its brand on the economic performances of many northern hemisphere countries, where prolonged bouts of cold and significant levels of precipitation have, and are continuing to have, a material impact on output growth.

The 'Polar Vortex' has made its presence known over Canada and the United States, compounding the repeated storms and lasting accumulations of snow and ice. Japan, the Tokyo region in particular, and Vietnam have been blanketed by snow. The United Kingdom has been sandbagged by record rains and flooding in the southern counties. Although the European continent, for the most part, experienced slightly warmer-than-usual winter temperatures, some countries, such as Slovenia in the east, have experienced more significant heat waves. The weather extremes extended well into the southern hemisphere, where high temperatures have yielded the warmest start to a year on record, with drought-like conditions in Brazil, Argentina, and Australia affecting agricultural and livestock production. And similar conditions have affected California's large central valley, one of the United States' major crop growing regions.

Unquestionably, the extreme weather conditions relative to recent experience have played a part in the spate of weaker-than-expected economic data especially in the northern climes, though on-line sales will limit the extent of the slowdown. Consumers have preferred to hibernate instead of venturing out, with many retailers, tourist operations and restaurants reporting much weaker sales. Additional heating costs are taking an increasing bite out of household spending power. There are shortages of critical supplies, propane for example in North America, which will slow the expansion. During the extremely challenging weather conditions, businesses have faced repeated production and logistical problems. The end result has likely been to adjust production temporarily to prevent any significant inventory accumulation, a development that probably has delayed hiring as well.

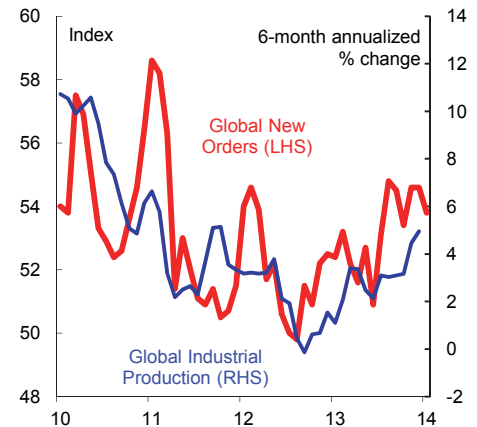
However, there are other factors that are still restraining growth beyond the transitory impact of changing weather conditions. Job cuts and layoffs, and in some cases plant closures, are still being implemented in many countries as businesses continue to operate in a world challenged by over-capacity in many sectors and ongoing competitive pressures that are forcing firms to generate increased operational efficiencies. These have occurred across resource, manufacturing, retail and service sectors, and include pharmaceutical, technology, auto, papermaking, publishing, airlines, food processing, tech/appliance retailers, oilfield services, and gaming/social media providers.

In the United States, there may still be some lingering effects from the partial shutdown of the U.S. Government in the fall, as well as the longer-term impact of prior budgetary restraint under sequestration — defense cutbacks are an example. There may also be some residual fallout on individuals and small businesses from the implementation of the *Affordable Care Act*.

In addition, the emerging recovery in U.S. housing activity has slowed in response to the sharp and sustained increase in mortgage financing costs which began last spring as the Fed set out its plan to 'taper' its bond-buying program. Subsequently, the 30-year fixed mortgage rate jumped one percentage point to around 4.4%, pulling monthly carrying costs on a mortgage of about US\$200,000 up by roughly \$115. Home sales and new construction have throttled back, though the rebound in January new home sales underscores the upside risks and the longer-term potential for this sector, and its high domestic and Canadian input content.

The Canadian outlook remains challenged by continued sluggishness in investment and exports, the sectors expected to lead growth going forward in the transition from over-extended households and selected overbuilt housing markets. However, overall private sector capital spending plans remain on the soft side, a reflection of the general uncertainty surrounding the strength and sustainability of the global expansion, while public sector

### Global Orders Are Trending Higher



Source: CPB Netherlands Bureau For Economic Policy Analysis, Scotiabank Economics.



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expenditures are being constrained by ongoing budgetary restraint federally, and in the large manufacturing-centric provinces of Ontario and Quebec. In aggregate, export receipts have failed to generate any significant momentum, owing to the still moderate recovery among Canada's NAFTA and global trading partners, longstanding competitive issues that will be somewhat addressed by a weaker Canada/U.S. exchange rate, commodity prices flattened by sluggish demand, and the shortage of crude oil pipeline capacity to access U.S. Gulf Coast refineries.

From an international perspective, Japan's economic performance slipped markedly in the final three months of 2013, highlighting the difficulties that the country's leadership has in sustaining both domestically and internationally generated growth, notwithstanding highly stimulative public sector policies and a much weaker yen. The upcoming increase in the nation's VAT tax will likely provide another challenge for households and businesses.

China's growth continues its gradual trend lower, although the country remains the world's performance leader by a considerable margin. The pace of manufacturing has slowed in recent months, a reflection of the reduced global demand and the competitive realignment (e.g. rising wages and other production costs, as well as a stronger currency) which have enabled other nations to claim the 'lowest-cost producer' status in some sectors. At the same time, policymakers are enacting a number of reforms aimed at reining in excessive credit growth, reducing over-investment in a number of industrial sectors, and implementing much tighter pollution controls in a number of China's large industrial cities.

Other growth-constraining factors are also at play. Geopolitical uncertainty is on the rise, with the escalating problems in the Ukraine adding to the ongoing concerns in the Middle East, Turkey, some African countries, Thailand, and the Korean peninsula. There is also the potential for increased instability in the South China Sea due to the ongoing disagreement between China and Japan over land rights.

Accordingly, we have marginally lowered some of our forecasts for output growth, and particularly in North America to account for the disruptions at the turn of the year. A 'spring' bounce in spending is still in the cards as climate patterns return to seasonal norms, and pent-up demand caused by winter shut-ins and repeated disruptions to transportation and shipments are unwound.

From a longer-term perspective, we continue to expect that global growth, led by the improving performances in most of the advanced economies, will regain increased momentum into 2015. Orders for manufactured goods have leveled off in recent months, but at elevated levels that should continue to promote gains in industrial activity around the world. The backlog for transportation equipment — commercial airliners, railroad rolling stock, buses, and trucks — is large and still growing. Automakers are maintaining elevated production levels in North America and Asia, and are increasing assemblies in Europe as more countries climb out of recession and piggyback on Germany's increasing manufacturing and export-related activity. Economic reforms being enacted in many developing economies such as India and Brazil should help to bolster their medium-term prospects. For many resource-producing countries around the world, including Canada, the improving trend in growth should provide ongoing support for commodity prices, with weaker currencies providing an important boost to export earnings.

Financial market and currency volatility will likely remain on the higher side in an environment where uncertainty about the strength and duration of the economic recovery, and disinflation trends worldwide, persist. Short-term borrowing costs are expected to remain at rock bottom levels. Longer-term government bond yields are in a holding pattern after moving higher in anticipation of the Fed's eventual start to tapering, but can be expected to trend higher as the advanced economies put some 'spring' into their activity. For the time being, the U.S. dollar is likely to strengthen somewhat further, buoyed by its renewed growth leadership among the advanced economies, the shift in Fed policy, and continuing pressure points internationally.

### Global Trade Looks To Be Turning The Corner



Source: CPB Netherlands Bureau For Economic Policy Analysis, Scotiabank Economics.

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## Diverging Central Bank Policy The Driving Force Driving FX Markets

Improving growth dynamics in advanced economies coupled with the projected normalization of monetary policy by many of the world's central banks is at the core of investor sentiment in global FX markets. Recurring bouts of emerging market volatility leave capital flows inclined to favour the more established developed markets. Central bank policies are diverging and the repercussions of these shifts are playing out in FX markets. Meanwhile, adverse geo-political developments in both Ukraine and Venezuela have exacerbated a negative market tone in selected developing countries.

We maintain a positive view for the US economic outlook despite the downward revisions to fourth-quarter GDP data due to weather and government shutdown related factors. Domestic consumption remains strong and the adverse effect from the fiscal imbalance is receding. Recent statements by the Federal Reserve Chair confirm an upbeat view for recovery dynamics in the US as well as some acceptance of the heightened volatility recently evidenced in emerging-market economies. We do not anticipate any radical change to the process of gradual normalization of monetary policy under way. We maintain a bullish view of the US dollar (USD) versus major peer currencies for the rest of the year.

In the first half of 2014, the Canadian dollar (CAD) is expected to be weighed down by uneven data prints, a dovish central bank and negative investor sentiment; however, some of this weakness will likely be retraced in the second half of the year when a building US recovery and recent 10% CAD depreciation prove a powerful combination. The Brazilian real (BRL) and the Mexican peso (MXN) will remain quite sensitive to developments in US financial markets and asset allocation shifts in favour of well-developed financial markets. Both the Colombian (COP) and Chilean pesos (CLP) will remain subject to depreciation pressures.

Europe is gradually recovering. The euro (EUR) is trading near the high end of its recent range, supported by capital flows and the fundamental backdrop. As disinflationary pressures wane, the pressure on the ECB to shift to more aggressive policy is easing. However, over the medium term, the EUR is likely to face a weakening bias as positive sentiment fades and the Fed moves away from unconventional policy instruments. Intra-regional patterns favour the British pound (GBP), as investors react to the fundamental improvement and the pulling forward of the interest rate cycle by the Bank of England. The Swiss franc (CHF) likely to be marked by rolling periods of risk aversion, but protected by the EURCHF floor. For the Norwegian krone (NOK) and Swedish krona (SEK), it is the domestic stories that are likely to drive returns; this positions the NOK well ahead of the other European currencies. We highlight the sharp erosion in value suffered by many emerging-market currencies and in particular the Russian ruble (RUB) and the Turkish lira (TRY), as well as the abandonment of the Ukrainian hryvnia (UAH) peg as they have become casualties of the sharp asset price adjustment and credit differentiation taking place in emerging markets.

The Asian currency environment has been shaped by recent policy developments and market shifts in China. Indeed, the Chinese yuan (CNY) has sharply changed direction, weakening violently against the USD at the end of February as the central bank re-introduced two-way risk, shaking the financial market community and increasing speculation over a potential shift in the exchange rate mechanism in place. We are of the view that the authorities remain committed to slow and steady market-based interest rate and foreign exchange reforms.

Elsewhere in the Asia/Pacific currency landscape, the Japanese yen (JPY) is the most susceptible to risk aversion and entering March it is the best-performing developed-country currency in 2014; however, we expect the Bank of Japan to turn to more aggressive policy measures in the late spring and that the JPY will resume a weakening profile. At the end of February, the Australian dollar (AUD) was flat to its 2013 close as the market priced in no risk of a central bank interest rate adjustment and fears over China and as risk aversion and an attempted 0.90 AUD ceiling were offset by building expectations for global growth and domestic inflationary pressures.

