

Weekly commentary on economic and financial market developments

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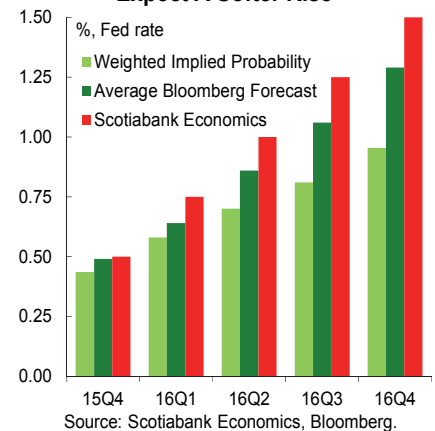
Please see the [Global Forecast Update, December 3, 2015](#), for our latest economic, interest and exchange rate and commodity price forecasts and the [Foreign Exchange Outlook, December 2015](#), for more detailed currency forecasts and commentary.

Forecasts & Data

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This Week's Featured Chart

Markets Price-In Hike Next Week; Expect A Softer Rise



THE WEEK AHEAD

Derek Holt 416.863.7707
derek.holt@scotiabank.com

The First Hike In Nearly A Decade

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

United States — The Hows And Then-Whats Of A Hike

The Federal Reserve is expected by the vast majority of financial markets economists in Bloomberg's consensus survey to hike its federal funds target range from 0-25bps now to 25-50bps next Wednesday. A minority of six within the sample of 77 think otherwise, and markets are mostly — not entirely — priced for a hike. The statement will be accompanied by Chair Yellen's press conference and updated projections. Not since the summer of 2006 has there been a rate hike by the Federal Reserve and the mechanics of engineering one are significantly different this time around. How markets respond to the expected hike and updated forward guidance and with what mixture of tools and concomitant uncertainty a hike is engineered will dominate global markets next week. Here is a summary of our expectations.

- A 25bps hike to the federal funds target range to 25-50bps as controlled by the FOMC.
- An upgraded labour market assessment from "the pace of job gains slowed" to something acknowledging two solid gains since the August-September soft patch.
- A continuation of data/state-dependent guidance on timing the next rate hike.
- Dissenter risk is likely to remove Richmond Fed President Jeffrey Lacker who will support a hike and insert Chicago Fed President Charles Evans who opposes hiking at this juncture.
- A change in the 'dot plot' that likely eliminates the negative rate forecast as Minneapolis Fed President Narayana Kocherlakota retires in January and by tradition skips the meeting before in favour of an alternate representative. On its own, this could put marginal upward pressure upon the median forecast for the federal funds rate by FOMC officials.
- It is uncertain whether and to what extent this will be offset by lowered guidance on FOMC rate projections in future. In our view, it's possible that the median 'dot' will be lowered in order to contain the market response that is still not priced with certainty for a hike next week. That said, market pricing for future Fed moves is already well under the median forecast of FOMC officials as it stands now.
- Continued reinvestment of Treasury and MBS flows with a shift to partial reinvestment of both elements of the System Open Market Account (SOMA) expected over the first half of next year.
- The day after — as guided in the July FOMC meeting minutes — the Interest on Excess Reserves will rise by 25bps to 0.5% and the rate on the overnight reverse repurchase facility will increase to 25bps. Both are expected to be announced in the post-meeting statement. The former sets the floor for lending between banks and the latter serves as the floor for lending in money markets.
- An accompanying statement from the New York Federal Reserve is expected. It will be tasked with ensuring that the effective fed funds rate converges somewhere in the middle of the Fed funds target range set by the FOMC. It will do so through draining market liquidity using the heavily tested Reverse Repurchase Facility (lending securities into the market and withdrawing cash in turn) that we expect to balloon to US\$125-175 billion post-statement. Such testing has not worked at all times to ensure that the

Next Week's Risk Dashboard

- ▶ Federal Reserve rate decision
- ▶ CPI in US, UK, Canada
- ▶ European PMIs, ZEW, IFO surveys
- ▶ Chinese macro reports
- ▶ CDN Q4 growth tracking
- ▶ UK retail sales
- ▶ BoJ, BoT, BI, CBT, BSP decisions
- ▶ Riksbank and Norges Bank decisions
- ▶ EU Leaders' Summit

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Derek Holt 416.863.7707
derek.holt@scotiabank.com

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RRP rate serves as an effective floor for lending in money markets such as quarter-end in late 2013. A long understood — or rather, feared — risk with this facility is that it could make future bank runs worse in the event that deposit flights from the banking system seek shelter on the Fed's balance sheet. That is why a cap on the size of the overnight reverse repurchase facility is being set but the trade-off lies in uncertainty over how big this facility will need to be in order to force private market rates toward the desired floor.

US CPI inflation during November (Tuesday) could rise in year-ago terms on base effects but fall compared to October. US average gasoline prices were about 5% lower in November over October without adjusting for seasonality in what is usually a soft month.

After falling to the weakest level since March, **new home construction** activity is expected to rise again when November's print arrives on Wednesday. Most of October's plunge was driven by a 25% m/m drop in multifamily units such as condominiums. The volatility in this category has been exceptional this year and has usually mean reverted.

Finally, we're not expecting great things from the industrial sector next week in the form of **industrial production** figures for November (Wednesday) and the **Philly Fed** regional gauge for December (Thursday). The US inventory-to-sales picture is elevated and currently stands at its highest since the crisis in the manufacturing sector and that likely portends trend softness in production until such inventories are brought back into line with sales. Our view is that much of the inventory-to-sales rise was undesired and while inventory shedding has been occurring, it has not kept pace with the sales picture.

The US Treasury auctions five year Treasury Inflation-Protected Securities in a reopening on Thursday.

Canada — More Soft Q4 Readings

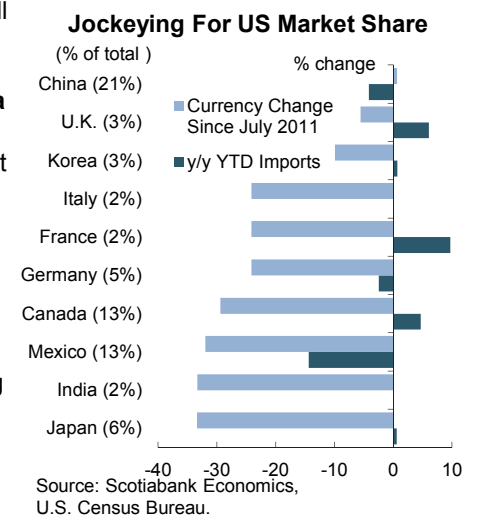
We expect soft readings for a pair of important macro releases that will add to risks facing the Bank of Canada outlook next week, as well as a variety of developments of lower significance.

In the wake of a very soft trade performance in October, **we expect a downbeat report on manufacturing conditions** next Tuesday. Recall that the value of exports fell by 1.9% m/m in October and most of this was due to lower volumes with lower prices only marginally impacting the picture. The weakness was widespread with ten out of eleven categories pushing lower. Energy exports were flat. Exports are a part of the manufacturing picture with the rest of the risk remaining to be informed by way of domestic influences. As for the expectation that Canadian exports will get a big boost from a falling currency, think again — most countries are hoping for the same thing in the US imports market and CAD's collective move since it really began to depreciate over four years ago has not been a stand-out, particularly relative to its other NAFTA competitor (chart 1).

We used to be counting upon higher gasoline prices to stabilize CPI into year-end but clearly that's not happening this year. Gasoline prices are falling again and this changes an important driver (chart 2). The effect of lower gasoline prices could be reflected further in next Friday's inflation reading for November which is likely to again hover around 1% and possibly lower and then again in December.

Canada also releases existing home sales for November, in the context of a warmer-than-usual start to the late-Fall and Winter months. Resales have trended roughly flat in seasonally adjusted terms since May.

Chart 1



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Derek Holt 416.863.7707
derek.holt@scotiabank.com

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Wholesale trade for October will be the second last piece of tracking evidence available to firm up expectations for October GDP growth which gets released on December 23rd and — unusually — on the same day as retail sales for that month.

Finally, the Bank of Canada's biannual Financial System Review often catches a headline or two on topics such as the influence of energy and housing on financial stability, and it will be released Tuesday.

Asia — Responding To The Fed

Key Chinese macro data and a wave of policy decisions by Asian central banks will carve out potential influences on global and regional markets.

On tap this weekend and thus before the Fed meeting will be the monthly data deluge from China in which retail sales, industrial production and fixed asset investment will be released simultaneously on Saturday. I've asked Frances Donald to share her thoughts: The data dump is generally a bit predictable as, month after month, we see the same pattern: industrial production and fixed asset investment continue to slide while retail sales stabilize and even show some upside potential. In brief, the three pieces of data offer a microcosm for the longer-term China story in which manufacturing decelerates and services offset some, but not all, of that decline. The November data will likely show the same, with some additional focus on decimal points of upside or downside surprise that should probably be looked through to the medium- and longer-term trend, particularly given the reliability and the volatility of official Chinese data.

