Global **Views**

April 17, 2015

Weekly commentary on economic and financial market developments

Economics

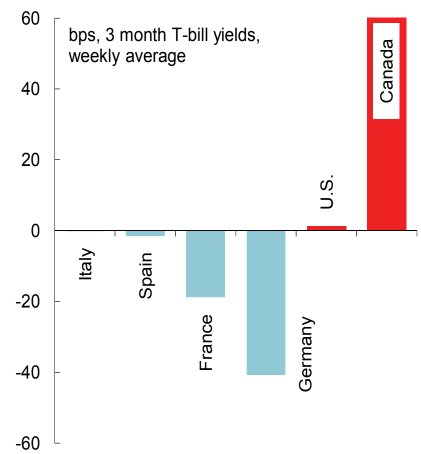
Foreign Exchange Strategy

Please see the Global Forecast Update, March 31, 2015, for our latest economic, interest and exchange rate and commodity price forecasts and the Foreign Exchange Outlook, April 2015, for more detailed currency forecasts and commentary.

Forecasts & Data

This Week's Featured Chart

Canada's Yield Premium



Source: Scotiabank Economics, Bloomberg.

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Enough To Keep It Interesting

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

Markets should get some needed respite next week before the following week's FOMC meeting spices things up a little. There will be enough going on globally to keep things interesting, but our risk dashboard shows fewer and less concentrated forms of market risk than has been the case for some time.

Next Week's Risk Dashboard
Eurozone sentiment readings
Greek debt negotiations
China's manufacturing PMI
US earnings deluge
Two biggest Canadian budgets
BoC's Poloz on commodities
US housing and investment updates
BoE minutes

Canada — Two Biggest Budgets To Dominate

The two biggest government budgets in the land, a speech by Bank of Canada Governor Stephen Poloz and modest earnings risk will dominate an otherwise light week for Canada-risk. I've invited Scotia's Mary Webb to share — verbatim — some thoughts below on Tuesday's Federal Budget and Thursday's Ontario Budget, and she will be in the budget lock-ups with fresh insight to share with clients afterward.

Before budgets start hitting the tapes, however, we'll have another speech by Bank of Canada Governor Stephen Poloz to mull over. He speaks on Monday in New York as part of a panel titled "Navigating The Commodity Supercycle." It's not clear if the title implies that Poloz still thinks we're in a commodities supercycle or whether it's the session title that was handed to him, but **any remarks he passes on the commodity cycle could be instructive by way of longer-run assessments of risks facing the Canadian economy** beyond the short-term forecast gyrations. There will be no advance media lock-up or press conference, no published remarks and no audience Q&A so the implied risk may be low, but markets will be left to watch the rolling headlines for implications.

Canada's Prime Minister has indicated a C$2 billion deficit for fiscal 2014-15 (FY15, ending March 31, 2015) and balanced Budgets as of FY16. Proposed legislation would term deficits "acceptable" only if caused by a recession or an extraordinary event costing more than $3 billion per year, and only if accompanied by a repair plan with concrete timelines and an operating spending freeze. This Budget, therefore, is expected to answer how black ink will be achieved in FY16 with oil prices sharply lower than the US$81/barrel assumed in its mid-year update and the annual expense related to its substantial family and small business tax relief package and infrastructure commitments. It will be a pre-election Budget, that will likely honour several prior commitments, such as eventually doubling the annual contribution limit for Tax Free Savings Accounts and focus on ongoing priorities such as addressing the "skills mismatch" across Canada. Restricting tax evasion, and closing further tax "loopholes" will probably continue to underpin the Budget assumptions.

For Ontario's *Budget* on April 23, the Finance Minister already has announced that the deficit for fiscal 2014-15 (FY15) is now expected to be just $10.9 billion (1.5% of GDP), a $1.6 billion improvement on its previous forecast of a $12.5 billion gap (1.7% of GDP). This should help the Province keep close to its published deficit targets of $8.9 billion and $5.3 billion for FY16 and FY17, respectively, before balanced books in FY18. Ontario's stronger growth prospects this year, plus the Province's practice of annual reserves of at least $1 billion and annual operating and contingency funds of about $0.5 billion will provide some insurance on the bottom line estimates. A final report on Hydro One and beer retailing from the Premier's Advisory Council on Government Assets has outlined an increase in net asset sale revenues from the prior $3.1 billion estimate to $5.7 billion over the next few years. Ontario's Budget is expected to be a "large" document, with details on a range of initiatives including the proposed cap-and-trade framework to limit greenhouse gas emissions and the implementation of the Ontario Retirement Pension Plan beginning in 2017.

It is still very early in the Canadian earnings season that lags the US, but **thirteen firms listed on the TSX will release quarterly earnings** including CN, CP, West Fraser and Metro.

A two year GoC auction on Wednesday and wholesale trade as the last missing piece for February GDP will round out the risks.

THE WEEK AHEAD

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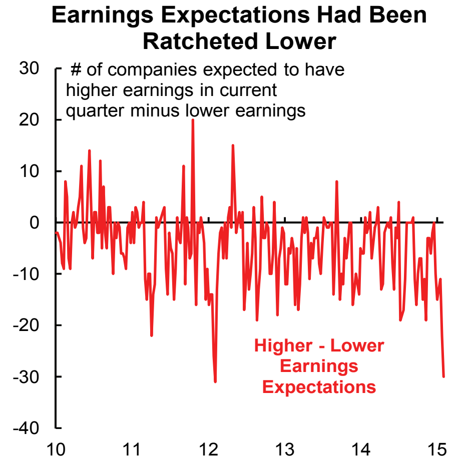
United States — Earnings Deluge, Quiet Fed

Earnings will be front and centre as a market influence next week. Modest data risk will be spread over the course of the week while the Federal Reserve will slip into communications black-out on Tuesday ahead of the following week's FOMC meeting.

No fewer than 148 firms listed on the S&P500 will release earnings including — but by no means limited to — major names like Morgan Stanley, du Pont, Lockheed Martin, Yahoo, Boeing, Coca-Cola, McDonald's, BoNYM, AT&T, eBay, Facebook, Dow Chemical, Eli Lilly, P&G, PepsiCo, Caterpillar, GM, Microsoft, Starbucks, Amazon, Google, 3M, and Xerox. It's still early, but as at the time of writing, 83% of the 35 S&P500 firms that have released thus far have beaten analysts' earnings expectations. While beats are the norm since Sarbanes Oxley and lawsuits made analysts more conservative going into earnings season, that's a particularly powerful influence this time in the wake of a sharp deterioration in the spread between the number of S&P500 listed companies that analysts had expected to post higher earnings minus those expected to post lower earnings as the latter has outstripped the former by the widest margin in years (chart 1).

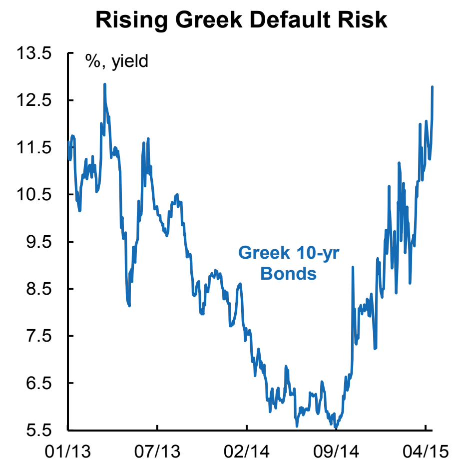
Housing and business investment will be the focal points for three macro releases over the back half of the week. **Existing home sales** are expected to creep back over 5 million at an annualized pace for the first time since December. By contrast, the next day's **new home sales** may give back some of the large gain in February that took the level up to its highest since February 2008. Friday's **durable goods orders** will cap off the week and while a better tone is expected partly due to higher auto orders, that is not assured and won't be helped by the aircraft order book. Only 39 Boeing aircraft orders were placed in March of which 33 were for the 787 Dreamliner. That was down from 72 in February of which 62 were for the 737.

Chart 1



Source: Scotiabank Economics, Bloomberg.

Chart 2

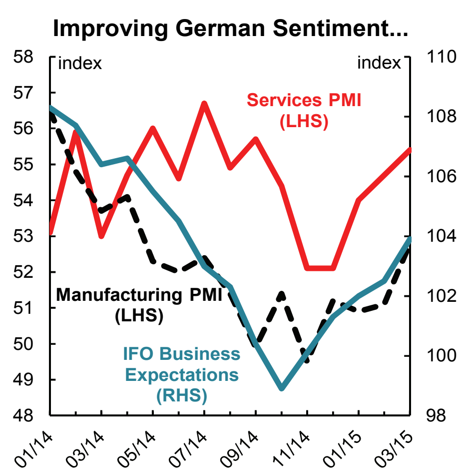


Source: Scotiabank Economics, Bloomberg.

Europe — Improving Sentiment, Despite Greece

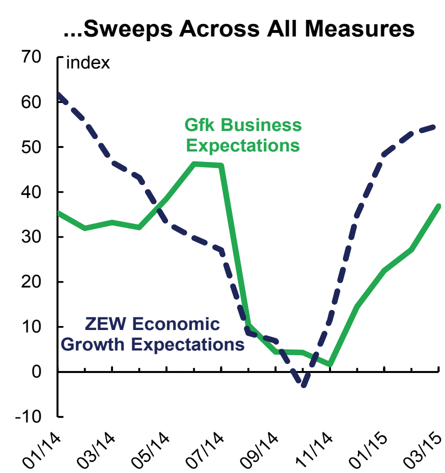
Against the backdrop of ongoing Greek negotiations with creditors and rising concerns over Greek default risk that are crushing its bond markets (chart 2) and pushing credit default swaps to price a nearly 80% probability of default, **markets will probably get further evidence that the rest of Europe is on the mend** when high frequency, timely and influential surveys are released over the next

Chart 4



Source: Scotiabank Economics, Bloomberg.

Chart 3



Source: Scotiabank Economics, Bloomberg.

THE WEEK AHEAD

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week. Those surveys often carry market effects and include assessments of how businesses and investors view the eurozone's prospects.

Witness the accompanying charts that show five of Germany's main surveys across multiple segments of opinion. The purchasing managers' indices (PMI) for the manufacturing and service sectors have turned sharply higher so far this year. Ditto for the expectations components of the ZEW and IFO measures of investor and business sentiment, respectively. The same thing applies to the expectations component of the GfK consumer confidence survey. Think it's only a German phenomenon as the rest of the Eurozone lags behind? Not so. The same thing holds true for the Eurozone aggregate manufacturing PMI and the services PMI. Surveys aren't always the greatest harbingers of things to come, but sentiment is being reflected in the tone of recent data and expectations for future growth. Those expectations are hardly blistering in magnitude as the Bloomberg contributor composite only expects growth to go from 0.8% y/y at its low point over Q2 and Q3 last year toward 1.6% later this year into next. But from a market perspective, this matters enormously. **In the span of less than a year, markets have swung from fearing deflationary pressures within a crumbling outlook to suddenly viewing Europe's prospects as not being so bad after all.** Witness the performance of Eurozone stock markets that have been among the strongest global performers defined in common USD terms so far this year and behind only Asian exchanges like the Nikkei, Shanghai, Hang Seng, and Shenzhen. This has also led to a bottoming in the Euro versus USD cross that has floated within the 1.05-1.10 range over the past six weeks or so. This has made one-way bets on depreciation versus the USD vulnerable.