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**Canadian Investment Headwinds**

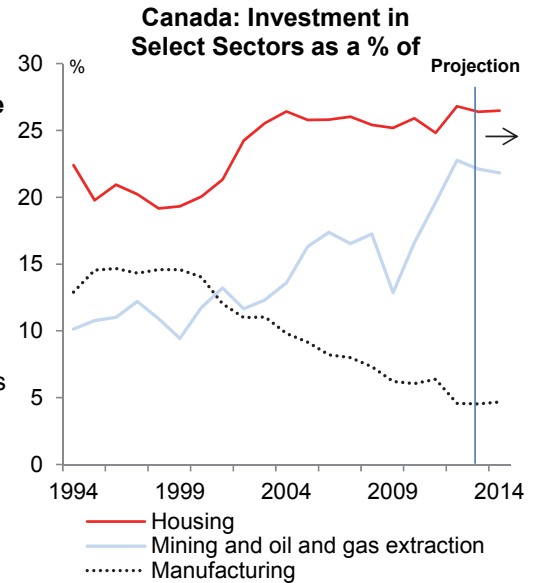
- **Weakness in natural resources and housing will weigh on Canadian investment.**

The Bank of Canada is hoping for a twin rebound in exports and investment to propel a rebalancing of Canadian economic growth away from excess reliance upon the household sector. **We are skeptical that such an uptick in investment in Canada is on the horizon and received further evidence in support of this cautious approach this week.**

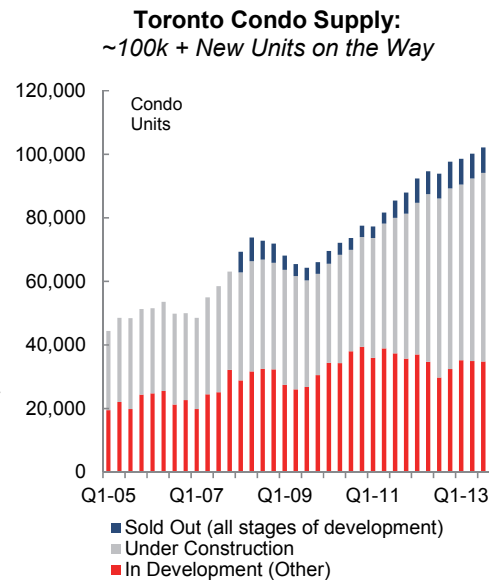
**Investment in housing and natural resources is unlikely to be strong for structural reasons.** Our rationale for skepticism is that investment in housing and natural resources extraction have been key drivers of investment in recent years — and are unlikely to pull their weight moving forward. As the chart to the right shows, investment in housing and natural resources has grown so much as to cumulatively constitute just under half of all capex spending in Canada. Both sectors are structurally challenged. Investment in natural resource extraction has probably reached its cycle peak due to: a) a major ramp-up in mining activity in recent years across most metals, and b) an already high level of investment in Canadian oil and gas extraction and an increasing quantity of investment opportunities opening up in the U.S. and to a lesser extent Mexico. Housing faces challenges due to a combination of over-building in recent quarters (see the chart to the right for a good example from Toronto's condo sector) and general concerns in the industry that it's important to see how supply-under-construction is absorbed before starting new projects.

**Numbers on Canadian capex spending intentions for 2014 published this week confirmed this view.** Investment overall is supposed to grow by a very weak 1.4% y/y in inflation-unadjusted terms over 2014 after growing by a comparably soft 1.5% y/y in 2013. With the world looking at what the Reserve Bank of Australia has dubbed 'the peak in resources investment,' investment in the Canadian mining space is expected to drop by 14.8% y/y in 2014 after falling by 26.1% y/y in 2013 — gaudy numbers. Investment in conventional oil and gas extraction is expected to come in at a positive +3.8% y/y, but that follows on a surprising 3.7% y/y drop in conventional oil and gas extraction investment in 2013 which the survey hadn't seen coming. Investment in non-conventional oil and gas extraction is expected to slide to +2.3% y/y from the 20% y/y level that it notched in both 2012 and 2013 (an outperformance of last year's expectations). Mining, oil and gas was the second largest segment of investment in 2013, at 22.6% of total investment. Housing was the biggest sector, representing 25.6% of the total — it was flat in 2013 and is projected (perhaps too optimistically) to rise slightly in 2014.

**The take-away is that the two key sectors in the Canadian economy from an investment perspective (the housing sector and the natural resource extraction sector) are seeing a slow-down in investment, and the manufacturing sector, which so many are banking on for a rebound in Canada, is of diminished significance as a share of the total. The Canadian economy faces a steep hill to climb if capex is supposed to be a major driver of economic growth.**



Source: Statistics Canada, Scotiabank



Sources: Urbanation, Scotiabank Economics.

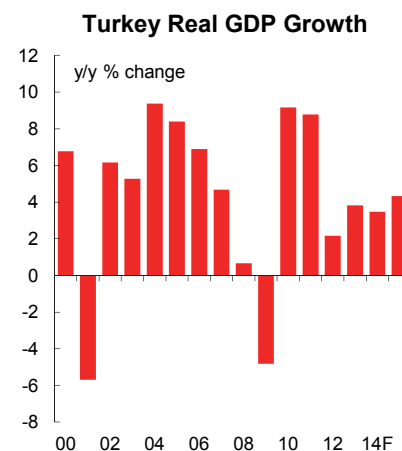


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## Turkey's Economic Prospects Weaken Amid Heightened Uncertainty

- **Tighter monetary conditions and political instability to weigh on growth in 2014.**

Turkey's economic growth outlook has deteriorated in view of recent monetary policy tightening, investor wariness leading to more restrictive external financing conditions, heightened political risk ahead of two key elections this year, and persistent high inflation. After an estimated expansion of 4% in 2013 fuelled by strong private domestic consumption in the face of stagnating exports, we expect real GDP growth to slow to 2½% this year before recovering somewhat to 3½% in 2015. The performance in 2014 will hinge on a weaker currency and accelerating global growth — particularly in the euro area — to revive export sector activity. The authorities will continue to pursue a 'soft landing' for the country as it transitions from a credit-driven consumption-based economy to a more open, diversified structure. Exports still amount to only 20% of GDP while the pace of private sector credit expansion remains over 25% y/y.



Source: Bloomberg, Scotiabank Economics.

Continued high inflation poses a threat to economic stability, particularly as the effectiveness of monetary policy remains impeded by concerns regarding central bank transparency and credibility. The inflation rate averaged 7.5% y/y in 2013 and will continue to exceed the official 5% target through 2015. Having long resisted calls to raise interest rates, the monetary authorities were finally urged to act by the spike in emerging-market risk aversion and currency volatility in January. The overnight lending corridor was raised from 3.5-7.75% to 8-12% and the one-week repo rate was bumped from 4.5% to 10%. The central bank also readopted the repo rate as the benchmark interest rate, implying an effective rate increase of only 225 basis points. Further hikes may be necessary in the event of visible exchange rate pass-through to prices.

Following the central bank's aggressive tightening move, the Turkish lira (TRY) recovered about 7% against the US dollar (USD), but has since weakened off again on political concerns. Renewed uncertainty in global financial markets leading to swings in capital inflows to emerging markets, combined with a corruption scandal and associated surge in tensions between the ruling administration of Prime Minister Recep Tayyip Erdogan and the powerful Islamist Gulen movement, caused the lira to lose 20% vis-à-vis the USD since mid-2013. Although the authorities will remain vigilant to combat excessive lira volatility, we anticipate a continued trend of nominal depreciation over the forecast horizon, with the USDTRY rate closing this year at 2.35 and drifting higher to 2.40 by end-2015. However, depreciation pressure could be tempered by higher local interest rates if further monetary tightening is implemented.

Turkey's fiscal position compares relatively favourably with those of other emerging markets highly exposed to ongoing global portfolio shifts; last year's general government budget shortfall is estimated at around 1½% of GDP. We expect the gap to widen this year to 2½%, with softer domestic activity weighing on revenues while pre-election spending undermines expenditure restraint. Turkey's large external imbalances are a key concern for investors; after declining to 6.2% of GDP in 2012, the current account deficit re-widened to 8.1% in 2013 on the back of a deteriorating goods trade balance. With a weaker lira to support exports and diminished import demand, the deficit will likely ease back to around 7% of GDP in 2014-15. Most of the shortfall is financed by short-term portfolio inflows, with only approximately 20% covered by foreign direct investment.

The improvement in Turkey's sovereign credit profile was recently set back by a revision to the outlook on Standard & Poor's (S&P) long-term foreign-currency credit rating from "stable" to "negative". S&P ("BB+") remains the only major rating agency to withhold an investment-grade rating on Turkey, while both Moody's ("Baa3") and Fitch ("BBB-") assign a "stable" outlook on their respective assessments. Turkey's credit strengths include a low public debt burden (at 36% of GDP) and sound banking sector, though the still wide current account deficit and increasing risks to economic growth may prove credit negative in the coming year.

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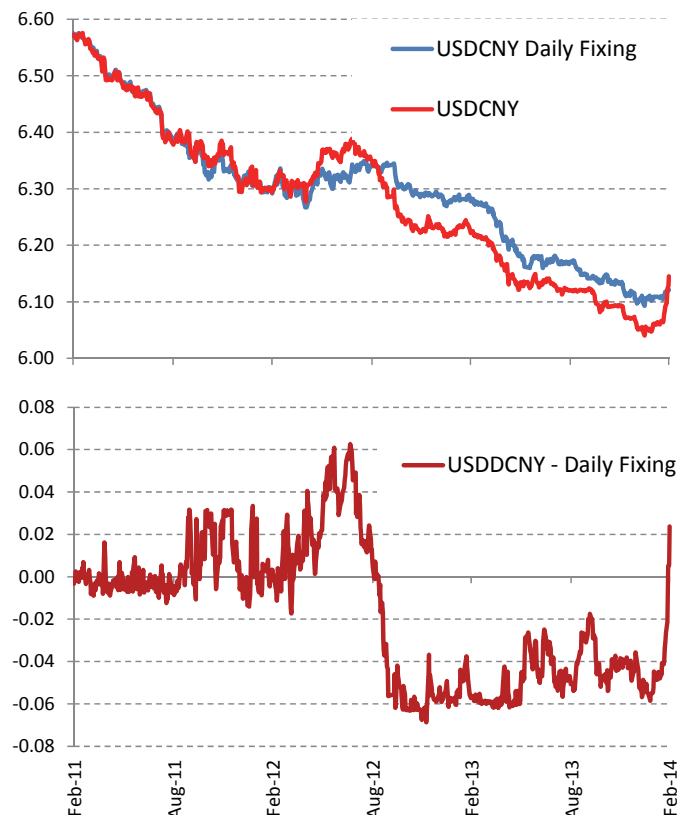
## USDCNY: The Squeeze Is A (Reform) Tease

The developments in the CNY market this week have been perhaps the most interesting for some time, with an equivalently interesting knock-on effect in the offshore CNH market. The move higher in USDCNY has brought the largest one week depreciation in the renminbi since the currency was de-pegged in 2005. The movement has been as surprising in timing as it has been in scope. There has been minimal official communication from Chinese policymakers that has accompanied the volatility, other than to refer to movements in the exchange rate as 'normal'. Certainly the suggestion is, to us anyway, that something is amiss when policymakers refer to a historical one-week depreciation as 'normal'.

As a background on the market dynamics of the current move, we understand that onshore agency banks have been aggressive dollar buyers against CNY on the onshore CFETS trading platform, which is ultimately believed to reflect strong official renminbi selling interest. This implies a purely intentional nature in the squeeze higher in USDCNY, though it also begs the question — to what end has the squeeze been engineered?