More interesting will be Chinese property price figures which land on Thursday night. We've been fairly bullish on property for several months, but noted [here](#) (pg 6) that October prices were exhibiting some signs of reduced momentum as the pace of month-over-month prices decelerated and the breadth of price gains worsened. We will also be watching the rapid acceleration in Tier 1 city prices (i.e., China's largest cities). Prices are up a significant 16% y/y in these cities, and should they accelerate much faster, we'd expect some targeted policy intervention. The key word here is 'targeted' as prices are still falling in year-over-year terms in Tier 2 and Tier 3 homes (chart 3). While Tier 1 home prices often accelerate and decelerate more rapidly than Tier 2 and Tier 3 data, we haven't seen this type of divergence over the past decade.

Five Asian central banks issue policy decisions including the Bank of Japan, Bank of Thailand, Bank Indonesia, Bangko Sentral ng Pilipinas, and the Central Bank of Taiwan. Most of them pass their decisions after the Federal Reserve concludes its meeting and rate decision. Of these, only the CBT is expected to ease to confront ongoing export weakness through spillover effects of China's soft economy; such softness was evident during my recent visit to Taipei. The Bank of Japan got an assist from Q3 GDP revisions that wipe out what had previously been a technical recession and is unlikely to add fresh stimulus and will instead continue to monitor the economy including November exports and the latest Bank of Japan Tankan survey of manufacturing conditions that are both due out next week.

RBA meeting minutes from the November 30th meeting around the time when Governor Stevens told markets to "chill out" on rate expectations for a few months, and Indian exports plus CPI close out the main macro reports.

Chart 2

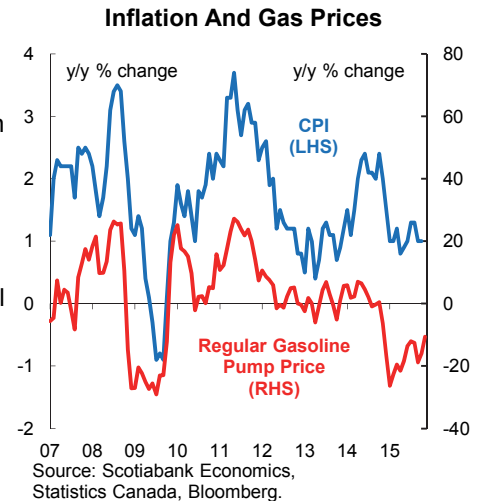
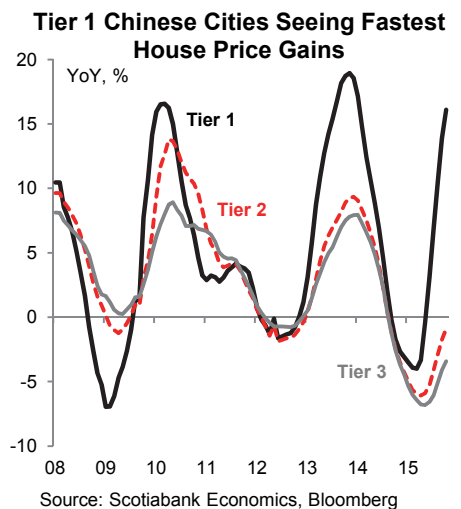


Chart 3



THE WEEK AHEAD

Derek Holt 416.863.7707
derek.holt@scotiabank.com

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Europe — Survey Says...

Europe is looking up these days—by European standards. That is. Can it sustain the momentum into 2016 and beyond? We'll get fresh insight into this next week in a wave of survey-based evidence that is widely watched by markets.

Before we rattle them off, if you haven't read the article in last week's *Global Views* weekly written by our Eurozone strategist Frédéric Prêtet, then it's recommended you do. He thinks the eurozone economy could hit growth of up to 2.5% next year. That's higher than our one-handed house print forecast but I think he makes a fair argument. Lower oil is a plus for the Eurozone and so are lower bond yields, less fiscal drag and monetary stimulus. In fact, fiscal drag is retreating globally.

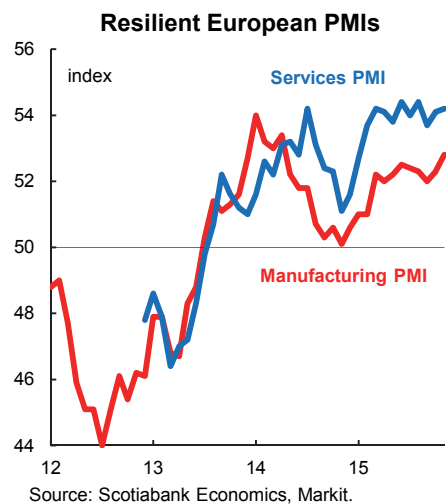
Europe will release purchasing managers' indices for the manufacturing and service sectors, the ZEW survey of financial market participants' expectations, and Germany's IFO business confidence metric. So far, they've been fairly resilient to the refugee crisis, the VW diesel smokescreen and China worries amidst plenty of fears to the contrary (chart 4). Not immune, but resilient. We'll see if that continues in the near term.

Against this main backdrop of often market-moving surveys will arrive several macro reports such as industrial production and trade updates for the Eurozone.

Our UK strategist Alan Clarke will have plenty to wade through in his evolving interpretation of state-dependent Bank of England policy guidance. UK CPI will be the main thing to watch as global inflation reports come under varying degrees of downward pressure from falling gasoline and other commodity prices. His point is that the UK — and others like Canada for that matter, in my view — faces less downside risk to inflation than the US from falling gasoline prices because more of the US price is driven by purer market forces versus higher tax burdens per litre in the UK (and Canada!). UK retail sales and the unemployment rate round out the reports.

An EU Leaders' Summit at week's end that will have the refugee crisis and terrorism plus anti-ISIS actions on the agenda and a pair of Scandinavian central bank decisions close out the market headlines. Will the Norges Bank ease in the face of a renewed plunge in oil prices? Will the Riksbank resist dropping its deposit rate further into experimental negative territory and therefore follow the ECB's cut?

Chart 4



U.S. MONETARY POLICY

Dov Zigler 212.225.6631
dov.zigler@scotiabank.com

What The Fed *Won't* Do At Its December Meeting

- **Although the FOMC is likely to announce an interest rate increase at its Dec. 16 meeting, we do not expect it to announce a contraction of its balance sheet.**
- **It is also possible that the FOMC will revise the strategy that it plans to employ when it does choose to contract its balance sheet.**
- **Ultimately, the Fed's management of its balance sheet will be a factor influencing monetary policy tightening more broadly in 2016.**

The Federal Reserve's balance sheet currently lists assets including USD4.239 trillion of securities held outright, among them USD2.461tn of Treasury securities and USD1.778tn of mortgage-backed securities (MBS) and federal agency debt. We do not expect that the Federal Reserve will announce plans to cease reinvesting maturing Treasury, agency debt, or mortgage-backed securities at its December 16 meeting, i.e., we expect the FOMC will choose to maintain the current size of its balance sheet at least for now. Therefore, at a minimum, the Fed's strategy for active reinvestment of maturing Treasury securities will need to be addressed. After all, a strong case can be made that steps to normalize the Federal Reserve's balance sheet form a more important part of monetary policy normalization than initial changes in interest rates. The reinvestment plan for Treasuries in particular can have a substantial impact on the market.

How to invest \$200bn without really trying: auction add-ons vs. maturity consolidation

Up until now, the FOMC has included the following sentence in its statement: "The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction." In practice, this has meant that the Fed has bought Treasury securities as an add-on at auction when Treasury securities owned by the Fed have matured this year. The numbers have been very small — approximately \$1.5bn.

Our base case, as we wrote about in September ([link](#)), is that this policy will remain in place to start 2016 and that the Federal Reserve will thus purchase a meaningful quantity of the gross supply of Treasury notes and bonds due to hit the market next year. There is a risk that this could continue for longer than generally expected. The minutes to the September FOMC meeting stated "continuing reinvestment until normalization of the level of the federal funds rate was well under way could help avoid" a return of the Fed's policy rate to zero. In an extreme case, if the Fed were to continue reinvesting Treasury maturities all year, it could potentially purchase in the neighborhood of 10% of gross issuance of notes and bonds. Expect the Federal Reserve to announce detailed guidance with respect to its reinvestment policy at the December 16 meeting.

The outlier possibility is that the Federal Reserve will pursue a different reinvestment methodology altogether, and use some (or all) of the maturing securities to 'clean up' the Treasury market by purchasing less liquid off-the-run issues. This is the policy being pursued at present by the BoE, which periodically undertakes actions to purchase Gilts from the market using the proceeds from maturing Gilts formerly on its balance sheet. An example of the kind of announcements that the BoE publishes when it undertakes these operations is available [here](#). We do not expect this kind of policy from the Fed, but one never knows.

MBS vs. Treasuries: does one go first and what does it mean for the housing market?

One of the core assumptions in the market is that the Federal Reserve will cease reinvesting proceeds from maturing MBS before it does the same for Treasury securities. This is based on long-standing 'exit principles' published by the Fed and remarks from Fed officials over the years. What if the Fed shifts gears? Fed Vice Chair Fischer has implied that this is at least a possibility. In an October 2 speech, he spoke about how "there is some room" with respect to whether or not the Fed will begin balance sheet normalization by allowing MBS or Treasury securities to roll off. The case against ending MBS reinvestment is that the spread between the production coupon MBS and the 10-year yield continues to hover at approximately 75bps, roughly 40bps

U.S. MONETARY POLICY

Dov Zigler 212.225.6631
dov.zigler@scotiabank.com

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lower than the average during the 2 years prior to start of the housing crisis. This offers meaningful stimulus to households, who pay a lower premium to prevailing government interest rates on their mortgages than normal.