Gilts and pound sterling will be focused upon Eurozone spillover effects but also two domestic sources of market risk. One being next Wednesday's publication of minutes to the April 9th meeting of the Bank of England's Monetary Policy Council. Having to wait for the minutes will soon become a thing of the past. Starting in August, the policy decision and minutes will be issued simultaneously and so will the Quarterly Inflation Report when it is scheduled for release. What will get attention next week is updated rate guidance in the context of 0% y/y CPI for the past couple of months. **Several MPC members have been inclined to look through the soft patch in inflation readings** including comments over the past month by Governor Carney, David Miles, Kristin Forbes, Ben Broadbent, and Nemat Shafik. Only Chief Economist Andy Haldane expressed bidirectional risks to the next move in rates that Governor Carney rejected outright with guidance that "…the next move in interest rates is likely up." **UK retail sales** are the other risk on the week and consensus expects a second consecutive sizeable gain.

Asia — Chinese Manufacturers Still Flat?

With Chinese growth sensitivities front and centre in the markets following the 7% print for Q1 GDP, the focus now turns to the country's next round of purchasing managers' indices signalling growth prospects in the manufacturing sector. Next week's will be the private sector version that weights smaller and more export-oriented firms more heavily than the state's PMI. The private PMI has floated around either side of 50 since August and has offered trendless noise. I'm not sure next week will be any different but, since it's the first reading on the economy into April and hence Q2, it will attract attention over what it may signal by way of the direction of risks to a softening trend in Chinese economic growth.

Other developments across Asian markets are likely to be more about regional influences. South Korean Q1 GDP tops the list as we'll get the first glimpse of how that economy has performed in 2015. It has also been on a slowing trajectory and for about a year now compared to non-annualized growth of 1.1% in Q1 last year through to paltry growth of 0.3% by Q4. Bloomberg consensus expects the country's growth rate to rise to just over 3% over the next 12-18 months.

As for Q1 Chinese GDP growth at 7% and widely flagged as the weakest in six years, we reserve judgement until we get into Q2 figures that will be less impacted by a later-than-usual Lunar Holiday and Spring Festival. A second point is that we believe this is part of a temporary soft patch in the global economy during Q1. US growth should improve from Q2 onward as weather and port strike effects lift. European growth is already

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showing glimmers of greater optimism and the combined effects of euro depreciation, very low borrowing costs, lower energy prices, and ECB stimulus should contribute to stronger growth and a move toward a global reflation trade. Improved Eurozone and US growth could well help China's exports compared to the Q1 disappointments. Bloomberg consensus expects Chinese GDP growth to bottom at about 6.8-6.9% y/y over the next year and the risks could well be somewhat fatter-tailed to the upside than downside. **Cooler growth than prior boom years that is being accompanied by serious effort toward financial and regulatory reforms is probably a better balance than previously.** Articles that are positioning China's stock market boom against softer GDP growth are missing the point in terms of what we think is driving China's stock market rally since last summer (go here).

Minutes to the Reserve Bank of Australia's meeting on April 7th and Q1 CPI could help shed light on the risk of the next rate move at the May 5th meeting. A recent Bloomberg poll positioned every one of the twenty-six economists surveyed as expecting a 25bps cut next month. They got an assist from the RBA the last time around when the central bank noted that "further easing of policy may be appropriate over the period ahead." Strong recent job growth may, however, make the minutes stale and have lessened market expectations for a near-term rate cut.

Trade figures for India and Japan and New Zealand CPI are also on tap.

CANADIAN MONETARY POLICY

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The Bank Of Canada Is Suddenly Bullish On Canadian Growth

- **Policy risks are shelved until at least Fall while BoC forecast risks are evaluated.**

The Bank of Canada's latest message tamped down rate cut pricing for later this year but OIS swap markets are hanging onto decent probabilities. USDCAD reacted more significantly by returning to where it was when the BoC cut in January. In evaluating the risk to both markets much of the emphasis has to be placed upon the BoC's new forecasts.

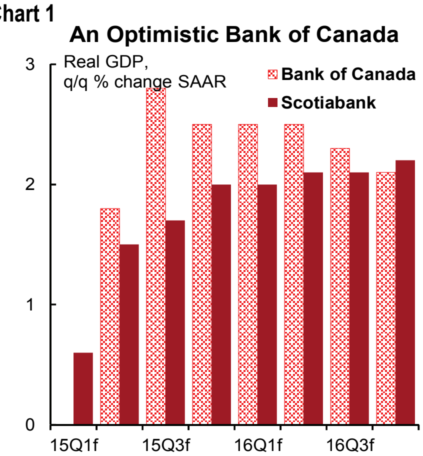
Scotiabank Economics forecasts Canadian GDP growth at 1.5% in Q2, 1.7% in Q3 and 2% in Q4. The BoC is well above us at 1.8% in Q2, 2.8% in Q3 and 2.5% in Q4. That is followed by being a half point higher than our house view over 2016H1 (chart 1). That's not saying that one forecast is pre-destined to be right or wrong when both face two-tailed risks, versus simply expressing different views. One or the other forecast — and possibly both — will nevertheless be wrong as the data evolves and there is a lot of information to digest over this period. At this juncture, I find the BoC's forecasts to be on the aggressive side of a forecast recovery and toward the lower end of assumptions regarding the longevity of the oil shock's reverberating effects on the Canadian economy. In essence, the assumption is that the worst of the oil shock effects will be over within a very short time period and that the temporary recovery in non-energy export growth in Q2-Q3 last year will be resurrected after being interrupted in Q4 and 2015Q1.

Also note that the Bank of Canada took the unusual step of slightly revising lower its assumptions for the economy's speed limit. They usually only do so in October. The logic for revising potential growth lower now was to do so for "the years when the effects of the negative revisions to business investment in the energy and non-energy sectors are greater." So, if potential growth is guided by assumptions on the speed of growth in the labour supply and capital stock plus a whole host of other factors my profession is not terribly skilled at anticipating, then a lower rate of growth in the capital stock would be cause for lowering the economy's assumed noninflationary speed limit.

The combined effects of upward revisions to actual GDP growth forecasts and small downward revisions to the economy's noninflationary speed limit continue to allow the BoC to forecast the closure of spare capacity by the end of next year despite having been surprised to the downside in terms of the oil shock's effects on growth thus far. The starting point on closure of the output gap is now more ambiguous than previously because the BoC has started using two measures (here) that are shown graphically in chart 2. Observe the sizeable differences that can exist between the two measures.

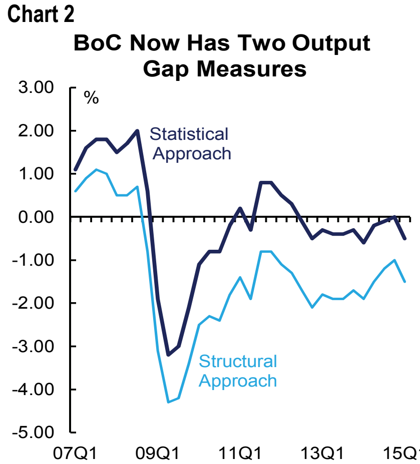
Using our own growth forecasts and the BoC's revised potential growth forecasts, we model the two measures of spare capacity in chart 3. It is feasible that one of these measures closes by the end of 2016 but what will the BoC do if the other one doesn't as we are forecasting? At a minimum, it's probably fairly safe to assume that the economy will not trip into excess demand that far out. That could mean a pause throughout 2015-16 even if no further cuts occur which, in turn, depends upon the evolution of the BoC's forecast risks.

Chart 1



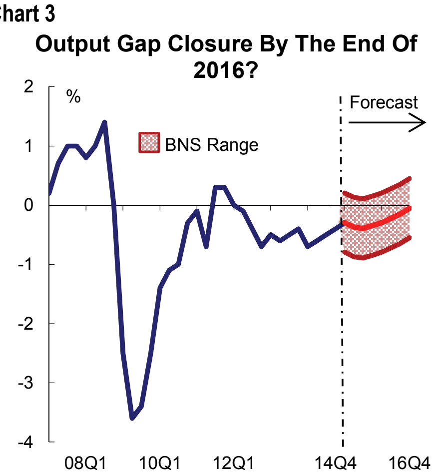
Source: Bank of Canada, Scotiabank Economics.

Chart 2



Source: Scotiabank Economics, Bank of Canada.

Chart 3



Source: Scotiabank Economics, Bank of Canada.

COMMODITIES

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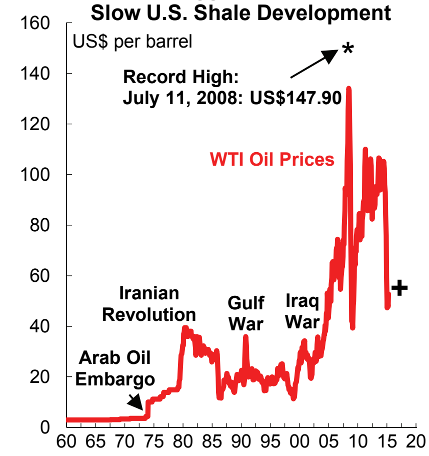
A Spring Rally In Oil Prices Gets Underway

- **U.S. shale oil production has levelled out and will edge down in May, helping to restore oil market balance.**
- **A strong spring driving season will boost gasoline & diesel demand, edging down record high U.S. oil inventories.**

WTI oil prices — the bellwether for North America — have rallied to almost US$56 per barrel from a mere US$43.46 a month ago (Brent to US$63.90 from US$53.51). We expect WTI oil prices to average US$58 in 2015, climbing to US$65 by year-end.

Two key developments lie behind the rebound: Firstly, expectations for a strong spring & summer driving season in the United States, the euro zone and parts of Asia, as consumers take advantage of low gasoline and diesel prices. The U.S. retail price for gasoline has dropped by US$1.24 over the past year to US$2.41 per gallon (-34%). Sales of large, luxury SUVs surged by 60% yr/yr in March. In the past four weeks, U.S. jet fuel demand is also up 10.7% yr/yr, contributing to a 4.5% gain in overall petroleum consumption.

Saudi Arabia Triggers Lower Oil Prices to Slow U.S. Shale Development



+ April 17, 2015: US$55.94.
Source: Scotiabank Commodity Price Index.

Secondly, U.S. shale oil production levelled off in April and will drop in May, given the sharp 51% yr/yr plunge in oil-targeted drilling activity across the United States. The oil market had reacted negatively to a further gain in shale output through the first quarter — from 5.236 mb/d in December to 5.613 mb/d in March, enabled by stepped-up rig productivity. However, the Energy Information Administration (EIA) indicates that output plateaued at 5.618 mb/d in April and will drop to 5.561 mb/d in May. We anticipate further shale production declines in coming months.

While U.S. commercial oil inventories remain at 80-year highs (483.7 million barrels), the combination of increased demand and lower production will help to ease back stocks. The buildup of inventory moderated in the latest week (April 10).