First we can say that what most sitting outside Asia may not realize is that the move likely began late last week, on February 19<sup>th</sup>. The strength and duration of the follow-through has however been much more evident in recent sessions, and finally attracted greater attention from the international financial press this week. So what do we think it is that the PBoC is trying to achieve? Focusing on the very near-term timeframe, we are quite confident it is aimed at correcting the overly skewed speculative long positioning in the CNY market, as well as correcting the significant divergence between the offshore renminbi (CNH) and the onshore CNY spot rates. The very near-term reason however serves to inform something we should all keep in mind for the medium term; this squeeze engineered by the PBoC comes now (and not some other time) because the FX reform agenda has been recently more formalized to the public.

Before exploring the 'currency reform' explanation further, it bears mentioning that we hold the view that it is HIGHLY (worth capitalizing) unlikely that the PBoC is seeking to change its exchange rate strategy in terms of outright renminbi valuation, and pursue any kind of trend depreciation. Indeed, that could be a policy direction fraught with risk, as it would come during a time period of less than rock solid confidence in Chinese economic growth and heightened financial sector risk. This in turn could engender significant hot-money outflows that could prove to be financially destabilizing for China and CNY. While hot-money inflows are generally discouraged by policymakers, the reverse would be even more unwelcome at the current juncture given the implications for financial system and asset price disruption. Crucial to the point of understanding the recent moves in USDCNY as it relates to China's policy toward CNY valuation, is the development in the central parity fixing over the past few sessions. Since the 19<sup>th</sup> the fixing has been raised by +0.0111 (today at 6.1214), or nearly +16 pips per trading day on average, which is a fairly restrained pace of increment. Onshore authorities would be pushing the fixing rate far higher and likely more rapidly if they were intending to send the message to the market that their exchange rate policy, in terms of directional appreciation/



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depreciation, was shifting. This provides further evidence that what we are seeing is an intentionally engineered squeeze in the near term, and not reflective of a decision to shift the CNY valuation strategy. Indeed, when looking at currency fundamentals such as rates of return, current account and financial account surpluses, growth differentials, etc., we see no reason to shift our view on CNY for appreciation (targeting 5.98 by end of year).

Crucially important for exchange rate reform would be the timing of economic and political events. There are the NPC/PPCC meetings on March 5<sup>th</sup> which could bring an announcement of a refinement to the exchange rate regime; however, this would be very difficult to predict as it is akin to reading tea leaves. It is also not necessarily the case that any agreement to reform the exchange rate market would need to be announced or implemented immediately. What we do have to go on with great certainty is that exchange rate reform is around the corner. The PBoC published a statement on its website last week stating that this year "We will gradually perfect the renminbi formation mechanism and expand the exchange rate's floating range in an orderly manner". There was also the statement by Governor Zhou in November that the PBoC would "basically" exit from the regularity of its intervention in the CNY market. In this way, the current squeeze (of overly one-way positioning) in USDCNY looks very well oriented toward the first step in reform of the onshore renminbi market's function. Indeed, it is also possible that onshore authorities will not widen the band just yet, and instead are opting to first introduce greater two-way price action to get the market accustomed to a more liberalized trading regime, before making the next step of reforming the fixing mechanism to something more purely market-based. This would then logically culminate in a widening of the exchange rate band, as the market would be better prepared to handle the (potentially) higher volatility and the absence of the PBoC's steady, guiding hand.

It has been a volatile and unpredictable week in the USDCNY spot market. So what can we expect from here? What we do expect to see going forward is USDCNH and USDCNY trading more in line, along with greater two-way variability (and less evidence of the PBoC's hand) in the CNY market. Current CNH trading patterns are still being distorted by option position hedging resulting from a significant amount of structured option products (such as target redemption forwards) sold by banks at the turn of the year. In time we'd suspect that the PBoC would like to see a more consistent and stable/tighter trading spread to the onshore rate for CNH. CNY and CNH option volatilities should also persist at higher levels, though the latter has been "suffering" from a steeply inverted volatility term structure since late the previous week when USDCNY began taking off. We see the USDCNY NDF curve currently still fairly flat, but now showing signs of steepening on a 3s12s basis, though this steepening may be restrained should downside volatility in spot present itself again. Caution should be employed when looking at NDF steepeners, as they make more sense during a period when one expects hot-money outflow risk, and a sharp, sustained USD bid on a global macro basis. Should we in fact see increased two-way volatility, and do note that squeezing out one-sided renminbi bets has required only strong one-sided volatility, a steepening in the NDF curve would not necessarily be sustainable. The fixing evolution will be key here. If it doesn't look like the fixing will be pushed substantially higher on a trend basis, then we wouldn't expect to see a USDCNY NDF curve steepening.

Further renminbi reform is around the corner, and it is simply a matter of time before it becomes obvious that we may already be in the early stages of the next evolution in the currency's existence. This moves it one step closer to becoming one of the preeminent global reserve currencies, though there is still much to do on interest rate reform and capital market liberalization in the interim.

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## Key Data Preview

### CANADA

We're looking for a fairly par-for-the-course Canadian jobs print on March 7 in the neighbourhood of 12k for February after January's strong 29.4k bounce-back from a very weak print in December. The main concern here is that employment trends looked soft throughout 2013, and even the January 2014 rebound wasn't much to write home about. Yes, employment increased by 29.4k, but 28.3k of that increase was in the ranks of workers identifying as self-employed (i.e., there wasn't an increase in salaried workers after the drop in salaried workers in December). Reports of self-employment in the LFS telephone survey aren't always that sticky, so there is a possibility of some give-back in that category in February — which points to downside risk.

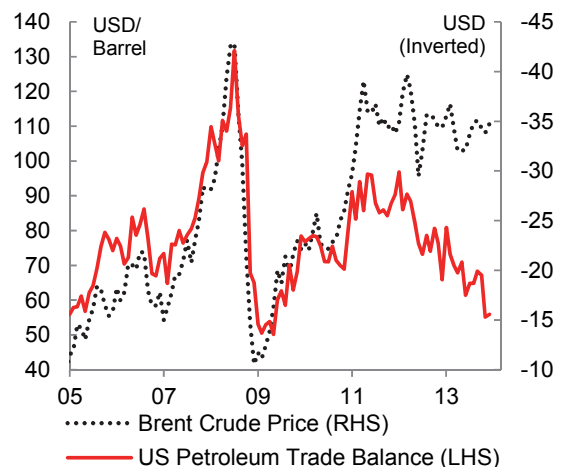
Trade numbers for January (Mar. 7) may see the Canadian trade deficit narrow moderately to the CAD -1.5bn area as prices for the type of crude that Canada exports increased (WCS prices were up by 7% on average) while the prices of the crude that Canada imports actually fell (Brent crude prices were down by 3.2% m/m). As well, strong new orders of manufactured goods in late 2013 point to an uptick in manufacturing shipments — and therefore exports of manufactured goods. CAD depreciated quite substantially in December and January, which points to the possibility of higher import prices — that's why our call is for a sustained very large trade deficit.

### UNITED STATES

US nonfarm payrolls numbers for the month of February land on March 7, and we're looking for a print in the 175k area, consistent with a softer-than-in-H2 2013 economy, but better than the very weak numbers printed for December and January. The question hanging over the print will be: how much of the number is determined by cold weather in February? (Major snowstorms hit the northeast over the course of 7 days in February — a major cumulative amount of snow days, although no individual storm was of a particularly calamitous quality). Our view on that question was addressed in our note "Why US Nonfarm Wasn't A Weather Report" (here: [http://www.gbm.scotiabank.com/English/bns\\_econ/scotiaflash20140110B.pdf](http://www.gbm.scotiabank.com/English/bns_econ/scotiaflash20140110B.pdf)) in which we argued that weather is more likely to affect hours worked than the aggregate jobs numbers. The argument goes as follows: You have to a) be unable to get to work, and b) not be paid for the entire nonfarm reference period (which is the pay period that includes the 12th of the month and which varies by individual according to pay frequency) in order to drop out of the nonfarm payrolls data. If you make it into work at any time over this reference period even just for an hour then you count on payrolls. If you're paid while not at work, you're counted too. In the household survey, even if you are off for the full reference period due to weather you still count as employed whether or not you are paid. Impact could come through softer hiring if businesses were shuttered though. In sum, as the BLS writes, "It is not possible to quantify the effect of extreme weather on estimates of over-the-month change in employment."

U.S. trade figures for January land on March 7, and we're anticipating an improvement in the trade balance to USD -37.5bn vs. USD -38.7bn in December. Our call is based on our view that there will be some give-back in U.S. imports of crude oil after an uptick in December. We have noticed a tendency for crude imports to fall in months in which international crude prices rise and to rise in months when crude prices drop; this is the upside that U.S. refineries are experiencing as they can now be more selective in their imports due to the abundance of crude in North America. As the chart to the right shows, the U.S. petroleum import bill has become dramatically less sensitive to changes in Brent crude prices than it used to be.

**US Crude Imports**  
*Decoupling From Brent*



Source: Bloomberg, Census Bureau,  
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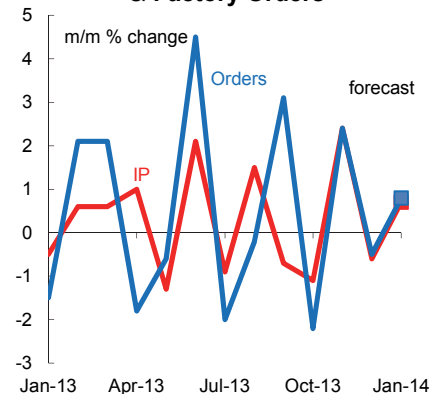
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## EUROPE

The January data for German factory orders and industrial production (IP) will be released next Thursday and Friday, respectively. Both series remain quite choppy, and we anticipate that each will experience a rebound after contracting in December. Factory orders will likely expand by 0.8% m/m and IP should pick up to 0.7%. In annual terms the trends will continue to improve, helped by lower energy prices and improved sentiment; IP will likely recover to an average of 2.5% this year after a flat result in 2013, while factory orders, which tend to show larger swings over the business cycle, should come in somewhat stronger at around 4.5%. The manufacturing-heavy export sector is currently fuelling the German economic engine, and although the euro's persistent strength is weighing on exporters' competitiveness, we expect this to continue to be the case in the coming quarters until a more solid recovery emerges in domestic demand.

### Germany Industrial Production & Factory Orders

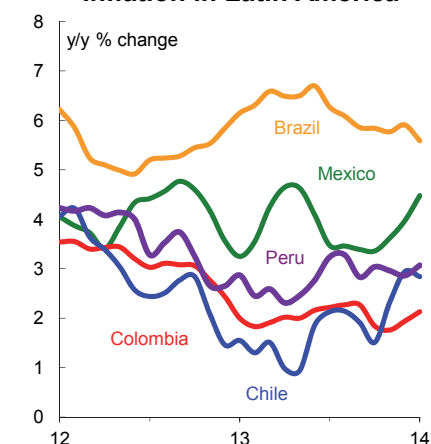


Source: Bloomberg, Scotiabank Economics.