Ceasing reinvestment of MBS could potentially cause that spread to widen, and thus represent a form of financial conditions tightening for households over-and-above the general tightening in economy-wide financial conditions that will be precipitated by initial monetary policy changes. The bottom line is that we continue to expect the Fed to cease reinvesting MBS before it ceases to reinvest Treasuries, but this is by no means the slam-dunk that it may have seemed to be, say, at the start of 2015.

If the Fed doesn't shrink its balance sheet... how much will it raise rates?

Between a) the caution that the Fed might logically choose to exercise with respect to its MBS reinvestment, and b) the extra 'insurance' that the Fed can purchase via an extended period of reinvestment of Treasury securities, a plausible case can be made that the FOMC will be extremely cautious with respect to managing its balance sheet. And if the Fed is being extremely cautious about its balance sheet... how much policy rate tightening is it likely to undertake?

Our forecast remains that the FOMC will hike rates four times in 2016 and the Fed Funds rate will find itself in a range of 1.25%-1.5% to end 2016. As well, we expect the balance sheet to begin to contract smoothly around mid-year. But this forecast assumes that economic and financial conditions will merit this type of double-edged change in monetary policy.

Afterword: Japan's withdrawal of liquidity in 2006-07

Japan's experience with monetary tightening in 2006-07 is instructive. The BoJ increased its policy rate from 0% to 0.5% from 2006 through 2007 but then arrested its hiking cycle. This is often pointed to as proof that central banks have difficulty raising policy rates from zero. At the same time that the BoJ was raising rates, however, it was also rolling back its QE program, and the BoJ balance sheet contracted by roughly 30% in size between January 2006 and June 2007.

The BoJ in fact tightened policy in 2006-07 by much more than the 50bps of change in its policy rate implied. During a central bank's tightening of monetary policy conditions following a large monetary expansion that includes QE, policy can be tightened considerably without official policy interest rates moving very much. This is a lesson that should be instructive both to the Fed and to the U.S. Treasuries market.

Chart 1

Spread of Current Coupon Fannie Mae 30-Year vs. 10-Year Note QE Impacting Mortgages...

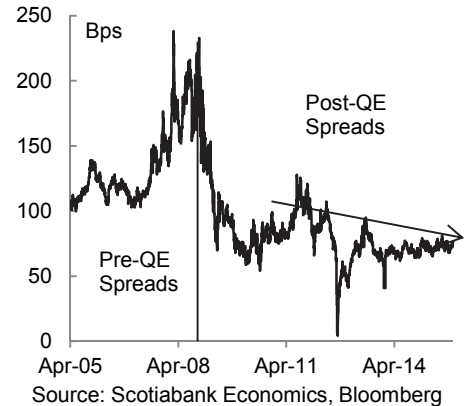
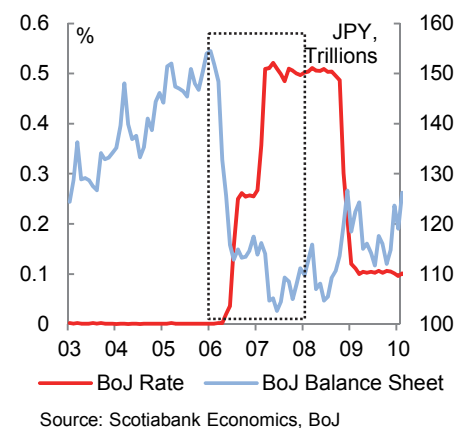


Chart 2

BoJ Policy Normalization 2006-07 Rates & Balance Sheet



AUTOS

Carlos Gomes 416.866.4735
carlos.gomes@scotiabank.com

Auto Sales Revive In Asia

Auto sales across Asia accelerated in October to the fastest pace of the past year, and preliminary data for November point to an even stronger advance. We expect purchases to continue to be buoyed by improving credit conditions, recent reductions in sales taxes in two large markets and some strengthening in the pace of economic growth. In addition, new orders from the global high-tech sector appear to be in the early stages of an upswing, following an inventory correction in recent months.

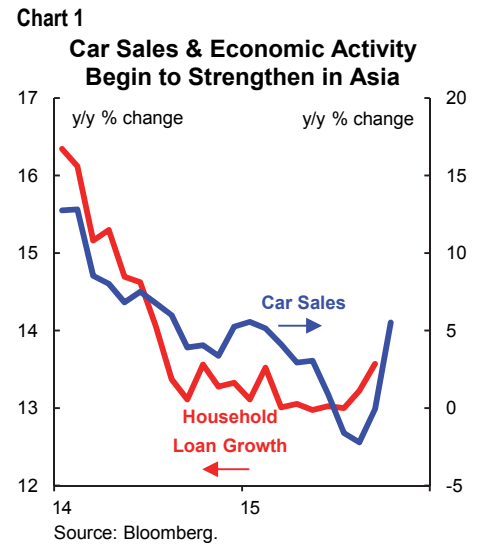
A revival in purchases across Asia is key for the global auto industry, as the region now accounts for 40% of global sales. Double-digit gains in China have been a key driver of the recent improvement, and follow a 50% reduction in the sales tax applied on purchases of new vehicles with engine capacity of less than 1.6 litres to 5% from 10%. The tax cut will remain in place through December 2016 and will underpin higher volumes over the coming year. We expect the tax cut will help support the purchase of at least an additional one million vehicles in China, helping to lift sales by 7% in 2016, a significant improvement from declining year-over-year volumes this summer.

However, the sales gain across Asia are much broader than just the improvement in China. Purchases in both India and Korea jumped 20% above a year earlier in October, and the momentum continued last month. Many other countries also reported moderately higher volumes. South Korea also cut taxes on new vehicles and large appliances, such as TVs, refrigerators and air conditioners. However, the reduction in South Korea's excise tax was smaller — a 30% drop to 3.5% from 5% — and will only last through the end of the year. The tax cut has given a lift to economic activity, with the South Korean economy expanding by 1.2% quarter-to-quarter in the July-September period, up from only a 0.3% advance between April and June. The improvement was driven by the fastest pace of industrial production in two years, and a further quickening is expected in 2016.

Importantly, the latest improvement in car sales also coincides with an acceleration of the pace of loan growth across Asia in response to stimulative measures introduced by monetary authorities. For example, central bank rates across Asia have declined by an average of 50 basis points over the past year, led by reductions of 125 basis points in both China and India. These measures have helped boost household loan growth across the region to nearly 14% y/y, from a low of 13% in May. In fact, household loan growth across Asia is now advancing at the fastest pace since mid-2014 and will support stronger global economic activity over the coming year, especially since it coincides with strengthening loan demand across the euro zone, in the United States and the United Kingdom.

In addition, new export orders for companies in Taiwan are also on the upswing, pointing to a possible rebound in the global high-tech industry, which sources many of its products in Asia. A revival in export orders for communication equipment is leading the way. However, the gain in order volumes is broad based, with semiconductors and electronic equipment bookings also on the rise.

In India, the accommodative stance of the central bank which includes a 50 basis point reduction in interest rates in late September, as well as elevated consumer sentiment helped lift car sales in October/November at the quickest pace in five years. In fact, we expect India to take over from China as the fastest-growing auto market in Asia. Economic growth in India is expected to continue to exceed 7% per annum for the foreseeable future, with activity supported by solid domestic demand which accounts for more than 70% of the overall economy. Income growth in India continues to advance at a solid pace, while vehicle penetration remains extremely low. India is home to 17% of the global population, but only 3% of the vehicles on the road. There are only 30 vehicles per every 1,000 people in India — 70% fewer than in China and 96% below the G7 average.



Frances Donald 416.862.3080
frances.donald@scotiabank.com

Derek Holt 416.863.7707
derek.holt@scotiabank.com

Dov Zigler 212.225.6631
dov.zigler@scotiabank.com

Key Data Preview

CANADA

Canadian manufacturing sales should come in on the very weak side for October, and we're anticipating a -1% m/m print. Our principal rationale is that the data on international trade for October showed big declines in almost every significant manufactured good category. Exports of food products fell by 7.3% m/m, metal products by 9.4% m/m, chemical, plastics and rubber by 5.6% m/m, electrical equipment by 1.5% m/m, motor vehicles by 0.4% m/m, aircraft by 2.8% m/m, consumer goods by 0.1% m/m — almost nothing was positive save for industrial machinery at +1.1% m/m. New orders were down by 1.5% m/m in September too. In short, there is nothing to get excited about. The only positive that we can point to is that September manufacturing sales were so weak (-1.5% m/m) that base effects could (hopefully) mitigate some of the weakness — and some of the softness in exports may have been a function of weak production the month before as well. Still, there isn't much to be optimistic about when it comes to manufacturing sales for October. Moving forward, the question of inventory overstocking further adds to the sense that manufacturing sales will struggle to pick up significantly in the months ahead.