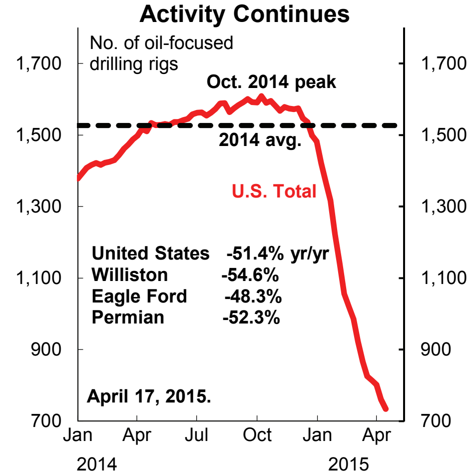
U.S. Shale Production To Decline in May

(000s b/d)

	Dec '14	Mar '15	May '15p
Bakken	1,224	1,328	1,297
Eagle Ford	1,655	1,733	1,690
Niobrara	374	418	403
Permian	1,824	1,961	1,992
Haynesville	57	57	58
Marcellus	54	57	57
Utica	48	59	64
Total Shales	5,236	5,613	5,561

Source: Scotiabank Economics, EIA.

Sharp Drop in U.S. Drilling Activity Continues



Source: Scotiabank Economics & Baker Hughes.

ASIA

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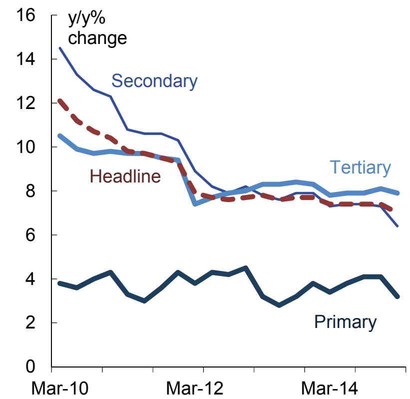
China's Economic Outlook Is Shaped By Structural Changes

- **Economic growth decelerates and reform implementation accelerates.**

China's brand of state-capitalism has achieved tremendous economic success since the beginning of the 1980s, expanding the economy by an average annual real growth rate of almost 10% between 1980 and 2014. Despite this past success, Chinese policymakers are conscious of the need for another paradigm shift: if the last 35 years were about investment, the next 35 will be about the consumer. Affecting the behaviour of 1.3 billion Chinese consumers is a very complex task, however, and Beijing is opting to allow the guiding hand of the free(er) market do some of the heavy lifting.

Real GDP Growth By Sector



Source: Bloomberg, Scotiabank Economics.

Economic growth in China continues to decelerate gradually with real GDP expanding by 7% y/y in the first quarter of 2015. As the country transitions to a higher level of economic development, the economy is becoming more consumer-based and services-oriented; going forward, household spending will be underpinned by low international energy prices, rising incomes, and robust job creation. Meanwhile, industrial activity is slowing and contributing less to economic expansion, as is the external sector. The ongoing rebalancing was evident in the first quarter activity: the growth rate of the tertiary sector (i.e. services) continues to surpass that of the secondary sector (i.e. industry and construction), as can be seen in the chart above. Indeed, the services sector is now the economy's largest employer and exceeded the industrial sector in size in 2013. Last year it accounted for 48.2% of the economy compared with the industrial sector's 42.6% share.

Despite the ongoing growth deceleration, China remains one of the top global performers and continues to grow from a sizable base. In 2014 alone, the economy ballooned by US$911 billion; this addition is comparable in size to more than half of Canada's entire economy. The Chinese government has set a real GDP growth target for 2015 at around 7% and the administration has the means to provide support to the economy through additional fiscal and monetary measures if momentum slows more than envisioned. Indeed, Chinese officials have highlighted the need for a favourable economic environment in order to successfully implement their ambitious structural reform agenda. A housing market correction poses the largest downside risk to economic momentum as real estate prices are declining in most cities. The correction will likely continue in the coming months until excess inventory is depleted. We expect China's real GDP growth to average 7% this year and 6½% in 2016 following a 7.4% gain in 2014.

President Xi Jinping and Premier Li Keqiang are focusing on structural reforms to gradually move China away from a centrally-planned system to a more market-oriented framework. Liberalizing interest rates, exchange rates and the capital account represent the key economic reforms, along with adjustments to the management of local government finances and state-owned enterprises. Interest rate liberalization is an important element in the financial sector reform process and a prerequisite for opening China's capital account. Following the removal of the floor on lending rates in July 2013, the People's Bank of China is making preparations for the eventual elimination of the ceiling on deposit rates, which has been raised gradually with the latest increase taking place in February. Interest rate liberalization will likely advance in the coming months, fostering competition in the financial sector and promoting the adoption of adequate risk management practices. Deposit insurance will be introduced on May 1st, 2015, a necessary step in the financial system's move toward a market-oriented framework. The Chinese yuan (CNY) will play an important role as a shock absorber amid the implementation of the reforms. Accordingly, further exchange rate reforms will likely take place in the near future; the CNY's trading band was widened in March 2014 to ±2% around the People's Bank of China's central parity for USDCNY, giving market forces a larger role in the currency's valuation. Given the number and complexity of simultaneous reforms that the Chinese government is implementing, effective control of execution risk is vital for sustaining economic, social, and financial stability.

U.S. & CANADIAN MONETARY POLICY

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The USD Has Not Appreciated As Much As You May Think

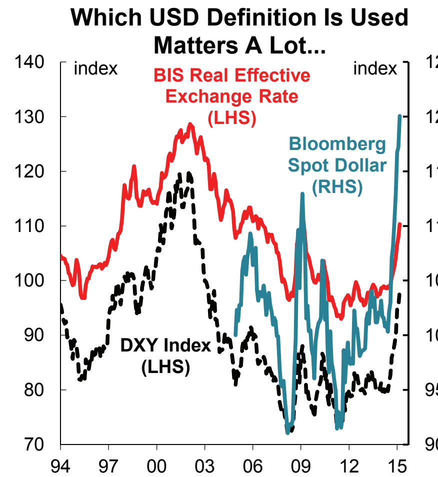
- **The Fed's preferred measure of the USD has appreciated by a fraction of the amount that is often cited, but there is less to quibble over regarding what measure of CAD should be used. This matters a great deal to the relative outlook for the Federal Reserve and the Bank of Canada.**

Apart from the effects of currency appreciation on growth and inflation, a basic starting point continues to be to emphasize what measure of the currency should be used before even getting into the effects. That matters markedly in the debate over the outlook for Federal Reserve policy. By contrast, it matters little in Canada.

The USD Is Up 12%, Not 42%

Multiple definitions of the movements in the US dollar are often used in such fashion as to spark confusion in the debate over future possible policy actions by the Federal Reserve. In fact there is one best measure that the Fed and most economists tend to emphasize and it differs markedly from the more popularized measures.

Chart 1



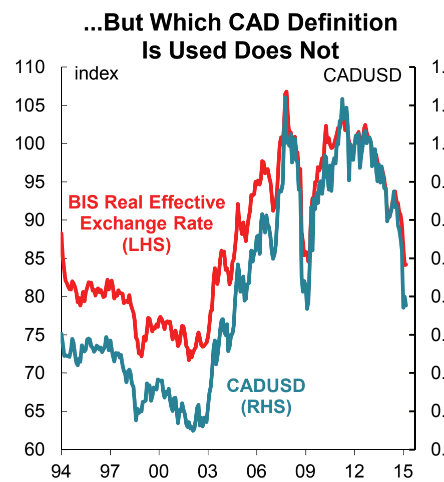
Source: Scotiabank Economics, Bloomberg.

The Bank for International Settlements just updated their real effective exchange rate (REER) measures for a number of currencies including the USD. The US REER is up 12% since last summer through to the end of March. That compares to double that rate of USD appreciation for the DXY measure of the USD exchange rate and the much higher 42% gain in the Bloomberg spot dollar index that dominates many headlines. Chart 1 plots all three. The Fed considers the former measure of the currency, not the latter two that either exclude or underweight pegged currencies that are important to the US trading relationship (like the RMB), don't trade weight against the whole basket of currencies of countries with which the US has trading relationships, and don't adjust for relative prices which is important to consider in assessing risks to international competitiveness.

Competing Currency Measures Matter Little In Canada

As for the Canadian dollar on a REER basis, it is now at its weakest since 2004 by a whisker as it's only marginally softer than in 2009. April's moves have backed off this level and likely brought CAD back above 2009 lows on a REER basis. Even though the BoC regularly says it does not focus on a particular level of CAD, it does regularly cite its financial conditions index which has eased in part due to currency depreciation which makes some of the debate a matter of semantics.

Chart 2



Source: Scotiabank Economics, Bloomberg.

The REER measure is the currency concept that the BoC includes in its financial conditions index (here). Having said that, the Canadian REER and CADUSD (i.e., flipped from the market convention in order to show the relationship more clearly) are highly positively correlated with one another given the dominance of the USD in Canada's trading relationships so it's a good approximation to just look at CADUSD instead of getting fancier.

That's not true for the US where the REER is the proper measure of the currency one should watch for purposes of tracking risks to the economy and inflation. This stands apart from what measure of the currency may be best suited to currency trading activities where one might prefer currency measures that underweight or exclude pegs and thus focus on major, highly liquid nominal currency crosses.

INTERNATIONAL TRADE

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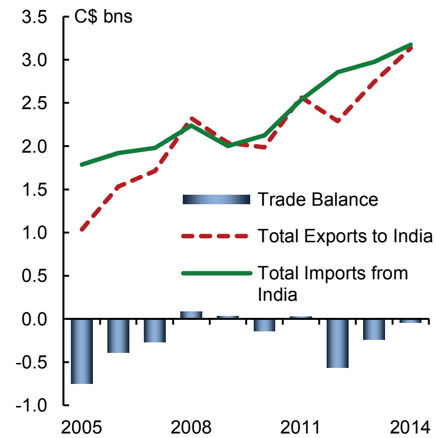
Canada & India Can Grow Better Together

- **Deepening of bilateral economic ties is under way.**

Indian Prime Minister Narendra Modi's Canadian visit, the first Indian head-of-state visit in over 40 years, underscores the bilateral commitment to deepen India-Canada relations. The importance of Prime Minister Modi's visit to Canada was highlighted by a joint visit to Ottawa, Toronto and Vancouver with Prime Minister Stephen Harper. The visit has already resulted in favourable outcomes for both nations; Air Canada announced that it will be resuming its non-stop service from Toronto to New Delhi in November, making it easier for Canadians to visit India. During his visit, Prime Minister Modi also announced that Canadians will be granted 10-year visas upon arrival, and signed a C$350 million agreement with Canada that will supply India with 3220 tons of uranium over five years to power its nuclear reactors.

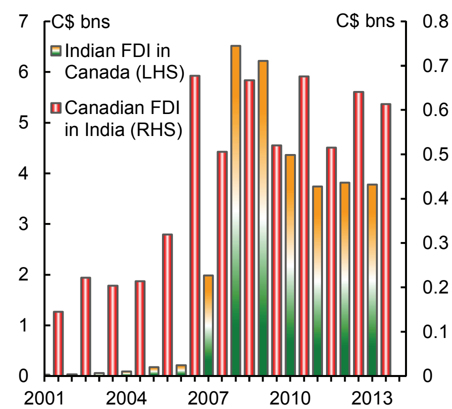
Chart 1: Merchandise Trade



Source: Industry Canada, Scotiabank Economics.

Canadian merchandise exports to India have been rising steadily, totaling roughly C$3.1 billion in 2014, compared with the C$2.7 billion that was recorded in 2013. Similarly, merchandise imports from India totaled approximately C$3.2 billion in 2014, up from roughly C$3.0 billion recorded the year before (Chart 1). Total two-way Canada-India merchandise trade has grown at an average rate of 9.9% y/y over the past 10 years.