## LATIN AMERICA

Inflation trends in Latin America have diverged. Chilean and Colombian headline inflation eased to below the lower limit of their respective official ranges (2-4% y/y) in the last six months, and have since normalized to more manageable levels. Nevertheless, Colombia's CPI continues to linger around the 2% y/y mark, while Chile's has returned to 3.0% y/y. This performance has allowed both central banks to maintain loose monetary conditions; the Chilean central bank recently cut the reference rate by 25 basis points to 4.25%, while Colombian authorities have left the rate unchanged at a record low level of 3.25%. The policymakers are not showing marked concern regarding recent currency depreciation and its impact on inflation. In our view, the pass-through from a weaker currency to CPI is higher in Chile than in any other major Latin American economy. In Peru, headline inflation has remained relatively stable around 3% y/y in recent months (the official range is 1-3% y/y); yet, the authorities cut the reference rate to 4.0% last October. In contrast, Mexican consumer price inflation has accelerated recently, reaching 4.5% y/y in January, due to tax increases derived from the fiscal reform approved last year. We anticipate that inflationary impact will dissipate in the near term, bringing inflation to within the 2-4% target range.

### Inflation in Latin America



Source: Bloomberg, Scotiabank Economics.

## ASIA

Australia will release fourth-quarter GDP data next week (on March 4<sup>th</sup> EST). We estimate that output expanded by 0.7% q/q (2.5% y/y) following a 0.6% q/q (2.3% y/y) gain in the July-September period. The economy is adversely impacted by declining investment activity, particularly in the mining sector, as indicated by contracting private capital expenditure (-5.2% y/y) in the final quarter of 2013. Simultaneously, however, a pick-up in demand conditions in other advanced economies together with a weaker Australian dollar should provide support to the country's exporters. Commodity exports (equivalent to around two-thirds of total exports) are performing well, reflecting increasing mining capacity following project completions. Household spending remains muted due to labour market softness with the jobless rate climbing to 6.0% in January, the highest level since mid-2003. Nevertheless, as the housing market continues to improve (house prices increased by 9.3% y/y in the October-December period), and the effects of monetary stimulus filter through the economy, household spending should pick up, offsetting some of the adverse impacts of subdued investment momentum. Real GDP will likely expand 2.7% this year and 2.9% in 2015, following an estimated advance of 2.4% last year.



## Key Indicators for the week of March 3 – 7

## North America



| Country | Date  | Time  | Indicator                                 | Period       | BNS         | Consensus   | Latest      |
|---------|-------|-------|---|--------------|-------------|-------------|-------------|
| US      | 03/03 |       | Domestic Vehicle Sales (mn a.r.)          | Feb          | 11.8        | 11.9        | 11.9        |
| US      | 03/03 |       | Total Vehicle Sales (mn a.r.)             | Feb          | 15.2        | 15.4        | 15.2        |
| CA      | 03/03 | 08:30 | IPPI (m/m)                                | Jan          | --          | 0.5         | 0.7         |
| CA      | 03/03 | 08:30 | Raw Materials Price Index (m/m)           | Jan          | --          | 1.0         | 1.9         |
| US      | 03/03 | 08:30 | PCE Deflator (m/m)                        | Jan          | 0.1         | 0.1         | 0.2         |
| US      | 03/03 | 08:30 | PCE Deflator (y/y)                        | Jan          | 1.1         | 1.1         | 1.1         |
| US      | 03/03 | 08:30 | PCE ex. Food & Energy (m/m)               | Jan          | --          | 0.1         | 0.1         |
| US      | 03/03 | 08:30 | PCE ex. Food & Energy (y/y)               | Jan          | --          | 1.1         | 1.2         |
| US      | 03/03 | 08:30 | Personal Spending (m/m)                   | Jan          | 0.0         | 0.1         | 0.4         |
| US      | 03/03 | 08:30 | Personal Income (m/m)                     | Jan          | -0.1        | 0.2         | 0.0         |
| US      | 03/03 | 10:00 | Construction Spending (m/m)               | Jan          | -0.5        | -0.3        | 0.1         |
| US      | 03/03 | 10:00 | ISM Manufacturing Index                   | Feb          | 52.0        | 52.0        | 51.3        |
| US      | 03/04 | 10:00 | IBD/TIPP Economic Optimism Index          | Mar          | --          | 45.0        | 44.9        |
| US      | 03/05 | 07:00 | MBA Mortgage Applications (w/w)           | FEB 28       | --          | --          | -8.5        |
| US      | 03/05 | 08:15 | ADP Employment Report (000s m/m)          | Feb          | 165.0       | 155.0       | 175.4       |
| CA      | 03/05 | 10:00 | <b>BoC Interest Rate Announcement (%)</b> | <b>Mar 5</b> | <b>1.00</b> | <b>1.00</b> | <b>1.00</b> |
| US      | 03/05 | 10:00 | ISM Non-Manufacturing Composite           | Feb          | 54.0        | 53.5        | 54.0        |
| CA      | 03/06 | 08:30 | Building Permits (m/m)                    | Jan          | --          | 1.7         | -4.1        |
| US      | 03/06 | 08:30 | Initial Jobless Claims (000s)             | MAR 1        | 340         | 337         | 348         |
| US      | 03/06 | 08:30 | Continuing Claims (000s)                  | FEB 22       | 2980        | --          | 2964        |
| US      | 03/06 | 08:30 | Productivity (q/q a.r.)                   | 4Q F         | --          | 2.6         | 3.2         |
| US      | 03/06 | 08:30 | Unit Labor Costs (q/q a.r.)               | 4Q F         | --          | -1.0        | -1.6        |
| US      | 03/06 | 10:00 | Factory Orders (m/m)                      | Jan          | -0.4        | -0.5        | -1.5        |
| CA      | 03/07 | 08:30 | Employment (000s m/m)                     | Feb          | 12.0        | 16.8        | 29.4        |
| CA      | 03/07 | 08:30 | Unemployment Rate (%)                     | Feb          | 7.0         | 7.0         | 7.0         |
| CA      | 03/07 | 08:30 | Merchandise Trade Balance (C\$ bn)        | Jan          | -1.4        | -1.5        | -1.7        |
| CA      | 03/07 | 08:30 | Productivity (q/q a.r.)                   | 4Q           | --          | 0.5         | 0.2         |
| US      | 03/07 | 08:30 | Nonfarm Employment Report (000s m/m)      | Feb          | 175.0       | 150.0       | 113.0       |
| US      | 03/07 | 08:30 | Household Employment Report (000s m/m)    | Feb          | --          | --          | 638.0       |
| US      | 03/07 | 08:30 | Unemployment Rate (%)                     | Feb          | 6.6         | 6.6         | 6.6         |
| US      | 03/07 | 08:30 | Average Hourly Earnings (m/m)             | Feb          | --          | 0.2         | 0.2         |
| US      | 03/07 | 08:30 | Average Weekly Hours                      | Feb          | --          | 34.4        | 34.4        |
| US      | 03/07 | 08:30 | Trade Balance (US\$ bn)                   | Jan          | -37.5       | -39.0       | -38.7       |
| MX      | 03/07 | 09:00 | Consumer Prices (m/m)                     | Feb          | --          | 0.2         | 0.9         |
| MX      | 03/07 | 09:00 | Consumer Prices (y/y)                     | Feb          | --          | 4.2         | 4.5         |
| MX      | 03/07 | 09:00 | Consumer Prices Core (m/m)                | Feb          | --          | 0.3         | 0.9         |
| US      | 03/07 | 15:00 | Consumer Credit (US\$ bn m/m)             | Jan          | --          | 14.0        | 18.8        |

## Europe



| Country | Date  | Time  | Indicator             | Period | BNS  | Consensus | Latest |
|---------|-------|-------|-----------------------|--------|------|-----------|--------|
| IT      | 03/03 | 03:45 | Manufacturing PMI     | Feb    | --   | 52.6      | 53.1   |
| FR      | 03/03 | 03:50 | Manufacturing PMI     | Feb F  | 48.5 | 48.5      | 48.5   |
| GE      | 03/03 | 03:55 | Manufacturing PMI     | Feb F  | 54.7 | 54.7      | 54.7   |
| EC      | 03/03 | 04:00 | Manufacturing PMI     | Feb F  | 53.0 | 53.0      | 53.0   |
| UK      | 03/03 | 04:30 | Manufacturing PMI     | Feb    | 56.0 | 56.8      | 56.7   |
| IT      | 03/03 |       | Budget Balance (€ bn) | Feb    | --   | --        | 0.8    |
| UK      | 03/04 | 04:30 | PMI Construction      | Feb    | --   | 63.2      | 64.6   |
| EC      | 03/04 | 05:00 | PPI (m/m)             | Jan    | --   | -0.1      | 0.2    |

Forecasts at time of publication.

Source: Bloomberg, Scotiabank Economics.

## Key Indicators for the week of March 3 – 7

## Europe (continued from previous page)

| Country | Date    | Time  | Indicator                               | Period       | BNS         | Consensus   | Latest      |
|---------|---------|-------|---|--------------|-------------|-------------|-------------|
| IT      | 03/05   | 03:45 | Services PMI                            | Feb          | --          | 49.7        | 49.4        |
| FR      | 03/05   | 03:50 | Services PMI                            | Feb F        | 46.9        | 46.9        | 46.9        |
| GE      | 03/05   | 03:55 | Services PMI                            | Feb F        | 55.4        | 55.4        | 55.4        |
| EC      | 03/05   | 04:00 | Composite PMI                           | Feb F        | 52.7        | 52.7        | 52.7        |
| EC      | 03/05   | 04:00 | Services PMI                            | Feb F        | 51.7        | 51.7        | 51.7        |
| UK      | 03/05   | 04:30 | Services PMI                            | Feb          | 58.0        | 58.0        | 58.3        |
| EC      | 03/05   | 05:00 | GDP (q/q)                               | 4Q P         | 0.3         | 0.3         | 0.3         |
| EC      | 03/05   | 05:00 | Retail Trade (m/m)                      | Jan          | --          | 0.8         | -1.6        |
| UK      | MAR 5-7 |       | Halifax House Price (3 month, y/y)      | Feb          | 7.3         | 7.3         | 7.3         |
| GE      | 03/06   | 06:00 | Factory Orders (m/m)                    | Jan          | 0.8         | 0.9         | -0.5        |
| UK      | 03/06   | 07:00 | BoE Asset Purchase Target (£ bn)        | Mar          | 375         | 375         | 375         |
| UK      | 03/06   | 07:00 | <b>BoE Policy Announcement (%)</b>      | <b>Mar 6</b> | <b>0.50</b> | <b>0.50</b> | <b>0.50</b> |
| EC      | 03/06   | 07:45 | <b>ECB Announces Interest Rates (%)</b> | <b>Mar 6</b> | <b>0.25</b> | <b>0.25</b> | <b>0.25</b> |
| FR      | 03/07   | 02:45 | Central Government Balance (€ bn)       | Jan          | --          | --          | -74.9       |
| FR      | 03/07   | 02:45 | Trade Balance (€ mn)                    | Jan          | --          | -5000       | -5207       |
| GE      | 03/07   | 06:00 | Industrial Production (m/m)             | Jan          | 0.7         | 0.8         | -0.6        |