CPI, on the other hand, looks like it should print ok numbers for November — at least by seasonally normal standards. We're anticipating a 0% not-seasonally-adjusted core CPI print for November and a -0.3% m/m headline NSA number. Core CPI tends to come in weak in November as clothing prices and reading, education, and recreation prices all fall, and by quite a bit, at this time of the year. We're expecting that this pattern will repeat this November, however a slightly higher trend in core CPI than we have seen in recent years (mainly due to the weaker C\$) should elevate the core print to the 0% m/m area as opposed to the -0.1 to -0.2% range that it has posted in recent years. Food prices also tend to bounce quite a bit in November, typically rising in the 1.25-1.75% range, and that should counteract the drop in Canadian gasoline prices at the pump (1.5% m/m according to Bloomberg). (Note that Canadian pump prices fell by less than U.S. pump prices on the month due to a mix of the weaker C\$ and the fact that higher tax levels in Canada modestly reduce the sensitivity of retail gasoline prices to global market fluctuations.) Gasoline prices have been softening so far in December, so there is some risk from this quarter moving ahead. The net should leave annual core CPI at 2.3% y/y and headline at 1.1% y/y.

UNITED STATES

U.S. inflation numbers should come in at 0% m/m in terms of headline CPI and +0.2% m/m on core for November. We're expecting that headline CPI will be weighed down by a mix of the drop in gasoline pump prices in the U.S. (-5.4% m/m on average — much more precipitous than in Canada) and natural gas prices (-12.5% m/m in October and -10% m/m in November, with the October number probably mattering more to November CPI due to the lag between wholesale and retail costs). These factors will mitigate what will probably be ongoing strength in core CPI as the mix of quickly rising housing costs (~2.5% y/y for the past while) and a rebound in medical care costs after subdued cost level appreciation in that category in recent years. The net should leave core inflation at 2% y/y and headline at 0.4% y/y.

Housing starts could well rebound to 1.125m annualized in November, and we're expecting that strong underlying levels of building permits will continue to fuel construction, while better-than-normal weather this November could inflate the seasonally adjusted print. Moving forward, the big question is whether or not home sales will be strong enough to incentivize builders to continue with new construction. We're hopeful on that front as new home sales are much higher at the moment than they were last year — but they are also lower than they were to end Q1 2015, so the question of momentum, at least for the moment, remains an open one.

Erika Cain 416.866.4205
erika.cain@scotiabank.com

Rory Johnston 416.862.3908
rory.johnston@scotiabank.com

Tuuli McCully 416.863.2859
tuuli.mccully@scotiabank.com

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EUROPE

The euro zone economic calendar is quite busy this week, with the German ZEW survey to be released on Tuesday, December 15th, followed by PMIs for the euro zone, Germany and France on Wednesday, December 16th, and the German Ifo Business Climate survey on Thursday, December 17th. Euro zone business surveys have been surprisingly buoyant in recent months despite headwinds from slower emerging market growth, the German Volkswagen Scandal and the devastating terrorist attacks in France. It appears that these challenges are being counterbalanced in the eyes of euro zone corporates by ongoing support from low interest rates, cheaper oil prices, and the weaker euro. Business sentiment is expected to remain relatively resilient in December, however, with the Paris attacks on November 13th now completely factored into the responses of all survey participants, downside risk from further weakness in France is likely, particularly in the service sector. As such, we expect December's German ZEW index and Ifo to remain roughly stable at around 10½ and 109.0, while euro zone PMIs could ease slightly alongside service sector weakness.

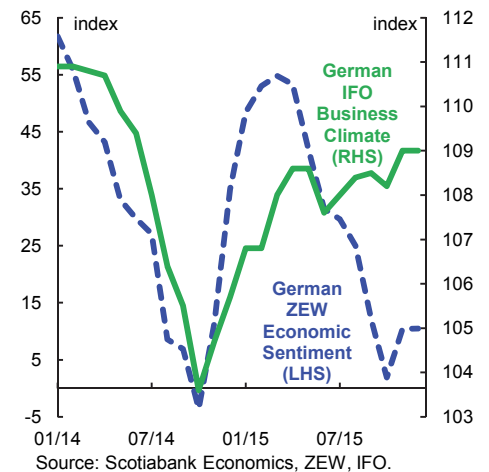
LATIN AMERICA

Economic activity indices in Peru and Brazil will be updated to include October figures on December 15th and 17th-21st, respectively. We expect that Peru's economic activity index expanded by 3.2% y/y in October, on track to meet our 2015 real GDP growth forecast of 2.9%. The country has performed relatively well through the broad-based commodity price slump, despite the adverse impacts on its critical mining sector. In line with a growing "lower-for-longer" commodity price outlook, the government recently announced a downgraded 2016 growth outlook of 4.0% vs. 4.3% previously — we expect slightly slower growth of 3.5% in 2016. Brazil's economic activity index, however, is likely to indicate a contraction of 6.1% y/y in October, providing further evidence of the country's deep economic challenges. Tight monetary policy, fiscal consolidation, low commodity prices, and high-level corruption scandals have all contributed to Brazil's anemic economic position.

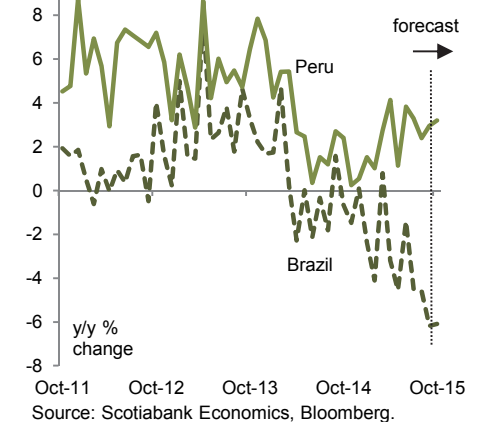
ASIA-PACIFIC

New Zealand will release third quarter GDP data on December 16th (EST). We estimate that production-based real GDP growth slowed to 2.2% y/y from the 2.4% pace recorded in the second quarter. The country's economic growth has softened over the course of 2015 reflecting substantially weaker terms of trade, particularly affected by lower world dairy prices. On December 10th, the Reserve Bank of New Zealand opted to provide further monetary stimulus to the economy and lowered its benchmark interest rate by 25 basis points to 2.50%. We estimate that the economy will expand by around 2½% this year, followed by a slight acceleration next year as consumer confidence and spending pick up.

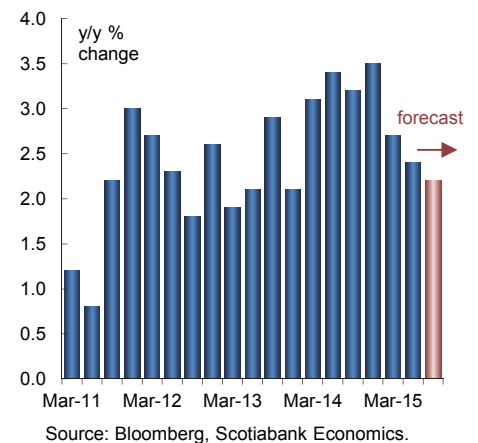
Business Surveys To Remain Resilient



Brazilian & Peruvian Economic Activity Indices



New Zealand Real GDP Growth



Key Indicators for the week of December 14 – 18

North America



Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	12/14	08:30	Teranet - National Bank HPI (y/y)	Nov	--	--	5.6
US	12/15	08:30	CPI (m/m)	Nov	0.0	0.0	0.2
US	12/15	08:30	CPI (y/y)	Nov	0.4	0.4	0.2
US	12/15	08:30	CPI (index)	Nov	237.2	237.3	237.8
US	12/15	08:30	CPI ex. Food & Energy (m/m)	Nov	0.2	0.2	0.2
US	12/15	08:30	CPI ex. Food & Energy (y/y)	Nov	2.0	2.0	1.9
US	12/15	08:30	Empire State Manufacturing Index	Dec	--	-7.0	-10.7
CA	12/15	08:30	Manufacturing Shipments (m/m)	Oct	-1.0	--	-1.5
CA	12/15	09:00	Existing Home Sales (m/m)	Nov	--	--	1.8
US	12/15	10:00	NAHB Housing Market Index	Dec	--	63.0	62.0
US	12/15	16:00	Total Net TIC Flows (US\$ bn)	Oct	--	--	-175.1
US	12/15	16:00	Net Long-term TIC Flows (US\$ bn)	Oct	--	--	33.6
US	12/16	07:00	MBA Mortgage Applications (w/w)	DEC 11	--	--	1.2
CA	12/16	08:30	International Securities Transactions (C\$ bn)	Oct	--	--	3.3
US	12/16	08:30	Housing Starts (000s a.r.)	Nov	1125	1140	1060
US	12/16	08:30	Housing Starts (m/m)	Nov	--	7.6	-11.0
US	12/16	08:30	Building Permits (000s a.r.)	Nov	--	1160	1161
US	12/16	09:15	Industrial Production (m/m)	Nov	0.0	-0.2	-0.2
US	12/16	09:15	Capacity Utilization (%)	Nov	--	77.3	77.5
US	12/16	14:00	FOMC Interest Rate Meeting (%)	Dec 16	0.50	0.50	0.25
US	12/17	08:30	Initial Jobless Claims (000s)	DEC 12	275	270	282
US	12/17	08:30	Continuing Claims (000s)	DEC 5	2235	--	2243
US	12/17	08:30	Current Account (US\$ bn)	3Q	--	-122.0	-109.7
US	12/17	08:30	Philadelphia Fed Index	Dec	2.0	0.9	1.9
US	12/17	10:00	Leading Indicators (m/m)	Nov	--	0.1	0.6
MX	12/17	14:00	Overnight Rate (%)	Dec 17	3.50	3.25	3.00
CA	12/18	08:30	CPI, All items (m/m)	Nov	-0.3	--	0.1
CA	12/18	08:30	CPI, All items (y/y)	Nov	1.1	--	1.0
CA	12/18	08:30	Core X8 CPI (m/m)	Nov	0.0	--	0.3
CA	12/18	08:30	Core X8 CPI (y/y)	Nov	2.3	--	2.1
CA	12/18	08:30	CPI, All items (index)	Nov	--	--	127.2
CA	12/18	08:30	CPI SA, All items (m/m)	Nov	--	--	0.2
CA	12/18	08:30	Core CPI SA, All items (m/m)	Nov	--	--	0.2
CA	12/18	08:30	Wholesale Trade (m/m)	Oct	--	--	-0.1