Chart 2: Canada vs. India, FDI stock



Source: Statistics Canada, Scotiabank Economics.

Nonetheless, bilateral merchandise trade between the two countries remains small, 0.6% of total Canadian merchandise trade. This leaves significant room for growth as India — the world's third largest economy — ranks 11th on Canada's list of trading partners. Similarly, bilateral services trade amounted to roughly C$1.5 billion in 2013, 0.7% of total Canadian services trade. Top Canadian exports to India include agriculture products, fertilizers, wood products, precious stones, and iron/steel while Canadian imports from India consist of textiles, precious stones and metals, and organic chemicals.

Foreign direct investment (FDI) growth in India has been relatively minimal, partly due to inhibiting factors on foreign ownership. The Canadian FDI position in India remains small at C$613 million in 2013, and has remained relatively unchanged over the past 5 years, averaging $593 million (Chart 2). According to the World Bank's Doing Business 2015 report, India ranks 132nd out of 189 countries in terms of the ease of doing business, discouraging Canadian businesses from increasing FDI in India. Indian investment in Canada paints a slightly more encouraging picture; India's FDI stock in Canada amounts to roughly C$3.8 billion, but has remained virtually unchanged since 2011 (Chart 2).

The Bharatiya Janata Party (BJP) led by Prime Minister Modi has taken aggressive policy measures since winning a majority position in the lower house of parliament in May 2014. The government has pushed pro-business initiatives forward and is committed to improving the business environment by reducing domestic inefficiencies including excessive red tape, complicated tax systems, and insufficient infrastructure. Nevertheless, the BJP still holds a minority position in the upper house which constrains the government to some extent and delays proposed policy from materializing.

INTERNATIONAL TRADE

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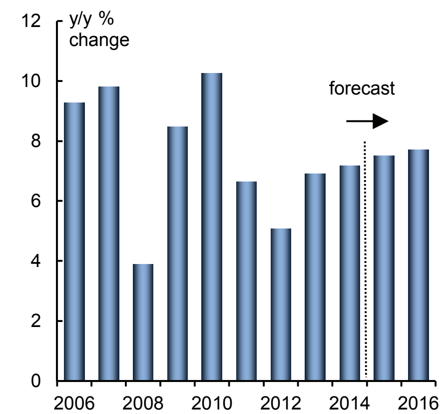
The 'Make in India' initiative announced by the new government hopes to increase the current share of manufacturing as a percent of GDP from 16% to 25%. As the Chinese economy shifts to higher-cost value-added manufacturing, India offers an attractive alternative for lower-cost manufacturing given that the nation's demographics offers a source of labour cost efficiencies. The government has identified twenty-five sectors where it hopes to achieve this goal, including aviation, automobiles, biotechnology, pharmaceuticals, and information technology. Specific policies on how the government intends to promote each sector have not yet been specified. We expect the government to either implement tax exemptions or continue relaxing FDI ceilings. Indeed, the government has raised or removed previously held ceilings on foreign investment for such sectors as insurance, defence, and telecom.

Canada and India are working on finalizing trade and investment agreements that have been stalled for some time. Negotiations surrounding the Comprehensive Economic Partnership Agreement (CEPA) — the free trade deal between Canada and India — were restarted last month. Similarly, Prime Minister Modi indicated that a Foreign Investment Promotion and Protection Agreement (FIPA), which has yet to be signed despite negotiations concluding in 2007, will be finalized in the near term. Nevertheless, in the almost eight years that have passed since FIPA negotiations with India were concluded, Canada has signed six FIPA agreements with other nations and eight have been brought into force, including one with China last year. Canada also has twelve free trade agreements already in force with fifteen other countries.

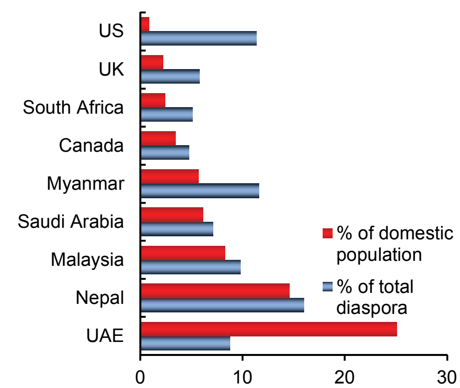
India presents Canada with significant opportunities for expanded co-operation. Output growth is expected to advance by 7.5% this year followed by a 7.7% gain in 2016 (Chart 3), making it the fastest growing economy in the world. Lower international oil prices coupled with accommodative monetary policy will provide the appropriate framework to support the strong economic growth trajectory that is expected for India. Canada can build upon its strong ties with the 1.2 million Indo-Canadian residents. The large Indian diaspora in Canada, which accounts for more than 5% of the total Indian diaspora spread across the world and roughly 3.5% of the Canadian population, underpins the relatively strong relationship that exists between the two nations (Chart 4). Last year US$2.8 billion in remittances were sent to India — the second largest destination for Canadian remittances (Chart 5).

Chart 3: India's Real GDP Growth



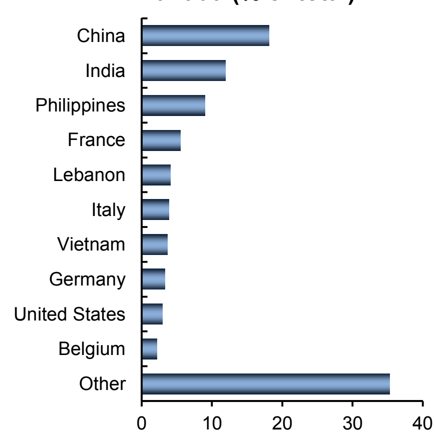
Source: IMF WEO April 2015 Database, Scotiabank Economics.

Chart 4: Indian Diaspora



Source: Ministry of Overseas Indian Affairs, IMF WEO April 2015 Database, Scotiabank Economics.

Chart 5: Remittances from Canada (% of total)



Source: The World Bank, Scotiabank Economics.

AEROSPACE INDUSTRY

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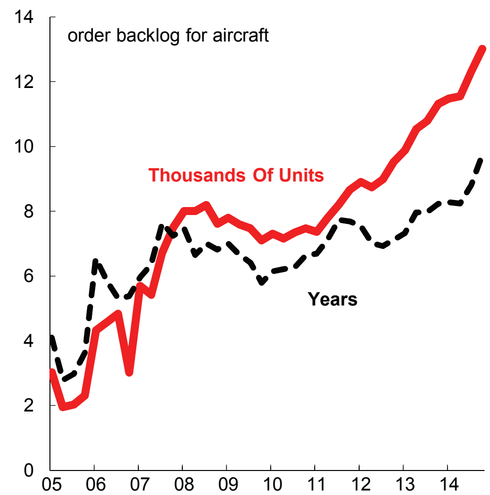
Commercial Aerospace Industry Aiming For Record Profits In 2015

- **Increasing demand for international travel and lower fuel prices are a boon for airlines and manufacturers.**

The commercial aerospace industry will continue to be buoyed by a record high backlog of aircraft orders and moderate global growth of around 3½%. However, slower growth in China, a subpar recovery in Japan, and the negative impact of sharply lower oil prices and capital expenditure reductions in the global energy industry will have some effect. For commercial airlines, the improved outlook for profits stemming from lower fuel prices and global growth will underpin momentum. In addition to the boost in consumer confidence and disposable income that will encourage travel, fuel accounts for around a quarter of total industry costs, so profit margins are likely to expand after the next round of forward fuel contracts are signed. Net profit for the global airline industry was about $20bn in 2014, and is expected to grow to $25bn this year.

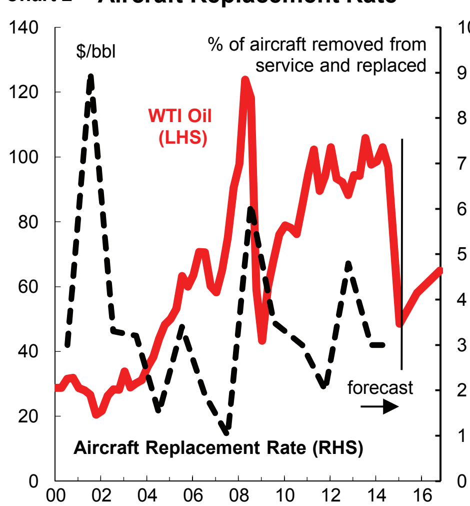
Chart 1 Record Aircraft Backlog



Source: Company Reports, Scotiabank Economics.

Deliveries of commercial aircraft were up 3% in 2014, setting a record high for the fourth year in a row. Major aircraft manufacturers have backlogs of up to a decade for their most popular narrowbody planes, and demand for larger widebody planes is also strong, but is more susceptible to changing economic conditions that may lead to production cuts, especially for older models. There may be some falloff in new aircraft orders if oil prices stay low and dampen demand for more fuel efficient products. This has happened in the past, as the previous oil shock in 2008 dropped the replacement rate from 6% to 2% of the total fleet over three years, but with a backdrop of a global recession. The current oil price decline is accompanied by much stronger global growth, low interest rates promoting long-term capital investment, and improved airline profitability. In addition, with the estimated replacement rate already in line with historical averages — around 3% per year — lower oil and fuel prices will likely have only a marginal effect on the industry. Aircraft production is cyclical, and highly correlated with global GDP. However, given the record number of backlogged orders, even an unexpected downturn in global growth is unlikely to slow production over the next few years.

Chart 2 Aircraft Replacement Rate



Source: JP Morgan, Bloomberg, Scotiabank Economics.

Consumer sentiment in the U.S., at its highest level in a decade, should provide a boost to both leisure and business travel in North America — passenger revenues are expected to strengthen to 3% y/y, from a 2.5% gain in 2014 — boosting revenues for both economy and premium seats. Worldwide passenger air traffic revenue increased nearly 6% y/y in 2014, similar to the pace a year previous. Stable global GDP growth and rising disposable incomes are likely to push world travel volumes above 6% y/y in 2015. Although projections are largely positive, slower growth in China — which accounts for over 10% of global tourism expenditures — may dampen the outlook.

U.S. defense spending, a major driver of the aerospace industry, has remained at sequestration-level funding since 2011. The Obama administration's latest budget for the Pentagon proposes a 7.7% increase for fiscal year 2016 and exceeds current caps by 6% — or $155bn — over the next 5 years, with spending on F-35 jets (+$2.4bn), C-130J transport planes (+$1.0bn), and KC-46 refueling tankers (+$648mn) accounting for the largest requested increases. The proposal has to pass several stages of bipartisan approval to be written into law, which will take place over the next few months.