## Asia Pacific

| Country | Date     | Time  | Indicator                         | Period       | BNS         | Consensus   | Latest      |
|---------|----------|-------|-----------------------------------|--------------|-------------|-------------|-------------|
| NZ      | 03/02    | 16:45 | Terms of Trade Index (q/q)        | 4Q           | --          | 1.9         | 7.5         |
| JN      | 03/02    | 18:50 | Capital Spending (y/y)            | 4Q           | --          | 4.9         | 1.5         |
| AU      | 03/02    | 19:00 | HIA New Home Sales (m/m)          | Jan          | --          | --          | -0.4        |
| AU      | 03/02    | 19:30 | ANZ Job Advertisements (m/m)      | Feb          | --          | --          | -0.3        |
| CH      | 03/02    | 20:00 | Non-manufacturing PMI             | Feb          | --          | --          | 53.4        |
| CH      | 03/02    | 20:45 | HSBC Manufacturing PMI            | Feb          | 48.5        | 48.5        | 49.5        |
| ID      | 03/02    | 23:00 | Exports (y/y)                     | Jan          | --          | 2.8         | 10.3        |
| TH      | 03/02    | 23:00 | CPI (y/y)                         | Feb          | 2.0         | 2.0         | 1.9         |
| TH      | 03/02    | 23:00 | Core CPI (y/y)                    | Feb          | --          | 1.1         | 1.0         |
| JN      | MAR 5    | 00:00 | Vehicle Sales (y/y)               | Feb          | --          | --          | 27.5        |
| HK      | 03/03    | 03:30 | Retail Sales - Volume (y/y)       | Jan          | --          | 7.5         | 6.1         |
| JN      | MAR 3-7  |       | Official Reserve Assets (US\$ bn) | Feb          | --          | --          | 1277.1      |
| ID      | 03/03    |       | Imports (y/y)                     | Jan          | --          | -0.9        | -0.8        |
| ID      | 03/03    |       | Trade Balance (US\$ mn)           | Jan          | --          | 421.0       | 1525.1      |
| ID      | MAR 3-10 |       | Consumer Confidence Index         | Feb          | --          | --          | 116.7       |
| SI      | 03/03    | 08:30 | Purchasing Managers Index         | Feb          | --          | 50.7        | 50.5        |
| SK      | 03/03    | 18:00 | CPI (y/y)                         | Feb          | 1.1         | 1.1         | 1.1         |
| SK      | 03/03    | 18:00 | Core CPI (y/y)                    | Feb          | --          | --          | 1.7         |
| JN      | 03/03    | 18:50 | Monetary Base (y/y)               | Feb          | --          | --          | 51.9        |
| AU      | 03/03    | 19:30 | Building Approvals (m/m)          | Jan          | --          | 0.5         | -2.9        |
| AU      | 03/03    | 19:30 | Current Account (AUD bn)          | 4Q           | --          | -10.0       | -12.7       |
| AU      | 03/03    | 19:30 | Australia Net Exports of GDP      | 4Q           | --          | 0.7         | 0.7         |
| AU      | 03/03    | 22:30 | <b>RBA Cash Target Rate (%)</b>   | <b>Mar 4</b> | <b>2.50</b> | <b>2.50</b> | <b>2.50</b> |
| AU      | 03/04    | 19:30 | GDP (y/y)                         | 4Q           | 2.5         | 2.5         | 2.3         |
| TA      | 03/04    | 19:30 | CPI (y/y)                         | Feb          | --          | 0.2         | 0.8         |
| PH      | 03/04    | 20:00 | CPI (y/y)                         | Feb          | 4.4         | 4.3         | 4.2         |
| PH      | 03/04    | 20:00 | Core CPI (y/y)                    | Feb          | --          | 3.1         | 3.2         |
| CH      | 03/04    | 20:45 | HSBC Services PMI                 | Feb          | --          | --          | 50.7        |
| HK      | 03/04    | 21:30 | Purchasing Managers Index         | Feb          | --          | --          | 52.7        |

Forecasts at time of publication.

Source: Bloomberg, Scotiabank Economics.

## Key Indicators for the week of March 3 – 7

## Asia Pacific (continued from previous page)

| <u>Country</u> | <u>Date</u> | <u>Time</u> | <u>Indicator</u>           | <u>Period</u> | <u>BNS</u>  | <u>Consensus</u> | <u>Latest</u> |
|----------------|-------------|-------------|----------------------------|---------------|-------------|------------------|---------------|
| AU             | 03/05       | 19:30       | Retail Sales (m/m)         | Jan           | --          | 0.4              | 0.5           |
| AU             | 03/05       | 19:30       | Trade Balance (AUD mn)     | Jan           | --          | 100.0            | 468.0         |
| MA             | 03/06       | 05:00       | <b>Overnight Rate (%)</b>  | <b>Mar 6</b>  | <b>3.00</b> | <b>3.00</b>      | <b>3.00</b>   |
| NZ             | 03/06       | 18:00       | QV House Prices (y/y)      | Feb           | --          | --               | 9.6           |
| MA             | 03/06       | 23:01       | Exports (y/y)              | Jan           | --          | 6.4              | 14.4          |
| MA             | 03/06       | 23:01       | Imports (y/y)              | Jan           | --          | -3.0             | 14.8          |
| MA             | 03/06       | 23:01       | Trade Balance (MYR bn)     | Jan           | --          | 9.5              | 9.5           |
| JN             | 03/07       | 00:00       | Coincident Index CI        | Jan P         | --          | 114.6            | 111.7         |
| JN             | 03/07       | 00:00       | Leading Index CI           | Jan P         | --          | 112.4            | 111.7         |
| AU             | 03/07       | 00:30       | Foreign Reserves (AUD bn)  | Feb           | --          | --               | 53.3          |
| TA             | 03/07       | 03:00       | Exports (y/y)              | Feb           | --          | 7.8              | -5.3          |
| TA             | 03/07       | 03:00       | Imports (y/y)              | Feb           | --          | 4.4              | -15.2         |
| TA             | 03/07       | 03:00       | Trade Balance (US\$ bn)    | Feb           | --          | 1.5              | 3.0           |
| SI             | 03/07       | 04:00       | Foreign Reserves (US\$ mn) | Feb           | --          | --               | 271538.0      |

## Latin America

| <u>Country</u> | <u>Date</u> | <u>Time</u> | <u>Indicator</u>                        | <u>Period</u> | <u>BNS</u> | <u>Consensus</u> | <u>Latest</u> |
|----------------|-------------|-------------|---|---------------|------------|------------------|---------------|
| PE             | 03/01       |             | Consumer Price Index (m/m)              | Feb           | --         | 0.3              | 0.3           |
| PE             | 03/01       |             | Consumer Price Index (y/y)              | Feb           | --         | 3.4              | 3.1           |
| CL             | 03/05       | 06:30       | Economic Activity Index SA (m/m)        | Jan           | --         | --               | 0.8           |
| CL             | 03/05       | 06:30       | Economic Activity Index NSA (y/y)       | Jan           | --         | 2.4              | 2.6           |
| CO             | 03/05       | 19:00       | Consumer Price Index (m/m)              | Feb           | --         | 0.6              | 0.5           |
| CO             | 03/05       | 19:00       | Consumer Price Index (y/y)              | Feb           | --         | 2.3              | 2.1           |
| BZ             | 03/06       | 13:00       | Trade Balance (FOB) - Monthly (US\$ mn) | Feb           | --         | -3179            | -4057         |
| CL             | 03/07       | 06:00       | CPI (m/m)                               | Feb           | --         | 0.3              | 0.2           |
| CL             | 03/07       | 06:00       | CPI (y/y)                               | Feb           | --         | 2.9              | 2.8           |

Forecasts at time of publication.

Source: Bloomberg, Scotiabank Economics.

## Global Auctions for the week of March 3 – 7

North America 

| <u>Country</u> | <u>Date</u> | <u>Time</u> | <u>Event</u>                         |
|----------------|-------------|-------------|--------------------------------------|
| US             | 03/03       | 11:30       | 3M High Yield Rate                   |
| US             | 03/03       | 11:30       | 3M Direct Accepted %                 |
| US             | 03/03       | 11:30       | 3M Bid/Cover Ratio                   |
| US             | 03/03       | 11:30       | 3M Indirect Accepted %               |
| US             | 03/03       | 11:30       | 6M Direct Accepted %                 |
| US             | 03/03       | 11:30       | 6M Indirect Accepted %               |
| US             | 03/03       | 11:30       | 6M High Yield Rate                   |
| US             | 03/03       | 11:30       | 6M Bid/Cover Ratio                   |
| US             | 03/03       | 11:30       | U.S. to Sell USD25 Bln 3-Month Bills |
| US             | 03/03       | 11:30       | U.S. to Sell USD25 Bln 6-Month Bills |
| US             | 03/04       | 11:30       | 4W Direct Accepted %                 |
| US             | 03/04       | 11:30       | 4W Indirect Accepted %               |
| US             | 03/04       | 11:30       | 4W Bid/Cover Ratio                   |
| US             | 03/04       | 11:30       | 4W High Yield Rate                   |
| US             | 03/04       | 11:30       | U.S. to Sell USD25 Bln 52-Week Bills |
| US             | 03/04       | 11:30       | U.S. to Sell 4-Week Bills            |
| CA             | 03/06       | 12:00       | 30Y Auction Size                     |
| CA             | 03/06       | 12:00       | 30Y Auction Yield                    |

Europe 

| <u>Country</u> | <u>Date</u> | <u>Time</u> | <u>Event</u>                              |
|----------------|-------------|-------------|---|
| DE             | 03/04       | 04:30       | Denmark to Sell 2.5% 2016 Bonds           |
| DE             | 03/04       | 04:30       | Denmark to Sell 1.5% 2023 Bonds           |
| UK             | 03/04       | 05:30       | U.K. to Sell GBP4.25 Bln 1.75% 2019 Bonds |
| AS             | 03/04       | 05:30       | Austria to Sell 1.75% 2023 Bonds          |
| AS             | 03/04       | 05:30       | Austria to Sell 1.15% 2018 Bonds          |
| GE             | 03/05       | 05:30       | Germany to Sell EUR4 Bln 1% 2019 Bonds    |
| SP             | 03/06       | 04:30       | Spain to Sell Bonds                       |
| FR             | 03/06       | 04:50       | France to Sell Bonds                      |
| SW             | 03/06       | 05:03       | Sweden to Sell I/L Bonds                  |

Asia Pacific 

| <u>Country</u> | <u>Date</u> | <u>Time</u> | <u>Event</u>                         |
|----------------|-------------|-------------|--------------------------------------|
| JN             | 03/03       | 22:45       | Japan to Sell 10-Year Bonds          |
| CH             | 03/04       | 22:00       | China to Sell CNY28 Bln 7-Year Bonds |
| JN             | 03/04       | 22:35       | Japan to Sell 6-Month Bill           |
| JN             | 03/05       | 22:35       | Japan to Sell 3-Month Bill           |
| JN             | 03/05       | 22:45       | Japan to Sell 30-Year Bonds          |

Source: Bloomberg, Scotiabank Economics.