Europe



Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
IT	12/14	04:00	CPI - EU Harmonized (y/y)	Nov F	0.1	0.1	0.1
EC	12/14	05:00	Industrial Production (m/m)	Oct	--	0.3	-0.3
EC	12/14	05:00	Industrial Production (y/y)	Oct	--	1.4	1.7
SP	12/15	03:00	CPI (m/m)	Nov F	--	0.3	0.3
SP	12/15	03:00	CPI (y/y)	Nov F	--	-0.3	-0.3
SP	12/15	03:00	CPI - EU Harmonized (m/m)	Nov F	0.2	0.2	0.2
SP	12/15	03:00	CPI - EU Harmonized (y/y)	Nov F	-0.4	-0.4	-0.4
SW	12/15	03:30	Riksbank Interest Rate (%)	Dec 15	-0.35	-0.35	-0.35
UK	12/15	04:30	CPI (m/m)	Nov	-0.1	-0.1	0.1
UK	12/15	04:30	CPI (y/y)	Nov	0.0	0.1	-0.1
UK	12/15	04:30	DCLG House Prices (y/y)	Oct	--	--	6.1

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

Key Indicators for the week of December 14 – 18

Europe (continued from previous page)



Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
UK	12/15	04:30	PPI Input (m/m)	Nov	--	-1.0	0.2
UK	12/15	04:30	PPI Output (m/m)	Nov	--	-0.1	0.0
UK	12/15	04:30	RPI (m/m)	Nov	--	0.0	0.0
UK	12/15	04:30	RPI (y/y)	Nov	--	0.9	0.7
EC	12/15	05:00	Employment (q/q)	3Q	--	--	0.3
EC	12/15	05:00	ZEW Survey (Economic Sentiment)	Dec	--	--	28.3
GE	12/15	05:00	ZEW Survey (Current Situation)	Dec	--	54.2	54.4
GE	12/15	05:00	ZEW Survey (Economic Sentiment)	Dec	10.0	15.0	10.4
FR	12/16	03:00	Manufacturing PMI	Dec P	--	50.6	50.6
FR	12/16	03:00	Services PMI	Dec P	--	50.8	51.0
GE	12/16	03:30	Manufacturing PMI	Dec P	--	52.8	52.9
GE	12/16	03:30	Services PMI	Dec P	--	55.5	55.6
EC	12/16	04:00	Composite PMI	Dec P	53.6	54.2	54.2
EC	12/16	04:00	Manufacturing PMI	Dec P	52.5	52.8	52.8
EC	12/16	04:00	Services PMI	Dec P	53.7	54.0	54.2
UK	12/16	04:30	Average Weekly Earnings (3-month, y/y)	Oct	--	2.5	3.0
UK	12/16	04:30	Employment Change (3M/3M, 000s)	Oct	--	150.0	177.0
UK	12/16	04:30	Jobless Claims Change (000s)	Nov	--	0.8	3.3
UK	12/16	04:30	ILO Unemployment Rate (%)	Oct	--	5.3	5.3
EC	12/16	05:00	CPI (m/m)	Nov	-0.2	-0.2	-0.2
EC	12/16	05:00	CPI (y/y)	Nov F	0.1	0.1	0.1
EC	12/16	05:00	Euro zone Core CPI Estimate (y/y)	Nov F	0.9	0.9	0.9
EC	12/16	05:00	Trade Balance (€ mn)	Oct	--	--	20.5
GE	12/17	04:00	IFO Business Climate Survey	Dec	108.9	109.0	109.0
GE	12/17	04:00	IFO Current Assessment Survey	Dec	113.3	113.4	113.4
GE	12/17	04:00	IFO Expectations Survey	Dec	104.5	105.0	104.7
NO	12/17	04:00	Norwegian Deposit Rates (%)	Dec 17	0.75	0.75	0.75
UK	12/17	04:30	Retail Sales ex. Auto Fuel (m/m)	Nov	--	0.5	-0.9
UK	12/17	04:30	Retail Sales with Auto Fuel (m/m)	Nov	--	0.6	-0.6
EC	12/17	05:00	Labour Costs (y/y)	3Q	--	--	1.6
FR	12/18	02:45	Producer Prices (m/m)	Nov	--	--	0.2
EC	12/18	04:00	Current Account (€ bn)	Oct	--	--	29.4
IT	12/18	04:30	Current Account (€ mn)	Oct	--	--	1430.9

Asia Pacific



Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CH	12/12	00:30	Fixed Asset Investment YTD (y/y)	Nov	--	10.1	10.2
CH	12/12	00:30	Industrial Production (y/y)	Nov	5.5	5.7	5.6
CH	12/12	00:30	Retail Sales (y/y)	Nov	11.0	11.1	11.0
JN	12/13	18:50	Tankan All Industries Index	4Q	--	10.2	10.9
JN	12/13	18:50	Tankan Manufacturing Index	4Q	--	11.0	12.0
JN	12/13	18:50	Tankan Non-Manufacturing Index	4Q	--	23.0	25.0
JN	12/13	23:30	Capacity Utilization (m/m)	Oct	--	--	1.5
JN	12/13	23:30	Tertiary Industry Index (m/m)	Oct	--	0.5	-0.4
JN	12/13	23:30	Industrial Production (y/y)	Oct F	-1.4	--	-1.4
IN	12/14	01:30	Monthly Wholesale Prices (y/y)	Nov	--	-2.5	-3.8
HK	12/14	03:30	Industrial Production (y/y)	3Q	--	--	-1.3
IN	12/14	07:00	CPI (y/y)	Nov	5.5	5.3	5.0
AU	12/14	19:30	House Price Index (y/y)	3Q	--	10.2	9.8
AU	12/14	19:30	New Motor Vehicle Sales (m/m)	Nov	--	--	-3.6

Forecasts at time of publication.

Source: Bloomberg, Scotiabank Economics.

Key Indicators for the week of December 14 – 18

Asia Pacific (continued from previous page)

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
ID	12/14	23:00	Exports (y/y)	Nov	--	-10.7	-21.0
ID	12/14	23:00	Imports (y/y)	Nov	--	-19.8	-27.8
ID	12/14	23:00	Trade Balance (US\$ mn)	Nov	--	900.0	1019.2
PH	DEC 14-15		Overseas Remittances (y/y)	Oct	--	--	4.3
SI	12/15		Retail Sales (y/y)	Oct	--	2.6	4.6
SK	12/15	18:00	Unemployment Rate (%)	Nov	--	3.5	3.4
TH	12/16	02:30	BoT Repo Rate (%)	Dec 16	1.50	1.50	1.50
NZ	12/16	16:45	GDP (y/y)	3Q	2.2	2.3	2.4
JN	12/16	18:50	Merchandise Trade Balance (¥ bn)	Nov	--	-442.7	108.3
JN	12/16	18:50	Adjusted Merchandise Trade Balance (¥ bn)	Nov	--	-206.7	-202.3
JN	12/16	18:50	Merchandise Trade Exports (y/y)	Nov	--	-1.6	-2.2
JN	12/16	18:50	Merchandise Trade Imports (y/y)	Nov	--	-7.5	-13.4
SI	12/16	19:30	Exports (y/y)	Nov	--	1.6	-0.5
ID	DEC 16-17		BI Reference Interest Rate (%)	Dec 17	7.50	7.50	7.50
TA	DEC 16-17		Benchmark Interest Rate	Dec 17	1.63	1.75	1.75
PH	12/17	03:00	Overnight Borrowing Rate (%)	Dec 17	4.00	4.00	4.00
HK	12/17	03:30	Unemployment Rate (%)	Nov	3.3	3.3	3.3
HK	12/17	03:42	Composite Interest Rate (%)	Nov	--	--	0.25
SK	12/17	16:00	PPI (y/y)	Nov	--	--	-4.5
JN	DEC 17-18		BoJ Monetary Base Target (¥ tn)	Dec 18	80.0	--	80.0
PH	DEC 17-18		Balance of Payments (US\$ mn)	Nov	--	--	469.0
JN	12/18	00:30	Nationwide Department Store Sales (y/y)	Nov	--	--	4.2