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

Week-ahead highlights:

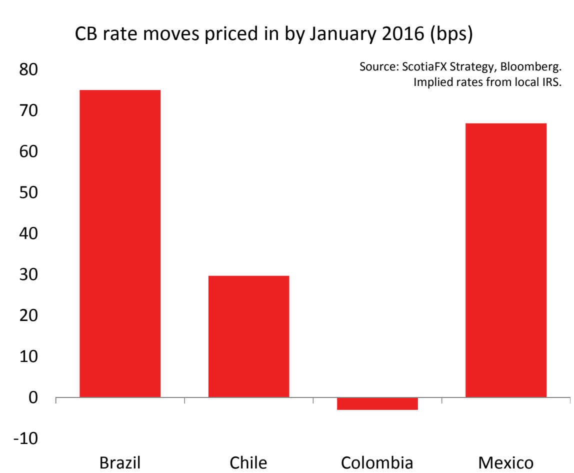
The direction of policy is LATAM has once again started to converge, although countries are at very different stages in their respective cycles. By now, all the LATAM-5 central banks are either in a neutral stance (Peru, Chile, Colombia), signaling an upcoming rates lift-off (Banxico), or nearing the end of their tightening cycle (Brazil). We are broadly in agreement with what rates markets are pricing, but there are some where we feel the risks are higher:

- For us, the market that seems most likely to be mis-priced at the moment is Mexico, where TIIE is pricing in 2 X25bps hikes, and an additional >50% of a third +25bps by the end of Jan-2016. Our base case is that by then Banxico will have hiked at most +50bps. We assume that the Fed hikes +25bps in September (our bank's base case), and then proceeds cautiously from there.

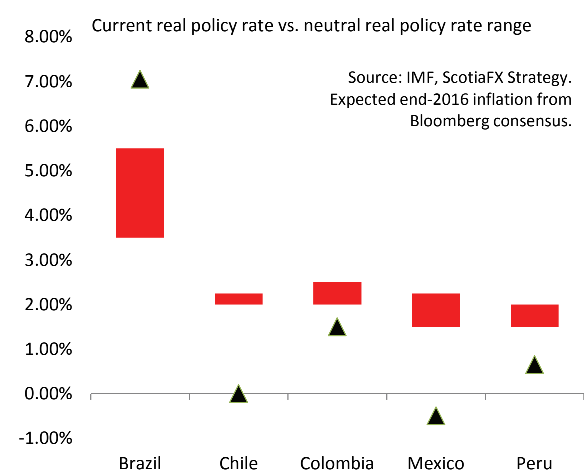
- The second market that seems most likely to be over-priced in our view is Brazil. Our base case is that the BCB hikes +50bps, followed by 2 X25bps hikes given it continues to signal inflation vigilance rather than neutrality, but our sense is that if that proves to be wrong, it will be towards less hikes given inflation expectations for 2015 have started to stabilize, and markets seem to be buying into Levy's adjustment plans (so they will expect the fiscal side to start adding less pressure to inflation).

It is worth noting that, outside Brazil, all of the LATAM countries currently have "loose monetary settings", but our sense is that they will return towards neutral only gradually. The two central banks where settings are loosest are Banxico and the BCCh, followed by the BCRP. On this front, the IMF's spring meeting assessment for both Peru and Chile is that room for additional stimulus is limited, which we agree with, and the respective central banks seem to see it that way too, given that despite still describing their economies as operating below potential, they have shifted to "neutral", with the BCCh signaling rates are set to start rising around year-end.

We broadly agree with what is priced into local markets, but see most risk pricing in Mexico and Brazil



Brazil is the only LATAM-5 country where monetary policy settings are not on the "loose side"



Moody's warned that the weakness in LATAM FX could have adverse impact on both Pemex and Petrobras… this could be a risk to monitor for both Brazil and Mexico.

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Week-ahead views:

Brazil (BRL): Although next week we get mostly tier-2 data, there are still some important indicators to look out for. In particular, Brazil's twin-deficits (fiscal and current account) are among the reasons why rating agencies have put the country's ratings at risk of losing their investment grade / or falling to the brink of it, making next week's current account release worth watching. In addition, Friday's lending data is particularly relevant for the outlook of domestic demand in our view. We believe that the three reasons behind the weakness in retail sales we have recently seen are the still-high level of household debt (on which we get an update on Friday), along with weakening employment, and confidence (which likely ties back to the former too, as well as negative political / economic headlines… and maybe the depreciation of the BRL). Another important issue to continue to monitor next week is news on the publication of Petrobras' audited results (an important piece of news on this front could be that according to Valor, the company has negotiated a waiver in case results are not published by the end of the month), and pending issues related to the company's "car-wash".

Chile (**CLP)**: Last night, the BCCh left rates unchanged as widely expected. The central bank's assessment of the external environment sounded a little more constructive, with the European economy seen gaining traction, and the US still seen fairly strong despite the slowdown in Q1. The BCCh also highlighted improving global financial conditions, and a weakening USD. However, the central bank was less constructive on China and the rest of LATAM. Regarding the Chilean economy, the central bank described recent performance as fairly in line with what was anticipated in the MPR, with the economy stabilizing and inflation expectations anchored. The policy bias is neutral, although we have already received guidance from Governor Vergara that he sees rates starting to rise late in 2015.

Colombia (COP): We are heading into a relatively busy week in Colombia in terms of releases. In particular, we are set to kick off with retail and industrial confidence, which we think are worth monitoring as a gauge of when the economy is set to start slowing more markedly. Although we have only seen a modest slowdown in the economy, our sense is that the impact of fading terms of trade tailwinds is likely to be deeper than what we have seen already, particularly given that its impact on domestic / consumer demand has only been modest so far. In addition, it will be interesting to look at the trade balance data for February; two items we will look at are the impact of stabilizing oil prices, and more importantly, how imports have been impacted by the weakening of COP. In January, imports took a sharp hit, and it will be interesting to see if it becomes a trend. In addition, on Friday we have BanRep's MPC meeting. All the economists surveyed by Bloomberg look for unchanged rates, which seems consistent with the message from the central bank (most recently from Director Cano), but it will be interesting to see if we get any hints about what the central bank sees as the next change of bias. Local rates seem to modestly see a chance of the next move being towards the downside (which would be consistent with our view that the economy has not yet felt the bulk of the terms of trade reversal, but our sense from Director Cano's latest presentation was that he sees the next move likely being a hike.

Mexico (MXN): Next week we get important information on both growth and inflation, as the monthly IGAE and CPI data are scheduled for the 21st and 23rd. Although our sense is that Mexico's monetary policy is more likely to be determined by financial stability objectives than these two variables at the moment (i.e., by what the Fed does and when, in order to maintain stability in local fixed income markets, which we believe Banxico sees as a priority at the moment), we think it's still relevant to keep an eye on both indicators. The growth picture has recently seen somewhat of a shift, with some components of industrial production losing dynamism — at the same time as US data softened, while some domestic demand indicators seem to suggest a continued gradual improvement on this front. If the softness in US data proves to be temporary / weather-related, we think we could see a sharper acceleration of Mexican growth heading into the second half of the year. However, the trend in recent growth revisions has mostly been to the downside, which will be interesting to watch in next week's Banamex survey of economists. Finally, to us the main indicator of next week (maybe next to inflation), is retail sales, where we look for continued improvement in spending.

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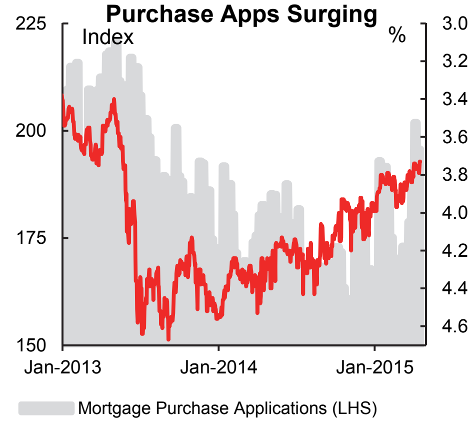
Key Data Preview

UNITED STATES

We're looking for a pick-up in **existing home sales** for March, forecasting a 5m annualized level as the housing market rebounds from subdued activity levels during a cold winter. Ultimately, we're quite enthusiastic when it comes to home sales volumes over the medium term as we think that sales should rise over time on: a) low interest rates, b) rising employment and employment prospects, c) fewer underwater home-owners as the mix of debt pay-down and rising home prices improves homeowner equity, and, d) perhaps better availability of credit to prospective home buyers. That said, in terms of our expectations for March, leading indicators were mixed, with pending home sales having increased solidly in February pointing to better sales in March, while mortgage purchase applications have been volatile, skyrocketing on average in January, plummeting in February, and then rising again in March (see chart). The direction is positive overall, and we think this implies better numbers through mid-year.

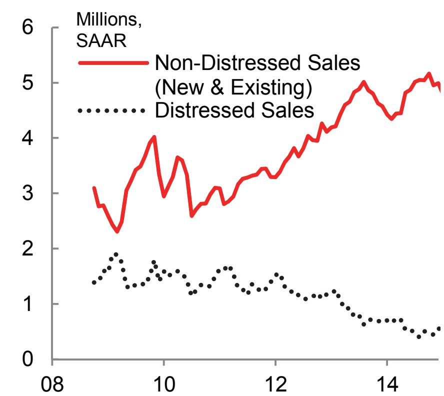
Mortgage Costs Falling, Purchase Apps Surging



Source: Scotiabank Economics, Bloomberg.

Why have **new home sales** been so strong? We're anticipating an only moderate reduction in new home sales to a reading of 525k annualized after a surprise increase to an annualized 539k in February. It would seem as though there has been a shift in preference towards new home sales in recent quarters as the so-called inventory of distressed homes has cleared and the home sales market has increasingly become a function of basic consumer demand. Leading indicators such as foot traffic of prospective buyers in model homes point to ongoing strength that should mitigate the mean-reversion that we anticipate after February's post-crisis high in new home sales.

Distressed Sales Making Up Less of the Market

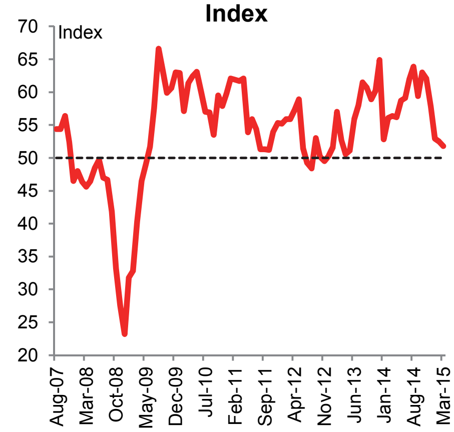


Source: NAR, CB, Scotiabank Economics

UNITED STATES

Durable goods orders have generally been soft for the past two quarters, averaging -7.3% lower during the Q4 2014/Q1 2015 period than during the Q2-Q3 2014 hot streak. We can point to a number of overarching macroeconomic factors to explain this, including the stronger USD (which should restrain export orders) and the decline in oil prices (which should restrain oil capex), and indeed, some of the obvious sub-indices have been hit harder than others including machinery (-10.5% since an August peak) and non-defense non-aircraft capital goods in general (-5% since August). That said, some of the headline numbers have been skewed by lumpiness in aircraft orders after a 315% increase in aircraft orders in July that probably saw a major part of the year's new orders booked in one month. Our short-term outlook for March is fairly restrained, and we're expecting a 0.5% rebound on a mix of autos orders which we expect will rebound from two soft months and some improvement in capital goods orders after a soft showing in January and February. That said, Boeing only reported 39 aircraft orders vs. 72 in February, and the ISM index for March was weak both in terms of its overall reading and its new orders index (see chart), which mutes our overall enthusiasm.