## Events for the week of March 3 – 7

## North America



| <u>Country</u> | <u>Date</u> | <u>Time</u> | <u>Event</u>   |
|----------------|-------------|-------------|--|
| US             | 03/03       |             | U.S. President Obama Meets With Israel's Netanyahu             |
| US             | 03/04       | 10:00       | Senate Banking Committee Confirmation Hearing on Fed Nominees  |
| US             | 03/04       | 16:15       | Fed's Lacker Speaks on Economy in New York                     |
| US             | 03/04       |             | U.S. President Obama Send Budget to Congress                   |
| US             | 03/05       | 08:15       | ADP National Employment Revisions                              |
| CA             | 03/05       | 10:00       | <b>Bank of Canada Rate Decision</b>                            |
| US             | 03/05       | 14:00       | U.S. Federal Reserve Releases Beige Book                       |
| US             | 03/05       | 19:00       | Fed's Fisher Speaks in Mexico City                             |
| CA             | 03/05       | 20:15       | Bank of Canada Deputy Governor Macklem Speaks in Toronto       |
| CA             | 03/05       | 20:30       | Former Secretary of State Clinton Speaks in Vancouver          |
| US             | 03/05       | 20:30       | Fed's Williams Speaks on the Economy in Seattle                |
| US             | 03/06       | 08:15       | Fed's Dudley to be Interviewed by WSJ's Hilsenrath in New York |
| US             | 03/06       | 08:30       | U.S. BLS Releases Revisions to Productivity and Cost           |
| CA             | 03/06       | 11:00       | U.S. Former Secretary of State Clinton Speak in Calgary        |
| US             | 03/06       | 13:00       | Fed's Plosser Speaks on Monetary Policy in London              |
| US             | 03/06       | 18:00       | Fed's Lockhart Speaks on the Economy in Washington             |
| US             | 03/07       | 12:00       | Fed's Dudley to Speak at Brooklyn College in New York          |
| US             | 03/07       | 12:30       | Bernanke Speaks at Energy Industry Conference in Houston       |

## Europe



| <u>Country</u> | <u>Date</u> | <u>Time</u> | <u>Event</u>  |
|----------------|-------------|-------------|---|
| GE             | 03/01       | 05:10       | Merkel, EU's Barroso Speak at European Forum in Berlin        |
| GE             | 03/03       | 03:00       | EU's Schulz, Juncker, Verhofstadt at Culture Podium: Berlin   |
| SP             | 03/03       | 04:15       | Spain Economy Minister, Lagarde, Dijsselbloem in Bilbao       |
| EC             | 03/03       | 09:00       | ECB President Draghi Testifies in Brussels                    |
| EC             | MAR 3-4     |             | EU's Ashton Travels to Ukraine March 3-4                      |
| GE             | 03/05       | 12:00       | Merkel Speaks at CDU Event in Mecklenburg-Western Pomerania   |
| HU             | 03/06       | 02:40       | Hungarian Economy Minister Varga, Central Bank VP Balog Speak |
| UK             | 03/06       | 07:00       | <b>Bank of England Bank Rate</b>                              |
| UK             | 03/06       | 07:00       | BOE Asset Purchase Target                                     |
| EC             | 03/06       | 07:45       | <b>ECB Announces Interest Rates</b>                           |
| EC             | 03/06       | 07:45       | ECB Deposit Facility Rate                                     |
| EC             | 03/06       | 07:45       | ECB Marginal Lending Facility                                 |
| EC             | 03/06       | 08:30       | ECB'S Draghi Holds Press Conference After Rate Decision       |
| EC             | 03/06       |             | EU's Ashton to Meet Russia's Lavrov in Rome                   |
| SZ             | 03/07       | 01:30       | Swiss National Bank Annual Result for 2013                    |
| IT             | 03/07       | 05:00       | Bank of Italy Report on Balance-Sheet Aggregates              |
| EC             | 03/07       | 05:15       | EU Center-Right Parties Pick Commission Nominee in Dublin     |
| EC             | 03/07       |             | ESM Sovereign Debt Rating Published by Fitch                  |

Source: Bloomberg, Scotiabank Economics.



## Events for the week of March 3 – 7

## Asia Pacific

| <u>Country</u> | <u>Date</u> | <u>Time</u> | <u>Event</u>   |
|----------------|-------------|-------------|--|
| NZ             | 03/02       | 20:00       | Treasury Publishes Monthly Economic Indicators                 |
| CH             | MAR 2-13    |             | China Political Advisory Body CPPCC Annual Meeting             |
| AU             | 03/03       | 00:30       | Commodity Index YoY  |
| AU             | 03/03       | 22:30       | <b>RBA Cash Rate Target</b>                                    |
| HK             | MAR 3-4     |             | Hong Kong Broadcast Codes of Practice Committee Meeting        |
| CH             | 03/04       | 18:30       | China Premier Li Keqiang to give 2014 GDP Growth Target to NPC |
| CH             | 03/04       | 18:30       | China Finance Minister Lou Jiwei to give 2014 Budget Report    |
| CH             | 03/04       | 18:30       | China NDRC Chairman Xu Shaoshi to Give Annual Report to NPC    |
| CH             | MAR 4-15    |             | China National People's Congress starts annual meeting         |
| MA             | 03/06       | 05:00       | <b>BNM Overnight Policy Rate</b>                               |
| AU             | 03/06       | 17:30       | RBA Governor Stevens Meets With House Economics Committee      |
| IN             | 03/07       | 02:30       | Governor Rajan Attending RBI Board Meet in New Delhi           |

Source: Bloomberg, Scotiabank Economics.

**Global Central Bank Watch**

**North America**

| <u>Rate</u>  | <u>Current Rate</u> | <u>Next Meeting</u> | <u>Scotia's Forecasts</u> | <u>Consensus Forecasts</u> |
|--|---------------------|---------------------|---------------------------|----------------------------|
| <i>Bank of Canada – Overnight Target Rate</i>      | 1.00                | March 5, 2014       | 1.00                      | 1.00                       |
| <i>Federal Reserve – Federal Funds Target Rate</i> | 0.25                | March 19, 2014      | 0.25                      | --                         |
| <i>Banco de México – Overnight Rate</i>            | 3.50                | March 21, 2014      | 3.50                      | --                         |

**BoC:** We expect the BoC to sound moderately less concerned about disinflation and the sluggish pace of economic growth at its meeting on March 5th in light of recent stronger-than-anticipated numbers both for Q4 2013 GDP and for January CPI. The BoC will be prevented from entirely recanting the dovish tone that it struck at its most recent meeting, however, by the combination of weak figures in December 2013, soft economic readings from the US economy through the first part of Q1 2014, and our view that inflation is likely to fall right back down to 1% y/y in February. **Fed:** Nomination hearings will be the key for the Fed this week, with new Fed Vice-Chair Fisher making his debut during his confirmation testimony. Jobs data at the end of the week will be interesting too as a third consecutive weak print on jobs (not our base case) would have the Fed scrambling to explain whether tapering will or will not continue.

**Europe**

| <u>Rate</u>  | <u>Current Rate</u> | <u>Next Meeting</u> | <u>Scotia's Forecasts</u> | <u>Consensus Forecasts</u> |
|--|---------------------|---------------------|---------------------------|----------------------------|
| <i>European Central Bank – Refinancing Rate</i>                | 0.25                | March 6, 2014       | 0.25                      | 0.25                       |
| <i>Bank of England – Bank Rate</i>                             | 0.50                | March 6, 2014       | 0.50                      | 0.50                       |
| <i>Swiss National Bank – Libor Target Rate</i>                 | 0.00                | March 20, 2014      | 0.00                      | --                         |
| <i>Central Bank of Russia – One-Week Auction Rate</i>          | 5.50                | March 14, 2014      | 5.50                      | 5.50                       |
| <i>Hungarian National Bank – Base Rate</i>                     | 2.70                | March 25, 2014      | 2.70                      | 2.60                       |
| <i>Central Bank of the Republic of Turkey – 1 Wk Repo Rate</i> | 10.00               | March 18, 2014      | 10.00                     | --                         |
| <i>Sweden Riksbank – Repo Rate</i>                             | 0.75                | April 9, 2014       | 0.75                      | --                         |
| <i>Norges Bank – Deposit Rate</i>                              | 1.50                | March 27, 2014      | 1.50                      | --                         |

At the **European Central Bank's** (ECB) last meeting, President Draghi clearly indicated that the bank would be in stand-by mode until the March meeting (when new macroeconomic projections will be released). Since then, fourth-quarter GDP growth figures were reported and the results were slightly better than expected, with the recovery gaining strength in virtually every individual economy. On the monetary analysis front, private sector lending continued to fall in January, while M3 growth picked up slightly. Business sentiment surveys were generally mixed, inflation remained steady at 0.8% y/y in February for a third straight month and core inflation edged up to 1.0% from 0.8%. The updated ECB projections will likely show a softer inflation outlook and unchanged GDP profile. On balance, we do not believe that these developments will sway the ECB one way or another at this time, and the bank will continue to closely monitor incoming data over the months ahead, remaining ready to implement additional stimulus if downside inflation risks intensify. The **Bank of England** (BoE) will also meet next month and no policy changes are anticipated. The BoE has adjusted its forward guidance and now pledges to take into account multiple economic criteria rather than just the jobless rate, giving the authorities room to leave policy on hold even after the hitherto 7% unemployment threshold has been reached. Our base case remains that the tightening cycle will commence in early 2015.

**Asia Pacific**

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

The **Reserve Bank of Australia** will likely keep the benchmark cash rate unchanged at 2.5% next week; the minutes of the February 4th policy meeting indicate that the central bank is no longer considering further monetary easing and that it now deems the exchange rate to be at appropriate levels. The inflation outlook is manageable despite a recent acceleration in price gains. At 2.6% y/y in December, core price inflation remains within the central bank's 2-3% target.















**Latin America**

| <u>Rate</u>   | <u>Current Rate</u> | <u>Next Meeting</u> | <u>Scotia's Forecasts</u> | <u>Consensus Forecasts</u> |
|---|---------------------|---------------------|---------------------------|----------------------------|
| <i>Banco Central do Brasil – Selic Rate</i>               | 10.75               | April 2, 2014       | 10.75                     | --                         |
| <i>Banco Central de Chile – Overnight Rate</i>            | 4.25                | March 13, 2014      | 4.50                      | --                         |
| <i>Banco de la República de Colombia – Lending Rate</i>   | 3.25                | March 21, 2014      | 3.25                      | 3.25                       |
| <i>Banco Central de Reserva del Perú – Reference Rate</i> | 4.00                | March 13, 2014      | 4.00                      | --                         |

**Africa**

| <u>Rate</u>                                   | <u>Current Rate</u> | <u>Next Meeting</u> | <u>Scotia's Forecasts</u> | <u>Consensus Forecasts</u> |
|---|---------------------|---------------------|---------------------------|----------------------------|
| <i>South African Reserve Bank – Repo Rate</i> | 5.50                | March 27, 2014      | 5.50                      | --                         |