Latin America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
PE	12/15		Economic Activity Index NSA (y/y)	Oct	3.2	3.2	3.0
PE	12/15		Unemployment Rate (%)	Nov	--	--	5.8
BZ	12/16	06:00	Retail Sales (y/y)	Oct	--	-8.3	-6.2
CO	12/16	16:00	Retail Sales (y/y)	Oct	--	2.2	2.8
BZ	12/17	06:00	Unemployment Rate (%)	Nov	--	8.1	7.9
CL	12/17	16:00	Nominal Overnight Rate Target (%)	Dec 17	3.50	3.50	3.25
BZ	DEC 17-21		Economic Activity Index NSA (y/y)	Oct	-6.1	-6.2	-6.2
CO	12/18		Overnight Lending Rate (%)	Dec 18	5.75	5.75	5.50

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

Global Auctions for the week of December 14 – 18

North America



<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
CA	12/14	10:30	Canada to Sell CAD3.5 Bln 23-Day Bills
US	12/14	11:30	U.S. to Sell USD28 Bln 3-Month Bills
US	12/14	11:30	U.S. to Sell USD26 Bln 6-Month Bills
CA	12/15	10:30	Canada to Sell CAD4.425 Bln 98-Day Bills
CA	12/15	10:30	Canada to Sell CAD1.725 Bln 182-Day Bills
US	12/15	11:30	U.S. to Sell 4-Week Bills
US	12/17	13:00	U.S. to Sell USD16 Bln 5-Year TIPS Reopening

Europe



<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
NO	12/14	05:05	Norway to Sell NOK8 Bln 371-Day Bills
FR	12/14	08:50	France to Sell Up to EUR3.7 Bln 84-Day Bills
FR	12/14	08:50	France to Sell Up to EUR1.7 Bln 147-Day Bills
FR	12/14	08:50	France to Sell Up to EUR1.6 Bln 357-Day Bills
SP	12/15	04:30	Spain to Sell 3-Month Bills
SP	12/15	04:30	Spain to Sell 9-Month Bills
MB	12/15	05:00	Malta to Sell 91-Day Bills
MB	12/15	05:00	Malta to Sell 273-Day Bills
EC	12/15	05:10	ECB Main Refinancing Operation Result
SZ	12/15	05:15	Switzerland to Sell 91-Day Bills
AS	12/15	05:15	Austria to Sell 1.2% 2025 Bonds
AS	12/15	05:15	Austria to Sell 3.4% 2022 Bonds
BE	12/15	05:30	Belgium to Sell 84-Day Bills
BE	12/15	05:30	Belgium to Sell 364-Day Bills
GR	12/16	05:00	Greece to Sell EUR1 Bln 91-Day Bills
SW	12/16	05:03	Sweden to Sell SEK15 Bln 89-Day Bills
SW	12/16	05:03	Sweden to Sell SEK10 Bln 180-Day Bills
EC	12/16	05:10	ECB Long-Term Refinancing Operation Result
PO	12/16	05:30	Portugal to Sell Bills
SP	12/17	04:30	Spain to Sell 1.15% 2020 Bonds
SP	12/17	04:30	Spain to Sell 4.4% 2023 Bonds
SP	12/17	04:30	Spain to Sell 4.9% 2040 Bonds
UK	12/17	05:30	U.K. to Sell GBP700 Mln 1.25% I/L 2032 Bonds
UK	12/18	06:00	U.K. to Sell GBP1.5 Bln 28-Day Bills
UK	12/18	06:00	U.K. to Sell GBP2.5 Bln 91-Day Bills
UK	12/18	06:00	U.K. to Sell GBP1.5 Bln 182-Day Bills
FI	12/18		Finnish Treasury Publishes Quarterly Review

Source: Bloomberg, Scotiabank Economics.

Global Auctions for the week of December 14 – 18

Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
CH	12/14	20:30	Shanxi to Sell CNY550 Mln 3-Yr General Bonds
CH	12/14	20:30	Shanxi to Sell CNY1.58 Bln 5-Yr General Bonds
CH	12/14	20:30	Shanxi to Sell CNY1.58 Bln 7-Yr General Bonds
CH	12/14	20:30	Shanxi to Sell CNY1.58 Bln 10-Yr General Bonds
JN	12/14	22:45	Japan to Sell 5-Year Bonds
CH	12/15	22:00	China to Sell 7-Year Bonds
JN	12/15	22:35	Japan to Sell 1-Year Bills
AU	12/16	18:30	Australia Plans to Sell AUD500 Mln 126-Day Bills
NZ	12/16	20:05	New Zealand Plans to Sell NZD200 Mln 4.5% 2027 Bonds
JN	12/16	22:35	Japan to Sell 3-Month Bills
JN	12/16	22:45	Japan to Sell 20-Year Bonds

Latin America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
BZ	12/15	09:00	Brazil to Sell I/L Bonds - 05/15/2055
BZ	12/15	09:00	Brazil to Sell I/L Bonds - 05/15/2035
BZ	12/15	09:00	Brazil to Sell I/L Bonds - 05/15/2023
BZ	12/15	09:00	Brazil to Sell I/L Bonds - 05/15/2019
BZ	12/17	09:00	Brazil to Sell Bills LTN - 04/01/2016
BZ	12/17	09:00	Brazil to Sell Bills LTN - 10/01/2017
BZ	12/17	09:00	Brazil to Sell Bills LTN - 07/01/2019

Source: Bloomberg, Scotiabank Economics.

Events for the week of December 14 – 18

North America



<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
CA	12/14	12:00	Minister of Finance Morneau Speaks on Economy at Private Event
CA	12/15	11:00	Bank of Canada - Financial System Review
US	12/16	14:00	FOMC Rate Decision
US	12/16	14:30	Federal Reserve Board Chairwoman Janet Yellen Holds News Conference
MX	12/17	14:00	Overnight Rate
US	12/18	13:00	Fed's Lacker Gives 2016 Economic Outlook at Charlotte Chamber

Europe



<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
SW	12/14	03:00	Riksbank Executive Board Monetary Policy Meeting
EC	12/14	05:00	ECB's Nowotny Briefs with IMF on Article 4 Mission
EC	12/14	06:00	ECB President Draghi Speaks at Conference in Bologna, Italy
PO	12/14	10:00	ECB's Costa, Krugman Speak at Conference in Lisbon
SW	12/15	03:30	Riksbank Interest Rate
SW	12/15	05:00	Riksbank Press Conference
EC	12/15	06:00	EU Plans Proposals on Refugee Resettlement, Border Guard
SW	12/16	08:15	Swedish Financial Stability Council Meeting
GE	12/16		Schaeuble Testifies on German Hosting of 2006 World Cup
EC	12/17	04:00	ECB Publishes Economic Bulletin
NO	12/17	04:00	Deposit Rates
NO	12/17	04:30	Norway's Olsen Speaks Following Rate Decision
NO	12/18	04:35	Norway's Olsen Speaks in Oslo

Asia Pacific



<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
NZ	12/14	19:00	Government Half Year Economic & Fiscal Update
AU	12/14	19:30	RBA December Meeting Minutes
AU	12/15	18:30	RBA's Debelle Speech in Sydney
TH	12/16	02:30	BoT Benchmark Interest Rate
AU	12/16	19:30	RBA Bulletin
TA	DEC 16-17		CBC Benchmark Interest Rate
ID	DEC 16-17		Bank Indonesia Reference Rate
ID	DEC 16-17		Bank Indonesia Deposit Facility Rate
ID	DEC 16-17		Bank Indonesia Lending Facility Rate
PH	12/17	03:00	BSP Overnight Borrowing Rate
PH	12/17	03:00	BSP Special Deposit Account Rate
HK	12/17	03:42	Composite Interest Rate
JN	12/17	22:00	Bank of Japan Policy Statement/Kuroda Press Conference
JN	DEC 17-18		BOJ Annual Rise in Monetary Base

Latin America



<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
CL	12/17	16:00	Overnight Rate Target
CO	12/18		Overnight Lending Rate

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>
Bank of Canada – Overnight Target Rate	0.50	January 20, 2016	0.50	0.50
Federal Reserve – Federal Funds Target Rate	0.25	December 16, 2015	0.25	0.50
Banco de México – Overnight Rate	3.00	December 17, 2015	3.50	3.25

Markets are mostly (but not entirely) priced for an interest rate hike from the **Federal Reserve** on December 16th. The lead-up to and the aftermath will capture most of global market attention. In advance of the Fed's statement and press conference, November CPI is due out on Tuesday. On Wednesday morning, housing starts, building permits and industrial production will be released. Richmond Fed President Lacker will be the first one to speak following the Fed's decision with a speech to the Charlotte chamber of commerce on Friday. The **BoC** will release its biannual Financial System Review (FSR) on Tuesday which will speak to risk. Key data includes wholesale trade and November CPI on Friday, and manufacturing sales and existing home sales on Tuesday. We expect the **Banco de México** to hike its benchmark overnight rate by 50 basis points to 3.50 in response to expected monetary policy normalization from the US Fed.