ISM Manufacturing New Orders Index



Source: Bloomberg, Scotiabank Economics

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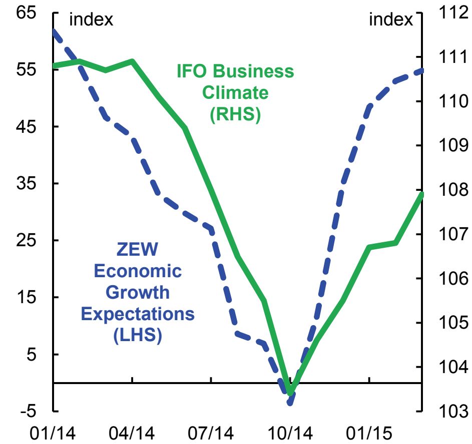
EUROPE

It will be a busy week for data in Germany, with April figures for the ZEW indicator of economic sentiment to be released on April 21st, followed by PMIs on April 23rd, and the IFO business climate index on April 24th. The German economy has gained significant momentum in recent months. We expect the strengthening trend in high-frequency sentiment surveys and hard data to continue, underpinned by robust labour market fundamentals, the weaker euro, cheaper energy prices and low funding costs. The ZEW indicator of economic sentiment is forecast to increase to 56.0 in April from 54.8 in March, while Germany's composite PMI will likely edge up to 56.2 from 55.4, amid solid service sector activity and a modest improvement in manufacturing. Furthermore, the IFO business climate index is expected to rise to 108.7 in April from 107.9 in the prior month.

Ongoing Improvements In Germany

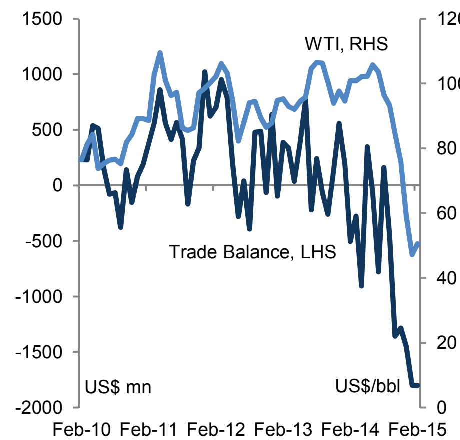


Source: Scotiabank Economics, ZEW, IFO.

LATIN AMERICA

Colombia will release its trade balance data from the month of February on April 22nd. We expect that Colombia's trade balance will continue to remain in material deficit territory, likely around US$1.8 billion, on the back of persistently low oil prices. While the depreciating peso will provide upside potential for the country's non-oil exports, it will take time for these flows to develop and we believe that continued monthly deficits are likely until the oil price begins to rebound, likely in the second half of 2015.

Colombian Trade Balance vs Oil Price

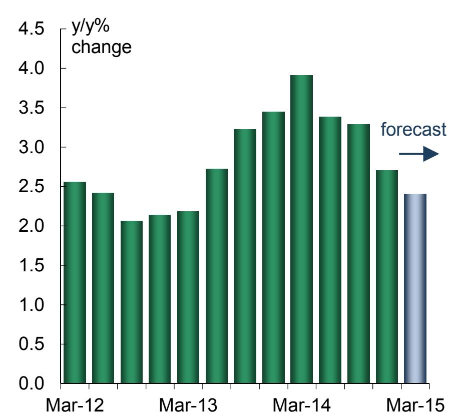


Source: Bloomberg, Scotiabank Economics.

ASIA

South Korea will release first quarter GDP data on April 22nd (EST). We estimate that real GDP expanded by 2.4% y/y following a 2.7% increase in the fourth quarter of 2014; output expanded by 3.4% in 2014 as a whole. Exports have averaged a 2.8% y/y contraction over the first three months of the year. External sector prospects are highly significant for South Korea as exports of goods and services are equivalent to almost 60% of GDP. The near-term outlook remains challenging due to mediocre demand conditions globally; China's economic performance is particularly relevant since the country purchases a quarter of South Korean shipments abroad. Nevertheless, South Korea is a net beneficiary of reduced global oil prices as it imports virtually all of its oil needs. Higher spending power of consumers and businesses should translate to increasing confidence and economic activity. Furthermore, the government's fiscal stimulus measures will further support consumer and business spending. Economic momentum in South Korea is forecast to continue growing at a modest pace through 2016. We expect gains to average roughly 3½% through 2016 as monetary stimulus takes effect and domestic demand recovers.

South Korean Real GDP Growth



Source: Bloomberg, Scotiabank Economics.

Key Indicators for the week of April 20 – 24

North America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	04/21	08:30	Wholesale Trade (m/m)	Feb	-0.5	--	-3.1
US	04/22	07:00	MBA Mortgage Applications (w/w)	APR 17	--	--	-2.3
US	04/22	10:00	Existing Home Sales (mn a.r.)	Mar	5.00	5.04	4.88
US	04/22	10:00	Existing Home Sales (m/m)	Mar	--	3.2	1.2
US	04/23	08:30	Initial Jobless Claims (000s)	APR 18	285	290	294
US	04/23	08:30	Continuing Claims (000s)	APR 11	2250	2289	2268
MX	04/23	09:00	Bi-Weekly Core CPI (% change)	Apr 15	--	0.1	0.2
MX	04/23	09:00	Bi-Weekly CPI (% change)	Apr 15	--	-0.2	0.4
MX	04/23	09:00	Global Economic Indicator IGAE (y/y)	Feb	--	2.4	2.0
US	04/23	10:00	New Home Sales (000s a.r.)	Mar	525.0	510.0	539.0
US	04/24	08:30	Durable Goods Orders (m/m)	Mar	0.5	0.6	-1.4
US	04/24	08:30	Durable Goods Orders ex. Trans. (m/m)	Mar	0.3	0.3	-0.6
MX	04/24	09:00	Retail Sales (INEGI) (y/y)	Feb	--	4.9	4.7

Europe

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
GE	04/20	02:00	Producer Prices (m/m)	Mar	--	0.2	0.1
EC	04/21	05:00	ZEW Survey (Economic Sentiment)	Apr	--	--	62.4
GE	04/21	05:00	ZEW Survey (Current Situation)	Apr	--	56.5	55.1
GE	04/21	05:00	ZEW Survey (Economic Sentiment)	Apr	56.0	55.3	54.8
TU	04/22	07:00	**Benchmark Repo Rate (%)**	**Apr 22**	**7.50**	**7.50**	**7.50**
EC	04/22	10:00	Consumer Confidence	Apr A	-3.0	-2.5	-3.7
FR	04/23	03:00	Manufacturing PMI	Apr P	--	49.2	48.8
FR	04/23	03:00	Services PMI	Apr P	--	52.4	52.4
SP	04/23	03:00	Unemployment Rate (%)	1Q	--	23.7	23.7
GE	04/23	03:30	Manufacturing PMI	Apr P	--	53.0	52.8
GE	04/23	03:30	Services PMI	Apr P	--	55.5	55.4
EC	04/23	04:00	Composite PMI	Apr P	54.5	54.4	54.0
EC	04/23	04:00	Manufacturing PMI	Apr P	53.0	52.6	52.2
EC	04/23	04:00	Services PMI	Apr P	54.0	54.5	54.2
UK	04/23	04:30	PSNB ex. Interventions (£ bn)	Mar	--	7.0	6.9
UK	04/23	04:30	Public Finances (PSNCR) (£ bn)	Mar	--	--	0.0
UK	04/23	04:30	Public Sector Net Borrowing (£ bn)	Mar	--	6.5	6.2
UK	04/23	04:30	Retail Sales ex. Auto Fuel (m/m)	Mar	--	0.5	0.7
UK	04/23	04:30	Retail Sales with Auto Fuel (m/m)	Mar	--	0.4	0.7
IT	04/23	05:00	Current Account (€ mn)	Feb	--	--	45.4
GE	04/24	04:00	IFO Business Climate Survey	Apr	108.7	108.4	107.9
GE	04/24	04:00	IFO Current Assessment Survey	Apr	113.0	112.4	112.0
GE	04/24	04:00	IFO Expectations Survey	Apr	104.5	104.5	103.9

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

Key Indicators for the week of April 20 – 24

Asia Pacific

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
SK	04/19	17:00	PPI (y/y)	Mar	--	--	-3.6
NZ	04/19	18:45	Consumer Prices (y/y)	1Q	0.2	0.2	0.8
JN	04/19	19:50	Tertiary Industry Index (m/m)	Feb	--	-0.7	1.4
TA	04/20	04:00	Export Orders (y/y)	Mar	--	1.4	-2.7
JN	04/21	01:00	Coincident Index CI	Feb F	110.5	--	110.5
JN	04/21	01:00	Leading Index CI	Feb F	105.3	--	105.3
JN	04/21	01:00	Supermarket Sales (y/y)	Mar	--	--	-0.8
JN	04/21	02:00	Nationwide Department Store Sales (y/y)	Mar	--	--	1.1
HK	04/21	04:30	CPI (y/y)	Mar	5.1	--	4.6
JN	04/21	19:50	Merchandise Trade Balance (¥ bn)	Mar	--	44.6	-425.0
JN	04/21	19:50	Adjusted Merchandise Trade Balance (¥ bn)	Mar	--	-409.3	-638.8
JN	04/21	19:50	Merchandise Trade Exports (y/y)	Mar	--	8.5	2.5
JN	04/21	19:50	Merchandise Trade Imports (y/y)	Mar	--	-12.6	-3.6
TA	04/21	20:30	Unemployment Rate (%)	Mar	3.7	3.8	3.7
AU	04/21	21:30	Consumer Prices (y/y)	1Q	1.3	1.3	1.7
MA	04/22	00:00	CPI (y/y)	Mar	0.1	0.9	0.1
SK	04/22	19:00	GDP (y/y)	1Q P	2.4	2.3	2.7
NZ	04/22	21:00	ANZ Consumer Confidence Index	Apr	--	--	124.6
JN	04/22	21:35	Markit/JMMA Manufacturing PMI	Apr P	--	50.7	50.3
CH	04/22	21:45	HSBC Flash China Manufacturing PMI	Apr P	--	49.4	49.6
CH	04/22	21:45	HSBC Manufacturing PMI	Apr P	--	49.4	49.6
SI	04/23	01:00	CPI (y/y)	Mar	-0.6	-0.5	-0.3
TA	04/23	04:00	Commercial Sales (y/y)	Mar	--	0.7	0.9
TA	04/23	04:00	Industrial Production (y/y)	Mar	--	5.5	3.3
HK	04/23	04:30	Unemployment Rate (%)	Mar	3.3	--	3.3
SK	04/23	17:00	Consumer Confidence Index	Apr	--	--	101.0
JN	04/24	00:30	All Industry Activity Index (m/m)	Feb	--	-1.0	1.9
SI	04/24	01:00	Industrial Production (y/y)	Mar	--	-6.0	-3.6
VN	APR 23-24		CPI (y/y)	Apr	1.4	--	0.9
SK	APR 23-30		Department Store Sales (y/y)	Mar	--	--	6.6

Latin America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
BZ	04/22	09:30	Current Account (US$ mn)	Mar	--	-4700.0	-6878.7
CO	04/22	17:00	Trade Balance (US$ mn)	Feb	-1800	-1200.0	-1797.6
CO	04/24		**Overnight Lending Rate (%)**	**Apr 24**	**4.50**	**4.50**	**4.50**