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



| Forecasts as at February 28, 2014*   | 2000-12         | 2013e        | 2014f        | 2015f        | 2000-12                            | 2013e        | 2014f        | 2015f        |
|--|-----------------|--------------|--------------|--------------|------------------------------------|--------------|--------------|--------------|
| <b>Output and Inflation (annual % change)</b>  | <b>Real GDP</b> |              |              |              | <b>Consumer Prices<sup>2</sup></b> |              |              |              |
| World <sup>1</sup>   | 3.7             | 2.9          | 3.4          | 3.6          |                                    |              |              |              |
|  Canada         | 2.2             | 2.0          | 2.2          | 2.5          | 2.1                                | 0.9          | 1.2          | 1.9          |
|  United States  | 1.9             | 1.9          | 2.8          | 3.0          | 2.5                                | 1.5          | 1.6          | 1.9          |
|  Mexico         | 2.4             | 1.1          | 2.7          | 3.7          | 4.7                                | 4.0          | 4.2          | 4.0          |
|  United Kingdom | 1.7             | 1.9          | 2.5          | 1.8          | 2.3                                | 2.0          | 2.1          | 2.4          |
|  Euro Zone      | 1.3             | -0.4         | 1.0          | 1.3          | 2.1                                | 0.8          | 1.1          | 1.3          |
|  Japan          | 0.9             | 1.6          | 1.4          | 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             | 4.7          | 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             | 2.8          | 3.5          | 4.5          | 2.7                                | 1.7          | 2.5          | 2.8          |
|  Brazil         | 3.4             | 2.3          | 2.0          | 2.5          | 6.5                                | 6.0          | 6.0          | 5.5          |
|  Chile          | 4.5             | 4.0          | 4.1          | 4.5          | 2.9                                | 3.0          | 3.1          | 3.0          |
|  Peru           | 5.7             | 5.1          | 5.4          | 5.6          | 2.6                                | 2.9          | 3.0          | 2.5          |
| <b>Central Bank Rates (% end of period)</b>  | <b>13Q4</b>     | <b>14Q1f</b> | <b>14Q2f</b> | <b>14Q3f</b> | <b>14Q4f</b>                       | <b>15Q1f</b> | <b>15Q2f</b> | <b>15Q3f</b> |
| 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            | 0.25         | 0.25         | 0.25         | 0.25                               | 0.25         | 0.25         | 0.25         |
| Bank of England  | 0.50            | 0.50         | 0.50         | 0.50         | 0.50                               | 0.75         | 1.00         | 1.25         |
| Swiss National Bank  | 0.00            | 0.00         | 0.00         | 0.00         | 0.00                               | 0.00         | 0.00         | 0.00         |
| Reserve Bank of Australia  | 2.50            | 2.50         | 2.50         | 2.50         | 2.75                               | 3.00         | 3.25         | 3.50         |
| <b>Exchange Rates (end of period)</b>  |                 |              |              |              |                                    |              |              |              |
| 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            | 1.40         | 1.37         | 1.33         | 1.30                               | 1.28         | 1.26         | 1.25         |
| 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          | 6.1          | 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         |
| <b>Commodities (annual average)</b>  | <b>2000-12</b>  | <b>2013</b>  | <b>2014f</b> | <b>2015f</b> |                                    |              |              |              |
| 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         | 3.18         | 3.10         |                                    |              |              |              |
| Zinc (US\$/lb)   | 0.78            | 0.87         | 0.98         | 1.40         |                                    |              |              |              |
| Nickel (US\$/lb)   | 7.64            | 6.80         | 6.90         | 8.00         |                                    |              |              |              |
| Gold, London PM Fix (US\$/oz)  | 745             | 1,410        | 1,320        | 1,375        |                                    |              |              |              |
| Pulp (US\$/tonne)  | 730             | 941          | 985          | 985          |                                    |              |              |              |
| Newsprint (US\$/tonne)   | 585             | 608          | 616          | 635          |                                    |              |              |              |
| Lumber (US\$/mfbm)   | 274             | 356          | 390          | 400          |                                    |              |              |              |

<sup>1</sup> 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.


<sup>2</sup> 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  |       |       |       |             | United States  |      |      |      |            |
|--|-------|-------|-------|-------------|---|------|------|------|------------|
|  | 2013  | 13Q3  | 13Q4  | Latest      |   | 2013 | 13Q3 | 13Q4 | Latest     |
| Real GDP (annual rates)  | 2.0   | 2.7   | 2.9   |             | Real GDP (annual rates)   | 1.9  | 4.1  | 2.4  |            |
| Current Acc. Bal. (C\$B, ar)   | -60.7 | -59.2 | -64.0 |             | Current Acc. Bal. (US\$B, ar)   |      | -379 |      |            |
| Merch. Trade Bal. (C\$B, ar)   | -9.1  | -7.4  | -16.3 | -19.9 (Dec) | Merch. Trade Bal. (US\$B, ar)   | -703 | -711 | -687 | -706 (Dec) |
| Industrial Production  | 0.4   | 0.9   | 0.5   | 1.4 (Dec)   | Industrial Production   | 2.6  | 2.4  | 3.4  | 3.2 (Jan)  |
| Housing Starts (000s)  | 187   | 195   | 195   | 180 (Jan)   | Housing Starts (millions)   | 0.93 | 0.88 | 1.02 | 0.88 (Jan) |
| Employment   | 1.3   | 1.3   | 1.0   | 0.8 (Jan)   | Employment  | 1.7  | 1.8  | 1.8  | 1.7 (Jan)  |
| Unemployment Rate (%)  | 7.1   | 7.1   | 7.0   | 7.0 (Jan)   | Unemployment Rate (%)   | 7.4  | 7.2  | 7.0  | 6.6 (Jan)  |
| Retail Sales   | 2.5   | 3.2   | 3.1   | 3.4 (Dec)   | Retail Sales  | 4.3  | 4.7  | 3.8  | 2.6 (Jan)  |
| Auto Sales (000s)  | 1745  | 1786  | 1760  | 1660 (Dec)  | Auto Sales (millions)   | 15.5 | 15.7 | 15.6 | 15.2 (Jan) |
| CPI  | 0.9   | 1.1   | 0.9   | 1.5 (Jan)   | CPI   | 1.5  | 1.6  | 1.2  | 1.6 (Jan)  |
| IPPI   | 0.4   | 0.9   | 0.5   | -1.4 (Dec)  | PPI   | 1.2  | 1.2  | 0.8  | 1.5 (Jan)  |
| Pre-tax Corp. Profits  | -2.6  | 1.2   | 2.9   |             | Pre-tax Corp. Profits   |      | 3.5  |      |            |



  

| Mexico  |       |       |       |             |
|--|-------|-------|-------|-------------|
|  | 2013  | 13Q3  | 13Q4  | Latest      |
| Real GDP   | 1.1   | 1.4   | 0.7   |             |
| Current Acc. Bal. (US\$B, ar)  | -22.3 | -22.5 | -18.6 |             |
| Merch. Trade Bal. (US\$B, ar)  | -1.0  | -4.1  | 7.4   | -38.3 (Jan) |
| Industrial Production  | -0.7  | -0.5  | -0.4  | -0.3 (Dec)  |
| CPI  | 3.8   | 3.4   | 3.7   | 4.5 (Jan)   |



## Europe

| Euro Zone  |       |       |       |             | Germany  |       |       |       |             |
|--|-------|-------|-------|-------------|--|-------|-------|-------|-------------|
|  | 2013  | 13Q3  | 13Q4  | Latest      |  | 2013  | 13Q3  | 13Q4  | Latest      |
| Real GDP   | -0.4  | -0.3  | 0.5   |             | Real GDP   | 0.5   | 0.6   | 1.4   |             |
| Current Acc. Bal. (US\$B, ar)  | 288   | 259   | 474   | 547 (Dec)   | Current Acc. Bal. (US\$B, ar)  | 267.6 | 235.2 | 357.0 | 386.6 (Dec) |
| Merch. Trade Bal. (US\$B, ar)  | 230.3 | 209.1 | 283.3 | 229.2 (Dec) | Merch. Trade Bal. (US\$B, ar)  | 265.7 | 261.3 | 286.4 | 298.1 (Dec) |
| Industrial Production  | -0.7  | -1.1  | 1.4   | 1.2 (Dec)   | Industrial Production  | 0.0   | -0.1  | 2.7   | 2.9 (Dec)   |
| Unemployment Rate (%)  | 12.0  | 12.1  | 12.0  | 12.0 (Jan)  | Unemployment Rate (%)  | 6.9   | 6.8   | 6.9   | 6.8 (Feb)   |
| CPI  | 1.4   | 1.3   | 0.8   | 0.8 (Jan)   | CPI  | 1.5   | 1.6   | 1.3   | 1.2 (Feb)   |

| France  |       |       |       |             | United Kingdom  |        |        |        |              |
|--|-------|-------|-------|-------------|--|--------|--------|--------|--------------|
|  | 2013  | 13Q3  | 13Q4  | Latest      |  | 2013   | 13Q3   | 13Q4   | Latest       |
| Real GDP   | 0.3   | 0.3   | 0.8   |             | Real GDP   | 1.8    | 1.9    | 2.7    |              |
| Current Acc. Bal. (US\$B, ar)  | -44.1 | -49.7 | -41.2 | -6.1 (Dec)  | Current Acc. Bal. (US\$B, ar)  |        | -167.6 |        |              |
| Merch. Trade Bal. (US\$B, ar)  | -46.6 | -47.7 | -46.2 | -45.6 (Dec) | Merch. Trade Bal. (US\$B, ar)  | -169.4 | -183.8 | -175.1 | -151.6 (Dec) |
| Industrial Production  | -0.4  | -1.3  | 0.7   | 0.5 (Dec)   | Industrial Production  | -0.3   | -0.3   | 2.3    | 1.8 (Dec)    |
| Unemployment Rate (%)  | 10.8  | 10.9  | 10.8  | 10.9 (Jan)  | Unemployment Rate (%)  |        | 7.6    |        | 7.2 (Nov)    |
| CPI  | 0.9   | 0.9   | 0.6   | 0.7 (Jan)   | CPI  | 2.6    | 2.7    | 2.1    | 1.8 (Jan)    |








  