Europe

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
European Central Bank – Refinancing Rate	0.05	January 21, 2016	0.05	--
Bank of England – Bank Rate	0.50	January 14, 2016	0.50	0.50
Swiss National Bank – Libor Target Rate	-0.75	March 17, 2016	-0.75	--
Central Bank of Russia – One-Week Auction Rate	11.00	January 29, 2016	11.00	--
Central Bank of the Republic of Turkey – 1 Wk Repo Rate	7.50	December 22, 2015	7.50	--
Sweden Riksbank – Repo Rate	-0.35	December 15, 2015	-0.35	-0.35
Norges Bank – Deposit Rate	0.75	December 17, 2015	0.75	0.75

Monetary policymakers at **the Swedish Riksbank** and **the Norges Bank** will hold policy meetings on December 15th and December 17th, respectively. We do not forecast any changes to benchmark interest rates to come out of these meetings, with the Riksbank maintaining its key repo rate at -0.35%, and the Norges Bank holding its deposit rate at 0.75%.

Asia Pacific

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
Reserve Bank of Australia – Cash Target Rate	2.00	February 1, 2016	2.00	2.00
Reserve Bank of New Zealand – Cash Rate	2.50	January 27, 2016	2.50	2.50
People's Bank of China – Lending Rate	4.35	TBA	--	--
Reserve Bank of India – Repo Rate	6.75	February 2, 2016	6.75	--
Bank of Korea – Bank Rate	1.50	TBA	1.50	--
Bank of Thailand – Repo Rate	1.50	December 16, 2015	1.50	1.50
Bank Indonesia – Reference Interest Rate	7.50	December 17, 2015	7.50	7.50

The Bank of Thailand will likely maintain the benchmark interest rate at 1.50% following the December 16th monetary policy meeting. Given that headline inflation remains in deflationary territory, further policy easing remains a possibility in early 2016. **In Indonesia**, high inflation and the rupiah's depreciating pressure have constrained Bank Indonesia from responding to weaker domestic economic momentum by monetary stimulus. We expect the benchmark interest rate to remain unchanged next week.

Latin America

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
Banco Central do Brasil – Selic Rate	14.25	January 20, 2016	14.25	--
Banco Central de Chile – Overnight Rate	3.25	December 17, 2015	3.50	3.50
Banco de la República de Colombia – Lending Rate	5.50	December 18, 2015	5.75	5.75
Banco Central de Reserva del Perú – Reference Rate	3.50	January 16, 2016	3.75	--

We expect both the **Banco Central de Chile** and the **Banco de la República de Colombia** to hike benchmark interest rates by 25 basis points to 3.50 and 5.75, respectively, when monetary authorities meet on December 17th and 18th. Inflationary pressures in Chile have ebbed somewhat, with prices growing by 3.9% y/y in November; meanwhile, inflation has been accelerating in Colombia since the summer, most recently reaching 6.4% y/y in November.



Africa


<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
South African Reserve Bank – Repo Rate	6.25	January 28, 2016	6.25	--

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



Economic Statistics



North America



Canada 					United States 				
	2014	15Q2	15Q3	Latest		2014	15Q2	15Q3	Latest
Real GDP (annual rates)	2.5	-0.3	2.3		Real GDP (annual rates)	2.4	3.9	2.1	
Current Acc. Bal. (C\$B, ar)	-44.9	-66.3	-64.8		Current Acc. Bal. (US\$B, ar)	-390	-439		
Merch. Trade Bal. (C\$B, ar)	4.8	-25.4	-20.5	-33.1 (Oct)	Merch. Trade Bal. (US\$B, ar)	-741	-757	-760	-757 (Oct)
Industrial Production	2.5	-1.5	-0.3	-0.4 (Oct)	Industrial Production	3.7	1.6	1.3	0.5 (Oct)
Housing Starts (000s)	189	193	213	212 (Nov)	Housing Starts (millions)	1.00	1.16	1.15	1.06 (Oct)
Employment	0.6	0.9	0.9	0.7 (Nov)	Employment	1.9	2.2	2.0	1.9 (Nov)
Unemployment Rate (%)	6.9	6.8	7.0	7.1 (Nov)	Unemployment Rate (%)	6.2	5.4	5.2	5.0 (Nov)
Retail Sales	4.6	1.9	1.9	1.2 (Sep)	Retail Sales	3.6	1.0	1.6	0.7 (Nov)
Auto Sales (000s)	1850	1874	1953	1995 (Sep)	Auto Sales (millions)	16.4	17.1	17.8	18.1 (Nov)
CPI	1.9	0.9	1.2	1.0 (Oct)	CPI	1.6	0.0	0.1	0.2 (Oct)
IPPI	2.5	-1.5	-0.3	0.4 (Oct)	PPI	1.9	-3.3	-3.3	-3.2 (Nov)
Pre-tax Corp. Profits	7.0	-15.6	-19.2		Pre-tax Corp. Profits	2.1	7.5	2.5	

Mexico 				
	2014	15Q2	15Q3	Latest
Real GDP	2.3	2.3	2.6	
Current Acc. Bal. (US\$B, ar)	-24.0	-30.2	-35.4	
Merch. Trade Bal. (US\$B, ar)	-2.8	-7.4	-25.9	-17.3 (Oct)
Industrial Production	2.6	0.6	1.3	0.5 (Oct)
CPI	4.0	2.9	2.6	2.2 (Nov)

Europe

Euro Zone 					Germany 				
	2014	15Q2	15Q3	Latest		2014	15Q2	15Q3	Latest
Real GDP	0.9	1.3	1.3		Real GDP	1.6	1.6	1.7	
Current Acc. Bal. (US\$B, ar)	320	297	380	446 (Sep)	Current Acc. Bal. (US\$B, ar)	212.1	274.6	296.6	309.8 (Oct)
Merch. Trade Bal. (US\$B, ar)	334.4	381.5	358.2	392.1 (Sep)	Merch. Trade Bal. (US\$B, ar)	283.3	287.6	280.4	302.0 (Oct)
Industrial Production	0.8	1.3	1.9	1.7 (Sep)	Industrial Production	1.5	1.5	1.3	0.2 (Oct)
Unemployment Rate (%)	11.6	11.0	10.8	10.8 (Oct)	Unemployment Rate (%)	6.7	6.4	6.4	6.3 (Nov)
CPI	0.4	0.2	0.1	0.1 (Oct)	CPI	0.9	0.5	0.1	0.6 (Nov)

France 					United Kingdom 				
	2014	15Q2	15Q3	Latest		2014	15Q2	15Q3	Latest
Real GDP	0.2	1.1	1.2		Real GDP	2.9	2.4	2.3	
Current Acc. Bal. (US\$B, ar)	-26.2	-1.1	-1.1	-40.9 (Oct)	Current Acc. Bal. (US\$B, ar)	-92.9	-67.1		
Merch. Trade Bal. (US\$B, ar)	-43.3	-35.2	-36.6	-48.9 (Oct)	Merch. Trade Bal. (US\$B, ar)	-202.6	-162.8	-198.5	-217.6 (Oct)
Industrial Production	-1.0	1.0	0.8	3.6 (Oct)	Industrial Production	1.3	1.4	1.4	1.7 (Oct)
Unemployment Rate (%)	10.3	10.4	10.8	10.8 (Oct)	Unemployment Rate (%)	6.2	5.6		5.3 (Aug)
CPI	0.5	0.2	0.1	0.0 (Nov)	CPI	1.5	0.0	0.0	-0.1 (Oct)








Italy 					Russia 				
	2014	15Q2	15Q3	Latest		2014	15Q2	15Q3	Latest
Real GDP	-0.4	0.6	0.8		Real GDP	0.6	-4.6	-4.1	
Current Acc. Bal. (US\$B, ar)	31.5	26.8	39.6	17.2 (Sep)	Current Acc. Bal. (US\$B, ar)	58.4	15.8	5.4	
Merch. Trade Bal. (US\$B, ar)	55.4	45.9	53.6	29.5 (Sep)	Merch. Trade Bal. (US\$B, ar)	15.8	14.3	9.7	10.1 (Oct)
Industrial Production	-0.5	0.8	1.8	2.8 (Oct)	Industrial Production	-1.6	-4.9	-4.2	-3.6 (Oct)
CPI	0.2	0.0	0.0	0.1 (Oct)	CPI	7.8	15.8	15.7	15.0 (Nov)

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





Source: Bloomberg, IHS Global, Scotiabank Economics.