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

Global Auctions for the week of April 20 – 24

North America

Country	Date	Time	Event
US	04/20	11:30	U.S. to Sell 3-Month Bills
US	04/20	11:30	U.S. to Sell 6-Month Bills
CA	04/21	10:30	Canada to Sell CAD5.5 Bln 98-Day Bills
CA	04/21	10:30	Canada to Sell CAD2.1 Bln 168-Day Bills
CA	04/21	10:30	Canada to Sell CAD2.1 Bln 350-Day Bills
US	04/21	11:30	U.S. to Sell 4-Week Bills
CA	04/22	12:00	Canada to Sell 2-Year Bonds
US	04/23	13:00	U.S. to Sell 5-Year TIPS
US	04/23	13:00	U.S. to Sell USD18 Bln 5-Year TIPS

Europe

Country	Date	Time	Event
NE	04/20	05:00	Netherlands to Sell Up to EUR2 Bln 69-Day Bills
BE	04/20	05:00	Belgium to Sell 0.8% 2025 Bonds
NE	04/20	05:00	Netherlands to Sell Up to EUR2 Bln 100-Day Bills
BE	04/20	06:00	Belgium to Sell 3.75% 2020 Bonds
FR	04/20	08:50	France to Sell Bills
SP	04/21	04:30	Spain to Sell 3 Month Bills
SP	04/21	04:30	Spain to Sell 9 Month Bills
MB	04/21	05:00	Malta to Sell Bills
EC	04/21	05:10	ECB Main Refinancing Operation Result
SZ	04/21	05:15	Switzerland to Sell 91-Day Bills
UK	04/21	05:30	U.K. to Sell GBP1.75 Bln 3.5% 2045 Bonds
EC	04/21	06:30	ESM to Sell Bills
SW	04/22	05:03	Sweden to Sell Bonds
NO	04/22	06:00	Norway to Sell Bonds
UK	04/24	06:00	U.K. to Sell 1-Month Bills
UK	04/24	06:00	U.K. to Sell 3-Month Bills
UK	04/24	06:00	U.K. to Sell 6-Month Bills

Asia Pacific

Country	Date	Time	Event
CH	04/19	23:00	China to Sell CNY15 Bln 273-Day Bills
JN	04/21	04:00	Japan Auction for Enhanced-Liquidity
CH	04/21	23:00	China to Sell 5-Year Bonds
CH	04/21	23:00	China to Sell 5-Year Bonds
AU	04/22	20:30	Australia Plans to Sell AUD500 Mln 105-Day Bills
JN	04/22	23:35	Japan to Sell 3-Month Bill
JN	04/22	23:45	Japan to Sell 40-Year Bonds
AU	04/23	21:00	Australia Plans to Sell AUD500 Mln 105-Day Bills
CH	04/23	23:00	China Plans to Sell CNY26 Bln 20-Year Bonds

Source: Bloomberg, Scotiabank Economics.

Events for the week of April 20 – 24

North America

Country	Date	Time	Event
CA	04/20	10:05	Bank of Canada's Poloz Speaks in New York
CA	04/21		Minister of Finance Oliver to Present Plan to Balance Budget
CA	04/23		Finance Minister Sousa to Release Ontario's Budget

Europe

Country	Date	Time	Event
EC	04/18	12:00	ECB's Draghi Holds Press Conference in Washington
EC	04/18	13:30	ECB's Weidmann, Germany's Schaeuble Hold Press Briefing in DC
EC	04/20	04:00	EU Foreign Ministers Hold Meeting in Luxembourg
EC	04/20	09:00	ECB's Constancio Speaks at European Parliament in Brussels
EC	04/20	09:45	ECB Announces Details of QE Purchases
EC	04/21	04:00	EU General Affairs Ministers Hold Meeting in Luxembourg
SW	04/21	07:00	Riksbank Deputy Governor Henry Ohlsson Speaks at Seminar
EC	04/21	12:30	ECB's Nouy Speaks in Geneva
UK	04/22	04:30	Bank of England Minutes
GE	04/22	05:15	Government Presents Spring Economic Forecasts: Berlin
TU	04/22	07:00	**Benchmark Repurchase Rate**
EC	APR 22-23		Iran, Officials From World Powers Hold Nuclear Talks in Vienna
EC	04/23	03:45	ECB's Praet Speaks in Berlin
SW	04/23	04:00	Handelsbanken Releases New Economic Forecasts
EC	APR 24-25		Euro-Area Finance Ministers, Central Bankers Meet in Riga

Asia Pacific

Country	Date	Time	Event
AU	04/20	12:30	RBA Governor Stevens Speech in New York
AU	04/20	21:30	RBA April Meeting Minutes
NZ	04/22	20:00	RBNZ Assistant Governor McDermott Speaks in Hamilton
JN	04/23	23:00	BOJ Nakaso speaks at SAAJ International Seminar

Latin America

Country	Date	Time	Event
CO	04/24		**Overnight Lending Rate**

Source: Bloomberg, Scotiabank Economics.

Global Central Bank Watch

North America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Canada – Overnight Target Rate	0.75	May 27, 2015	0.75	0.75
Federal Reserve – Federal Funds Target Rate	0.25	April 29, 2015	0.25	0.25
Banco de México – Overnight Rate	3.00	April 30, 2015	3.00	--

BoC Governor Stephen Poloz is speaking on Monday in New York, but with no published remarks, press conference or audience Q&A. Otherwise, risks centre on the release of the Federal Budget on Tuesday and Ontario's provincial Budget on Thursday, as well as the beginning of the Canadian earnings season. The **Federal Reserve** slips into communications black-out on Tuesday ahead of the following week's FOMC meeting, but existing home sales (Wednesday), new home sales (Thursday), durable goods orders (Friday) and almost 150 earnings releases will keep U.S. markets busy.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	0.05	June 3, 2015	0.05	--
Bank of England – Bank Rate	0.50	May 11, 2015	0.50	0.50
Swiss National Bank – Libor Target Rate	-0.75	June 18, 2015	-0.75	--
Central Bank of Russia – One-Week Auction Rate	14.00	April 30, 2015	13.00	13.00
Central Bank of the Republic of Turkey – 1 Wk Repo Rate	7.50	April 22, 2015	7.50	7.50
Sweden Riksbank – Repo Rate	-0.25	April 29, 2015	-0.25	--
Norges Bank – Deposit Rate	1.25	May 7, 2015	1.00	--

The Monetary Policy Committee at **the Central Bank of the Republic of Turkey (CBRT)** will meet and announce an interest rate decision on April 22nd. With Turkish inflation still stubbornly high at 7.6% y/y in March and the lira facing significant downward pressure amid speculation of an early interest rate hike by the US Federal Reserve, we believe that the CBRT will keep its benchmark one-week repo rate unchanged at 7.5%. Authorities will, however, discuss other policy measures to support financial market stability, such as cutting interest rates on foreign-exchange deposits.

Asia Pacific

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Reserve Bank of Australia – Cash Target Rate	2.25	May 5, 2015	2.00	2.00
Reserve Bank of New Zealand – Cash Rate	3.50	April 29, 2015	3.50	3.50
People's Bank of China – Lending Rate	5.35	TBA	--	--
Reserve Bank of India – Repo Rate	7.50	June 2, 2015	7.50	--
Bank of Korea – Bank Rate	1.75	May 15, 2015	1.75	--
Bank of Thailand – Repo Rate	1.75	April 29, 2015	1.75	--
Bank Indonesia – Reference Interest Rate	7.50	May 19, 2015	7.50	--

Latin America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	12.75	April 29, 2015	12.75	--
Banco Central de Chile – Overnight Rate	3.00	May 14, 2015	3.00	--
Banco de la República de Colombia – Lending Rate	4.50	April 24, 2015	4.50	4.50
Banco Central de Reserva del Perú – Reference Rate	3.25	May 14, 2015	3.25	3.25

We expect the **Banco de la República de Colombia** to keep its benchmark lending rate steady at 4.50% after it meets on April 24th. Inflation remains above monetary authorities' 2-4% target range, coming in at 4.6% y/y in March. However, much of this inflationary pressure is due to the falling value of the peso, which has depreciated significantly on the back of low oil prices.

Africa

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
South African Reserve Bank – Repo Rate	5.75	May 21, 2015	5.75	--

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

Economic Statistics

North America

Canada	2014	14Q3	14Q4	Latest	
Real GDP (annual rates)	2.5	3.2	2.4		
Current Acc. Bal. (C$B, ar)	-43.5	-38.4	-55.7		
Merch. Trade Bal. (C$B, ar)	4.6	10.9	-7.7	-11.8	(Feb)
Industrial Production	2.5	2.7	1.4	-1.6	(Feb)
Housing Starts (000s)	189	199	184	190	(Mar)
Employment	0.6	0.5	0.7	0.5	(Mar)
Unemployment Rate (%)	6.9	7.0	6.7	6.8	(Mar)
Retail Sales	4.6	4.9	4.4	2.5	(Feb)
Auto Sales (000s)	1850	1942	1909	1796	(Feb)
CPI	1.9	2.1	1.9	1.2	(Mar)
IPPI	2.5	2.7	1.4	1.6	(Feb)
Pre-tax Corp. Profits	9.0	10.0	6.7		

United States	2014	14Q3	14Q4	Latest	
Real GDP (annual rates)	2.4	5.0	2.2		
Current Acc. Bal. (US$B, ar)	-411	-396	-454		
Merch. Trade Bal. (US$B, ar)	-736	-724	-741	-662	(Feb)
Industrial Production	4.1	4.3	4.5	2.0	(Mar)
Housing Starts (millions)	1.00	1.03	1.06	0.93	(Mar)
Employment	1.9	2.0	2.2	2.3	(Mar)
Unemployment Rate (%)	6.2	6.1	5.7	5.5	(Mar)
Retail Sales	3.8	4.3	3.7	0.5	(Mar)
Auto Sales (millions)	16.4	16.7	16.7	17.1	(Mar)
CPI	1.6	1.8	1.2	-0.1	(Mar)
PPI	1.9	2.5	0.8	-3.3	(Mar)
Pre-tax Corp. Profits	8.3	10.0	6.7		

Mexico	2014	14Q3	14Q4	Latest	
Real GDP	2.1	2.2	2.6		
Current Acc. Bal. (US$B, ar)	-26.5	-11.1	-21.2		
Merch. Trade Bal. (US$B, ar)	-2.4	-6.1	-2.7	6.7	(Feb)
Industrial Production	1.9	2.0	2.4	1.6	(Feb)
CPI	4.0	4.1	4.2	3.1	(Mar)

Europe

Euro Zone	2014	14Q3	14Q4	Latest	
Real GDP	0.9	1.0	1.0		
Current Acc. Bal. (US$B, ar)	281	349	452	188	(Feb)
Merch. Trade Bal. (US$B, ar)	320.6	325.3	380.7	343.7	(Feb)
Industrial Production	0.8	0.6	0.3	1.6	(Feb)
Unemployment Rate (%)	11.6	11.5	11.5	11.3	(Feb)
CPI	0.4	0.4	0.2	-0.1	(Mar)

Germany	2014	14Q3	14Q4	Latest	
Real GDP	1.6	1.2	1.5		
Current Acc. Bal. (US$B, ar)	219.7	324.1	302.0	226.7	(Feb)
Merch. Trade Bal. (US$B, ar)	289.7	305.1	301.3	267.8	(Feb)
Industrial Production	1.5	0.3	0.5	-0.3	(Feb)
Unemployment Rate (%)	6.7	6.7	6.6	6.4	(Mar)
CPI	0.9	0.8	0.5	0.3	(Mar)