| Italy  |      |      |      |            | Russia  |      |      |      |            |
|---|------|------|------|------------|--|------|------|------|------------|
|   | 2013 | 13Q3 | 13Q4 | Latest     |  | 2013 | 13Q3 | 13Q4 | Latest     |
| Real GDP  | -1.9 | -1.9 | -0.8 |            | Real GDP   |      | 1.2  |      |            |
| Current Acc. Bal. (US\$B, ar)   | 16.2 | 28.5 | 47.0 | 30.4 (Dec) | Current Acc. Bal. (US\$B, ar)  | 33.0 | 0.6  | 4.7  |            |
| Merch. Trade Bal. (US\$B, ar)   | 40.3 | 41.4 | 58.6 | 59.5 (Dec) | Merch. Trade Bal. (US\$B, ar)  | 14.9 | 14.4 | 15.0 | 15.8 (Dec) |
| Industrial Production   | -3.0 | -3.8 | -0.3 | -0.7 (Dec) | Industrial Production  | 0.4  | 0.6  | 1.4  | -0.2 (Jan) |
| CPI   | 1.2  | 1.0  | 0.6  | 0.6 (Jan)  | CPI  | 6.8  | 6.4  | 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    |       |       |      |            | Japan  |        |        |        |              |
|---|-------|-------|------|------------|---|--------|--------|--------|--------------|
|   | 2013  | 13Q3  | 13Q4 | Latest     |   | 2013   | 13Q3   | 13Q4   | Latest       |
| Real GDP  |       | 2.3   |      |            | Real GDP  | 1.6    | 2.4    | 2.7    |              |
| Current Acc. Bal. (US\$B, ar)   | -32.1 | -52.8 |      |            | Current Acc. Bal. (US\$B, ar)   | 34.3   | 54.5   | -53.6  | -74.1 (Dec)  |
| Merch. Trade Bal. (US\$B, ar)   | 20.4  | 12.6  | 21.7 | 57.1 (Dec) | Merch. Trade Bal. (US\$B, ar)   | -117.3 | -119.2 | -152.1 | -210.0 (Jan) |
| Industrial Production   |       | 2.7   |      |            | Industrial Production   | -0.6   | 1.9    | 5.7    | 10.6 (Jan)   |
| Unemployment Rate (%)   | 5.7   | 5.7   | 5.8  | 6.0 (Jan)  | Unemployment Rate (%)   | 4.0    | 4.0    | 3.9    | 3.7 (Jan)    |
| CPI   | 2.4   | 2.2   | 2.7  |            | CPI   | 0.4    | 0.9    | 1.4    | 1.4 (Jan)    |
| South Korea  |       |       |      |            | China  |        |        |        |              |
| Real GDP  | 2.8   | 3.3   | 3.9  |            | Real GDP  | 7.7    | 7.8    | 7.7    |              |
| Current Acc. Bal. (US\$B, ar)   | 70.7  | 75.9  | 87.8 | 43.3 (Jan) | Current Acc. Bal. (US\$B, ar)   | 188.6  |        |        |              |
| Merch. Trade Bal. (US\$B, ar)   | 44.1  | 43.1  | 53.2 | 9.1 (Jan)  | Merch. Trade Bal. (US\$B, ar)   | 259.2  | 244.2  | 360.3  | 382.4 (Jan)  |
| Industrial Production   | 0.2   | 1.0   | 0.7  | 1.6 (Jan)  | Industrial Production   | 9.7    | 10.2   | 9.7    | 9.7 (Dec)    |
| CPI   | 1.3   | 1.4   | 1.1  | 1.1 (Jan)  | CPI   | 2.5    | 3.1    | 2.5    | 2.5 (Jan)    |
| Thailand     |       |       |      |            | India  |        |        |        |              |
| Real GDP  | 2.9   | 2.7   | 0.6  |            | Real GDP  | 4.7    | 4.8    | 4.7    |              |
| Current Acc. Bal. (US\$B, ar)   | -2.8  | -0.9  | 5.2  |            | Current Acc. Bal. (US\$B, ar)   |        | -5.2   |        |              |
| Merch. Trade Bal. (US\$B, ar)   | 0.5   | 1.7   | 1.3  | -0.7 (Jan) | Merch. Trade Bal. (US\$B, ar)   | -12.9  | -9.9   | -10.0  | -9.9 (Jan)   |
| Industrial Production   | -3.0  | -3.9  | -6.7 | -6.6 (Jan) | Industrial Production   | 0.5    | 1.9    | -1.1   | -0.6 (Dec)   |
| CPI   | 2.2   | 1.7   | 1.7  | 1.9 (Jan)  | WPI   | 6.3    | 6.6    | 7.0    | 5.0 (Jan)    |
| Indonesia    |       |       |      |            |   |        |        |        |              |
| Real GDP  | 5.8   | 5.6   | 5.7  |            |   |        |        |        |              |
| Current Acc. Bal. (US\$B, ar)   | -28.5 | -8.5  | -4.0 |            |   |        |        |        |              |
| Merch. Trade Bal. (US\$B, ar)   | -0.3  | -1.0  | 0.8  | 1.5 (Dec)  |   |        |        |        |              |
| Industrial Production   | 5.6   | 7.2   | 0.1  | 0.6 (Dec)  |   |        |        |        |              |
| CPI   | 6.4   | 8.0   | 8.0  | 8.2 (Jan)  |   |        |        |        |              |

## Latin America









| Brazil  |       |       |       |             | Chile     |      |       |      |            |
|--|-------|-------|-------|-------------|--|------|-------|------|------------|
|  | 2013  | 13Q3  | 13Q4  | Latest      |  | 2013 | 13Q3  | 13Q4 | Latest     |
| Real GDP   | 2.1   | 1.9   | 1.7   |             | Real GDP   |      | 4.7   |      |            |
| Current Acc. Bal. (US\$B, ar)  | -81.4 | -68.5 | -83.8 |             | Current Acc. Bal. (US\$B, ar)  |      | -13.8 |      |            |
| Merch. Trade Bal. (US\$B, ar)  | 2.6   | 5.9   | 16.7  | -48.7 (Jan) | Merch. Trade Bal. (US\$B, ar)  | 9.0  | -1.8  | 2.4  | -3.2 (Jan) |
| Industrial Production  | 1.2   | 0.3   | -0.2  | -3.0 (Dec)  | Industrial Production  | 3.0  | 4.9   | 2.5  | -1.7 (Jan) |
| CPI  | 6.2   | 6.1   | 5.8   | 5.6 (Jan)   | CPI  | 1.9  | 2.2   | 2.3  | 2.8 (Jan)  |
| Peru    |       |       |       |             | Colombia  |      |       |      |            |
| Real GDP   | 2.2   | 4.5   | 5.1   |             | Real GDP   |      | 5.1   |      |            |
| Current Acc. Bal. (US\$B, ar)  | -10.2 | -2.5  | -2.2  |             | Current Acc. Bal. (US\$B, ar)  |      | -3.6  |      |            |
| Merch. Trade Bal. (US\$B, ar)  | 0.0   | 0.1   | 0.1   | 0.6 (Dec)   | Merch. Trade Bal. (US\$B, ar)  | 0.2  | 0.0   | 0.1  | 0.6 (Dec)  |
| Unemployment Rate (%)  | 5.9   | 5.8   | 5.8   | 6.4 (Jan)   | Industrial Production  | -1.9 | -1.5  | 0.3  | 1.5 (Dec)  |
| CPI  | 2.8   | 3.1   | 2.9   | 3.1 (Jan)   | CPI  | 2.0  | 2.3   | 1.8  | 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)

| Country  | 13Q3   | 13Q4   | Feb/21 | Feb/28* | Country   | 13Q3  | 13Q4  | Feb/21 | Feb/28* |
|--|--------|--------|--------|---------|---|-------|-------|--------|---------|
| <b>Canada</b>     |        |        |        |         | <b>United States</b>   |       |       |        |         |
| 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   | 0.86   | 0.84    | 3-mo. T-bill  | 0.01  | 0.07  | 0.04   | 0.04    |
| 10-yr Gov't Bond   | 2.54   | 2.76   | 2.52   | 2.45    | 10-yr Gov't Bond  | 2.61  | 3.03  | 2.73   | 2.69    |
| 30-yr Gov't Bond   | 3.07   | 3.23   | 3.02   | 2.96    | 30-yr Gov't Bond  | 3.68  | 3.97  | 3.69   | 3.62    |
| 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   | 72.7   | (Jan)   | FX Reserves (US\$B)   | 136.7 | 133.5 | 133.4  | (Jan)   |
| <b>Germany</b>    |        |        |        |         | <b>France</b>          |       |       |        |         |
| 3-mo. Interbank  | 0.15   | 0.24   | 0.23   | 0.23    | 3-mo. T-bill  | 0.06  | 0.15  | 0.14   | 0.13    |
| 10-yr Gov't Bond   | 1.78   | 1.93   | 1.66   | 1.63    | 10-yr Gov't Bond  | 2.32  | 2.56  | 2.26   | 2.20    |
| FX Reserves (US\$B)  | 65.7   | 67.4   | 66.9   | (Jan)   | FX Reserves (US\$B)   | 54.6  | 50.8  | 54.5   | (Jan)   |
| <b>Euro Zone</b>  |        |        |        |         | <b>United Kingdom</b>  |       |       |        |         |
| 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   | 0.17   | 0.16    | 3-mo. T-bill  | 0.40  | 0.40  | 0.40   | 0.39    |
| FX Reserves (US\$B)  | 332.5  | 331.2  | 337.9  | (Jan)   | 10-yr Gov't Bond  | 2.72  | 3.02  | 2.78   | 2.73    |
| <b>Japan</b>      |        |        |        |         | <b>Australia</b>       |       |       |        |         |
| 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  | 4.22   | 4.02    |
| 10-yr Gov't Bond   | 0.69   | 0.74   | 0.60   | 0.59    | FX Reserves (US\$B)   | 45.9  | 49.7  | 43.4   | (Jan)   |
| FX Reserves (US\$B)  | 1240.8 | 1237.2 | 1246.2 | (Jan)   |   |       |       |        |         |

## Exchange Rates (end of period)

|        |       |       |       |       |                       |        |        |        |        |
|--------|-------|-------|-------|-------|-----------------------|--------|--------|--------|--------|
| USDCAD | 1.03  | 1.06  | 1.11  | 1.11  | ¥/US\$                | 98.27  | 105.31 | 102.51 | 102.14 |
| CADUSD | 0.97  | 0.94  | 0.90  | 0.90  | US\$/Australian\$     | 0.93   | 0.89   | 0.90   | 0.89   |
| GBPUSD | 1.619 | 1.656 | 1.662 | 1.674 | Chinese Yuan/US\$     | 6.12   | 6.05   | 6.09   | 6.15   |
| EURUSD | 1.353 | 1.374 | 1.375 | 1.380 | South Korean Won/US\$ | 1075   | 1050   | 1072   | 1068   |
| JPYEUR | 0.75  | 0.69  | 0.71  | 0.71  | Mexican Peso/US\$     | 13.091 | 13.037 | 13.265 | 13.253 |
| USDCHF | 0.90  | 0.89  | 0.89  | 0.88  | Brazilian Real/US\$   | 2.217  | 2.362  | 2.346  | 2.339  |

## Equity Markets (index, end of period)

|                        |       |       |       |       |                         |       |       |       |       |
|------------------------|-------|-------|-------|-------|-------------------------|-------|-------|-------|-------|
| United States (DJIA)   | 15130 | 16577 | 16103 | 16354 | U.K. (FT100)            | 6462  | 6749  | 6838  | 6822  |
| United States (S&P500) | 1682  | 1848  | 1836  | 1866  | Germany (Dax)           | 8594  | 9552  | 9657  | 9677  |
| Canada (S&P/TSX)       | 12787 | 13622 | 14206 | 14272 | France (CAC40)          | 4143  | 4296  | 4381  | 4405  |
| Mexico (IPC)           | 40185 | 42727 | 39725 | 38955 | Japan (Nikkei)          | 14456 | 16291 | 14866 | 14841 |
| Brazil (Bovespa)       | 52338 | 51507 | 47380 | 47342 | Hong Kong (Hang Seng)   | 22860 | 23306 | 22568 | 22837 |
| Italy (BCI)            | 950   | 1041  | 1116  | 1110  | South Korea (Composite) | 1997  | 2011  | 1958  | 1980  |

## Commodity Prices (end of period)

|                          |        |       |        |        |                  |         |         |         |         |
|--------------------------|--------|-------|--------|--------|------------------|---------|---------|---------|---------|
| Pulp (US\$/tonne)        | 945    | 990   | 1010   | 1010   | Copper (US\$/lb) | 3.31    | 3.35    | 3.27    | 3.22    |
| Newsprint (US\$/tonne)   | 605    | 605   | 605    | 605    | Zinc (US\$/lb)   | 0.85    | 0.95    | 0.93    | 0.96    |
| Lumber (US\$/mfbm)       | 359    | 372   | 366    | 362    | Gold (US\$/oz)   | 1326.50 | 1204.50 | 1323.25 | 1326.50 |
| WTI Oil (US\$/bbl)       | 102.33 | 98.42 | 102.20 | 102.17 | Silver (US\$/oz) | 21.68   | 19.50   | 21.74   | 21.27   |
| Natural Gas (US\$/mmbtu) | 3.56   | 4.23  | 6.14   | 4.61   | CRB (index)      | 285.54  | 280.17  | 301.58  | 301.23  |

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

### Foreign Exchange Strategy

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