Economic Statistics

Asia Pacific

Australia 					Japan 				
	2014	15Q2	15Q3	Latest		2014	15Q2	15Q3	Latest
Real GDP	2.6	1.9	2.5		Real GDP	-0.1	0.7	1.7	
Current Acc. Bal. (US\$B, ar)	-44.1	-51.9	-61.5		Current Acc. Bal. (US\$B, ar)	25.0	124.0	161.2	145.8 (Oct)
Merch. Trade Bal. (US\$B, ar)	12.2	-14.5	-14.4	-23.0 (Oct)	Merch. Trade Bal. (US\$B, ar)	-122.1	-24.3	-33.8	-20.2 (Oct)
Industrial Production	4.6	0.3	1.9		Industrial Production	2.1	-0.5	-0.4	0.3 (Oct)
Unemployment Rate (%)	6.1	6.0	6.2	5.8 (Nov)	Unemployment Rate (%)	3.6	3.3	3.4	3.1 (Oct)
CPI	2.5	1.5	1.5		CPI	2.7	0.5	0.2	0.3 (Oct)
South Korea 					China 				
Real GDP	3.3	2.2	2.7		Real GDP	7.3	7.5	7.9	
Current Acc. Bal. (US\$B, ar)	84.4	112.7	113.2	107.5 (Oct)	Current Acc. Bal. (US\$B, ar)	219.7			
Merch. Trade Bal. (US\$B, ar)	47.2	98.5	79.9	124.3 (Nov)	Merch. Trade Bal. (US\$B, ar)	382.5	560.6	654.4	649.2 (Nov)
Industrial Production	0.5	-1.9	-0.4	2.0 (Oct)	Industrial Production	7.9	6.8	5.7	5.6 (Oct)
CPI	1.3	0.5	0.7	1.9 (Nov)	CPI	1.5	1.4	1.6	1.5 (Nov)
Thailand 					India 				
Real GDP	0.9	2.8	2.9		Real GDP	7.0	7.1	7.4	
Current Acc. Bal. (US\$B, ar)	13.4	6.2	6.4		Current Acc. Bal. (US\$B, ar)	-27.5	-6.2		
Merch. Trade Bal. (US\$B, ar)	2.0	2.6	3.2	4.3 (Oct)	Merch. Trade Bal. (US\$B, ar)	-11.8	-10.7	-11.9	-9.8 (Oct)
Industrial Production	-4.6	-7.7	-5.9	-3.3 (Sep)	Industrial Production	1.8	3.3	4.8	9.8 (Oct)
CPI	1.9	-1.1	-1.1	-1.0 (Nov)	WPI	3.8	-2.3	-4.5	-3.8 (Oct)
Indonesia 									
Real GDP	5.0	4.7	4.7						
Current Acc. Bal. (US\$B, ar)	-27.5	-4.3	-4.0						
Merch. Trade Bal. (US\$B, ar)	-0.2	0.7	0.9	1.0 (Oct)					
Industrial Production	4.8	5.2	4.2	0.7 (Sep)					
CPI	6.4	7.1	7.1	4.9 (Nov)					

Latin America









Brazil 					Chile 				
	2014	15Q2	15Q3	Latest		2014	15Q2	15Q3	Latest
Real GDP	0.1	-3.0	-4.5		Real GDP	1.9	1.9	2.2	
Current Acc. Bal. (US\$B, ar)	-104.4	-51.3	-47.1		Current Acc. Bal. (US\$B, ar)	-5.9	0.1	-10.4	
Merch. Trade Bal. (US\$B, ar)	-4.0	31.1	32.1	14.4 (Nov)	Merch. Trade Bal. (US\$B, ar)	6.7	9.5	-2.4	4.8 (Nov)
Industrial Production	-2.9	-6.4	-9.5	-11.4 (Oct)	Industrial Production	0.4	0.1	-2.1	-0.6 (Oct)
CPI	6.3	8.5	9.5	16.6 (Nov)	CPI	4.4	4.2	4.8	3.9 (Nov)
Peru 					Colombia 				
Real GDP	2.4	3.0	2.9		Real GDP	4.6	3.0	3.2	
Current Acc. Bal. (US\$B, ar)	-8.0	-1.6	-2.4		Current Acc. Bal. (US\$B, ar)	-19.6	-4.3		
Merch. Trade Bal. (US\$B, ar)	-0.1	-0.3	-0.3	-0.2 (Oct)	Merch. Trade Bal. (US\$B, ar)	-0.5	-0.9	-1.5	-1.4 (Sep)
Unemployment Rate (%)	6.0	6.9	6.3	5.8 (Oct)	Industrial Production	1.5	-0.7	1.7	2.0 (Sep)
CPI	3.2	3.3	3.8	4.2 (Nov)	CPI	2.9	4.5	4.9	6.4 (Nov)

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

Source: Bloomberg, IHS Global, Scotiabank Economics.

Financial Statistics

Interest Rates (% , end of period)

Canada 		15Q2	15Q3	Dec/04	Dec/11*	United States 		15Q2	15Q3	Dec/04	Dec/11*
BoC Overnight Rate		0.75	0.50	0.50	0.50	Fed Funds Target Rate		0.25	0.25	0.25	0.25
3-mo. T-bill		0.58	0.44	0.46	0.46	3-mo. T-bill		0.01	-0.02	0.21	0.22
10-yr Gov't Bond		1.68	1.43	1.58	1.44	10-yr Gov't Bond		2.35	2.04	2.27	2.17
30-yr Gov't Bond		2.30	2.20	2.30	2.19	30-yr Gov't Bond		3.12	2.85	3.01	2.90
Prime		2.85	2.70	2.70	2.70	Prime		3.25	3.25	3.25	3.25
FX Reserves (US\$B)		76.3	78.3	79.0	(Oct)	FX Reserves (US\$B)		109.3	109.2	108.2	(Oct)
Germany 						France 					
3-mo. Interbank		-0.04	-0.06	-0.07	-0.09	3-mo. T-bill		-0.18	-0.20	-0.31	-0.31
10-yr Gov't Bond		0.76	0.59	0.68	0.54	10-yr Gov't Bond		1.20	0.99	1.00	0.86
FX Reserves (US\$B)		60.9	59.3	59.3	(Oct)	FX Reserves (US\$B)		49.9	53.1	47.0	(Oct)
Euro Zone 						United Kingdom 					
Refinancing Rate		0.05	0.05	0.05	0.05	Repo Rate		0.50	0.50	0.50	0.50
Overnight Rate		-0.06	-0.12	-0.14	-0.24	3-mo. T-bill		0.48	0.49	0.49	0.49
FX Reserves (US\$B)		330.3	332.3	324.6	(Oct)	10-yr Gov't Bond		2.02	1.76	1.92	1.81
Japan 						Australia 					
Discount Rate		0.30	0.30	0.30	0.30	Cash Rate		2.00	2.00	2.00	2.00
3-mo. Libor		0.04	0.02	0.02	0.01	10-yr Gov't Bond		3.01	2.61	2.95	2.85
10-yr Gov't Bond		0.47	0.36	0.34	0.32	FX Reserves (US\$B)		48.7	48.1	42.8	(Oct)
FX Reserves (US\$B)		1214.1	1221.5	1216.1	(Oct)						

Exchange Rates (end of period)

USDCAD	1.25	1.33	1.34	1.37	¥/US\$	122.50	119.88	123.11	121.03
CADUSD	0.80	0.75	0.75	0.73	US\$/Australian\$	0.77	0.70	0.73	0.72
GBPUSD	1.571	1.513	1.511	1.521	Chinese Yuan/US\$	6.20	6.36	6.40	6.46
EURUSD	1.115	1.118	1.088	1.099	South Korean Won/US\$	1115	1185	1157	1180
JPYEUR	0.73	0.75	0.75	0.75	Mexican Peso/US\$	15.739	16.918	16.655	17.336
USDCHF	0.94	0.97	1.00	0.98	Brazilian Real/US\$	3.103	3.948	3.753	3.865

Equity Markets (index, end of period)

United States (DJIA)	17620	16285	17848	17319	U.K. (FT100)	6521	6062	6238	5976
United States (S&P500)	2063	1920	2092	2028	Germany (Dax)	10945	9660	10752	10382
Canada (S&P/TSX)	14553	13307	13359	12881	France (CAC40)	4790	4455	4715	4567
Mexico (IPC)	45054	42633	42994	41973	Japan (Nikkei)	20236	17388	19504	19230
Brazil (Bovespa)	53081	45059	45361	45296	Hong Kong (Hang Seng)	26250	20846	22236	21464
Italy (BCI)	1238	1179	1238	1213	South Korea (Composite)	2074	1963	1974	1949

Commodity Prices (end of period)

Pulp (US\$/tonne)	980	960	940	940	Copper (US\$/lb)	2.60	2.31	2.10	2.12
Newsprint (US\$/tonne)	540	510	505	505	Zinc (US\$/lb)	0.90	0.75	0.69	0.70
Lumber (US\$/mfbm)	300	242	256	269	Gold (US\$/oz)	1171.00	1114.00	1079.25	1072.50
WTI Oil (US\$/bbl)	59.47	45.09	39.97	35.90	Silver (US\$/oz)	15.70	14.65	14.13	13.92
Natural Gas (US\$/mmbtu)	2.83	2.52	2.19	1.99	CRB (index)	227.17	193.76	183.24	175.22

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

Scotiabank Economics

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Scotiabank Economics

Scotia Plaza 40 King Street West, 63rd Floor
Toronto, Ontario Canada M5H 1H1
Tel: 416.866.6253 Fax: 416.866.2829
Email: scotia.economics@scotiabank.com

For general and publication-related inquiries, contact us by telephone, email and/or fax.