France	2014	14Q3	14Q4	Latest	
Real GDP	0.4	0.4	0.2		
Current Acc. Bal. (US$B, ar)	-28.1	-2.6	0.8	-59.1	(Feb)
Merch. Trade Bal. (US$B, ar)	-40.0	-43.4	-33.7	-36.5	(Feb)
Industrial Production	-1.0	-0.2	-1.4	0.6	(Feb)
Unemployment Rate (%)	10.3	10.4	10.5	10.6	(Feb)
CPI	0.5	0.4	0.3	-0.1	(Mar)

United Kingdom	2014	14Q3	14Q4	Latest	
Real GDP	2.8	2.8	3.0		
Current Acc. Bal. (US$B, ar)	-97.9	-110.7	-101.2		
Merch. Trade Bal. (US$B, ar)	-197.1	-210.4	-184.5	-190.2	(Feb)
Industrial Production	1.6	1.2	1.1	0.1	(Feb)
Unemployment Rate (%)	6.2	6.0	5.7	5.6	(Jan)
CPI	1.5	1.5	0.9	0.0	(Mar)

Italy	2014	14Q3	14Q4	Latest	
Real GDP	-0.4	-0.5	-0.5		
Current Acc. Bal. (US$B, ar)	31.2	42.4	57.6	43.1	(Feb)
Merch. Trade Bal. (US$B, ar)	56.7	58.9	73.3	48.2	(Feb)
Industrial Production	-0.5	-0.8	-1.2	-0.7	(Feb)
CPI	0.2	0.0	0.1	-0.1	(Mar)

Russia	2014	14Q3	14Q4	Latest	
Real GDP	0.6	0.9	0.4		
Current Acc. Bal. (US$B, ar)	39.6	6.0	15.4		
Merch. Trade Bal. (US$B, ar)	15.8	15.1	14.1	13.6	(Feb)
Industrial Production	-1.6	1.4	2.1	-0.6	(Mar)
CPI	7.8	7.7	9.6	16.9	(Mar)

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

Source: Bloomberg, Global Insight, Scotiabank Economics.

Economic Statistics

Asia Pacific

Australia	2014	14Q3	14Q4	Latest	
Real GDP	2.7	2.7	2.5		
Current Acc. Bal. (US$B, ar)	-40.3	-54.1	-39.1		
Merch. Trade Bal. (US$B, ar)	12.4	2.6	4.4	8.9	(Feb)
Industrial Production	4.2	4.1	3.3		
Unemployment Rate (%)	6.1	6.2	6.2	6.1	(Mar)
CPI	2.5	2.3	1.7		

Japan	2014	14Q3	14Q4	Latest	
Real GDP	-0.1	-1.4	-0.7		
Current Acc. Bal. (US$B, ar)	24.8	62.2	54.0	145.8	(Feb)
Merch. Trade Bal. (US$B, ar)	-122.4	-115.4	-83.8	-64.6	(Feb)
Industrial Production	2.1	-0.3	-1.4	-2.1	(Feb)
Unemployment Rate (%)	3.6	3.6	3.5	3.5	(Feb)
CPI	2.7	3.3	2.5	2.2	(Feb)

South Korea	2014	14Q3	14Q4	Latest	
Real GDP	3.3	3.3	2.7		
Current Acc. Bal. (US$B, ar)	89.2	90.3	108.9	77.3	(Feb)
Merch. Trade Bal. (US$B, ar)	47.2	35.7	73.4	100.6	(Mar)
Industrial Production	0.5	1.1	-1.7	0.5	(Feb)
CPI	1.3	1.4	1.0	0.4	(Mar)

China	2014	14Q3	14Q4	Latest	
Real GDP	7.4	7.3	7.3		
Current Acc. Bal. (US$B, ar)	219.7				
Merch. Trade Bal. (US$B, ar)	382.5	513.3	599.6	37.0	(Mar)
Industrial Production	7.9	8.0	7.9	5.6	(Mar)
CPI	1.5	1.6	1.5	1.4	(Mar)

Thailand	2014	14Q3	14Q4	Latest	
Real GDP	0.7	0.6	2.3		
Current Acc. Bal. (US$B, ar)	13.1	-0.5	8.7		
Merch. Trade Bal. (US$B, ar)	2.0	1.6	2.5	2.6	(Feb)
Industrial Production	-4.6	-3.8	-2.1	2.6	(Feb)
CPI	1.9	2.0	1.1	-0.6	(Mar)

India	2014	14Q3	14Q4	Latest	
Real GDP	6.9	7.8	7.5		
Current Acc. Bal. (US$B, ar)	-27.4	-10.1	-8.2		
Merch. Trade Bal. (US$B, ar)	-11.6	-12.4	-13.2	-11.8	(Mar)
Industrial Production	1.8	1.3	1.9	5.0	(Feb)
WPI	3.8	3.9	0.3	-2.3	(Mar)

Indonesia	2014	14Q3	14Q4	Latest	
Real GDP	5.0	4.9	5.0		
Current Acc. Bal. (US$B, ar)	-26.2	-7.0	-6.2		
Merch. Trade Bal. (US$B, ar)	-0.2	-0.2	-0.1	1.1	(Mar)
Industrial Production	4.6	5.8	4.8	2.3	(Feb)
CPI	6.4	4.4	6.5	6.4	(Mar)

Latin America

Brazil	2014	14Q3	14Q4	Latest	
Real GDP	0.1	-0.6	-0.2		
Current Acc. Bal. (US$B, ar)	-91.3	-77.6	-111.4		
Merch. Trade Bal. (US$B, ar)	-3.9	7.2	-12.9	5.5	(Mar)
Industrial Production	-3.1	-3.8	-3.8	-6.0	(Feb)
CPI	6.3	6.6	6.5	8.1	(Mar)

Chile	2014	14Q3	14Q4	Latest	
Real GDP	1.9	1.0	1.8		
Current Acc. Bal. (US$B, ar)	-5.1	-6.3	-2.8		
Merch. Trade Bal. (US$B, ar)	6.7	4.2	7.0	12.0	(Mar)
Industrial Production	0.4	-0.9	-1.0	-0.5	(Feb)
CPI	4.4	4.7	5.3	4.2	(Mar)

Peru	2014	14Q3	14Q4	Latest	
Real GDP	2.4	1.8	1.0		
Current Acc. Bal. (US$B, ar)	-8.2	-1.6	-1.5		
Merch. Trade Bal. (US$B, ar)	-0.1	-0.1	0.0	-0.3	(Feb)
Unemployment Rate (%)	6.0	5.7	5.6	7.0	(Mar)
CPI	3.2	2.9	3.2	3.0	(Mar)

Colombia	2014	14Q3	14Q4	Latest	
Real GDP	4.6	4.2	3.5		
Current Acc. Bal. (US$B, ar)	-19.8	-5.0	-6.4		
Merch. Trade Bal. (US$B, ar)	-0.5	-0.4	-1.4	-1.8	(Jan)
Industrial Production	1.3	1.2	0.3	2.1	(Dec)
CPI	2.9	2.9	3.5	4.6	(Mar)

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

Source: Bloomberg, Global Insight, Scotiabank Economics.

Financial Statistics

Interest Rates (%, end of period)

Canada	14Q4	15Q1	Apr/10	Apr/17*	United States	14Q4	15Q1	Apr/10	Apr/17*
BoC Overnight Rate	1.00	0.75	0.75	0.75	Fed Funds Target Rate	0.25	0.25	0.25	0.25
3-mo. T-bill	0.92	0.55	0.60	0.64	3-mo. T-bill	0.04	0.02	0.02	0.02
10-yr Gov't Bond	1.79	1.36	1.37	1.43	10-yr Gov't Bond	2.17	1.92	1.95	1.89
30-yr Gov't Bond	2.34	1.98	2.04	2.06	30-yr Gov't Bond	2.75	2.54	2.58	2.55
Prime	3.00	2.85	2.85	2.85	Prime	3.25	3.25	3.25	3.25
FX Reserves (US$B)	74.6		74.7	(Feb)	FX Reserves (US$B)	119.0		113.7	(Feb)
Germany					**France**				
3-mo. Interbank	0.02	-0.02	-0.04	-0.01	3-mo. T-bill	-0.05	-0.16	-0.19	-0.19
10-yr Gov't Bond	0.54	0.18	0.16	0.08	10-yr Gov't Bond	0.83	0.48	0.43	0.37
FX Reserves (US$B)	62.3		62.4	(Feb)	FX Reserves (US$B)	49.5		51.4	(Feb)
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	0.14	0.05	-0.07	-0.07	3-mo. T-bill	0.44	0.45	0.45	0.44
FX Reserves (US$B)	327.6		333.3	(Feb)	10-yr Gov't Bond	1.76	1.58	1.58	1.58
					FX Reserves (US$B)	95.7		102.9	(Feb)
Japan					**Australia**				
Discount Rate	0.30	0.30	0.30	0.30	Cash Rate	2.50	2.25	2.25	2.25
3-mo. Libor	0.05	0.04	0.03	0.03	10-yr Gov't Bond	2.74	2.32	2.37	2.35
10-yr Gov't Bond	0.33	0.41	0.35	0.31	FX Reserves (US$B)	50.8		47.0	(Feb)
FX Reserves (US$B)	1231.0		1221.2	(Feb)					

Exchange Rates (end of period)

USDCAD	1.16	1.27	1.26	1.22	¥/US$	119.78	120.13	120.22	119.01
CADUSD	0.86	0.79	0.80	0.82	US¢/Australian$	0.82	0.76	0.77	0.78
GBPUSD	1.558	1.482	1.463	1.494	Chinese Yuan/US$	6.21	6.20	6.21	6.20
EURUSD	1.210	1.073	1.060	1.078	South Korean Won/US$	1091	1110	1093	1084
JPYEUR	0.69	0.78	0.78	0.78	Mexican Peso/US$	14.752	15.264	15.226	15.329
USDCHF	0.99	0.97	0.98	0.95	Brazilian Real/US$	2.658	3.197	3.075	3.063

Equity Markets (index, end of period)

United States (DJIA)	17823	17776	18058	17843	U.K. (FT100)	6566	6773	7090	6990
United States (S&P500)	2059	2068	2102	2083	Germany (Dax)	9806	11966	12375	11690
Canada (S&P/TSX)	14632	14902	15388	15331	France (CAC40)	4273	5034	5240	5138
Mexico (IPC)	43146	43725	44882	45209	Japan (Nikkei)	17451	19207	19908	19653
Brazil (Bovespa)	50007	51150	54214	54334	Hong Kong (Hang Seng)	23605	24901	27272	27653
Italy (BCI)	1038	1273	1315	1311	South Korea (Composite)	1916	2041	2088	2144

Commodity Prices (end of period)

Pulp (US$/tonne)	1020	980	980	980	Copper (US$/lb)	2.88	2.74	2.75	2.76
Newsprint (US$/tonne)	595	570	570	570	Zinc (US$/lb)	0.98	0.94	1.00	1.01
Lumber (US$/mfbm)	340	282	269	249	Gold (US$/oz)	1206.00	1187.00	1207.35	1203.35
WTI Oil (US$/bbl)	53.27	47.60	51.64	56.23	Silver (US$/oz)	15.97	16.60	16.55	16.36
Natural Gas (US$/mmbtu)	2.89	2.64	2.51	2.64	CRB (index)	229.96	211.86	217.12	225.15

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

Foreign Exchange Strategy

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