

Weekly commentary on economic and financial market developments

- Economics
 - Corporate Bond Research
 - Emerging Markets Strategy
 - Fixed Income Research
 - Fixed Income Strategy
 - Foreign Exchange Strategy
 - Portfolio Strategy
- [Contact Us](#)

Economics

- [How Temporary Was Q1 Weakness In North America?](#) 2-5
Derek Holt
- [Global Economic Activity Continues To Underachieve](#) 6
Neil Tisdall
- [It's Probably Too Late To Save U.S. Rebound Hopes — For Now](#) 7
Derek Holt
- [Japan's Economic Growth Prospects Are Gradually Brightening](#) 8
Tuuli McCully
- [Canada Sets A New GHG Emissions Target](#) 9
Andrew Gorsky and Mary Webb

Foreign Exchange Strategy

- [Latin America Week Ahead: For The Week Of May 25 - 29](#) 10-12
Eduardo Suárez

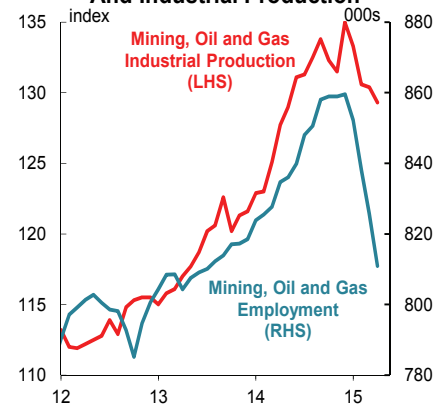
Please see the [Global Forecast Update, April 30, 2015](#), for our latest economic, interest and exchange rate and commodity price forecasts and the [Foreign Exchange Outlook, May 2015](#), for more detailed currency forecasts and commentary.

Forecasts & Data

- Key Data Preview A1-A2
- Key Indicators A3-A5
- Global Auctions Calendar A6
- Events Calendar A7
- Global Central Bank Watch A8
- Latest Economic Statistics A9-A10
- Latest Financial Statistics A11
- Global Forecast Update Report

This Week's Featured Chart

U.S. Mining, Oil & Gas Employment And Industrial Production



Source: Scotiabank Economics, Federal Reserve, BLS.

THE WEEK AHEAD

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How Temporary Was Q1 Weakness In North America?

- Please see our full indicator, central bank, auction and event calendars on pp. A3-A8.

Canada — Talking The Pause

CAD and the Canada curve could be impacted by the Bank of Canada's latest policy statement and Q1 GDP, while equities and credit will have earnings from the banks to consider.

Wednesday's Bank of Canada meeting is a statement-only affair with no press conference or Monetary Policy Report until the July 15th meeting. **This one is therefore likely to be a placeholder with little new information.** Governor Poloz's speech this past Monday reinforced many of the BoC's main messages including the closure of spare capacity by the end of 2016, underlying inflation is running around 1.6-1.8% excluding temporary influences, a "partial rebound" is expected in Q2, and material labour slack still exists. It's highly unlikely that the messages that matter will change materially next week. I would expect a repeat of the statement that "the effects on core inflation of the lower dollar and the output gap will continue to offset each other" or something to that effect.

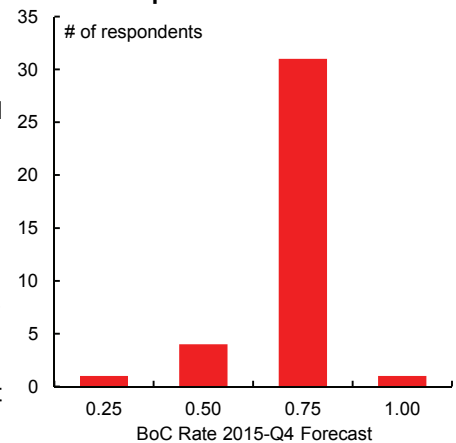
Next Week's Risk Dashboard

- ▶ BoC rate decision
- ▶ US GDP revision
- ▶ CDN Q1 GDP
- ▶ Fed speak
- ▶ US housing, investment
- ▶ CDN bank earnings
- ▶ G7 meetings
- ▶ Japan macro data
- ▶ India, Philippines Q1 GDP

More generally, **I don't find cut talk in the tails of the debate to be credible.** Our forecast remains no BoC rate changes this year or next. We're softer on growth than the BoC starting from Q3 this year onward, and therefore don't see spare capacity closing until well into 2017 especially since they now have the cover of two separate measures. The median call is for a first hike by 2016Q3 with no action by year-end (chart 1). Seven shops in Reuters' latest poll of 43 forecasters expect a cut, with none being a major Canadian dealer. A number of the cut shops have very limited forecast horizons of 2-3 quarters out from now. Cut talk is inferring a similar pattern of economic response in the wake of the oil price plunge to that which occurred in 2008-09 and the early 1990s which had an awful lot else going wrong at the time. A point we've repeatedly stressed is that the bulk of the more 'normal' oil price plunges of comparable magnitude and duration to what we've experienced since last summer tended to carry concentrated, short-lived effects on GDP growth, jobs and hours worked. The BoC's 1.8% annualized growth forecast for Q2 is only a tad higher than ours, but the difference in forecasts widens thereafter with the Scotiabank Economics forecast riding materially softer than the BoC's. That leaves us thinking that the output gap doesn't close as early as the BoC hopes, but this only speaks to our view of a prolonged hold throughout 2015-16 and not enough of a difference to bring out rate cuts. Cutting at this point would probably only add to inflationary pass-through effects from the currency just as headline inflation will creep higher into year-end and early next. It might also resurrect transmission limitations and further amplify financial stability considerations including in housing markets.

Chart 1

Most Expect A Continued Pause



Source: Scotiabank Economics, Reuters.

Friday's Q1 GDP release will be old news by the time it arrives. We think the economy was very close to flat (+0.2% q/q annualized growth) but it would take a large deviation from this to matter much and that's not terribly likely with two-thirds of the monthly GDP prints in the bag. **The debate that matters is whether and by how much the economy rebounds in Q2 and beyond.**

Quarterly bank earnings reports arrive on Thursday and Friday from BNS, BMO, RBC, TD, and CIBC and thus in the middle of the BoC and GDP. Stephen Dafoe and Francesco Sorbara (credit) and Sumit Malhotra (equity) will be covering for clients.

THE WEEK AHEAD

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... continued from previous page

US — Will Yellen's Bias Pan Out In Time For September?

Fed-speak and concentrated data risk won't make for the busiest of weeks for US market watchers but there will be enough to keep it interesting.

US markets will be shut on Monday for Memorial Day and thus **domestic accounts may be left playing catch-up on Fed-speak to global accounts on Tuesday. Fed Vicechair Stanley Fischer speaks no less than three times** over coming days with the greater risk associated with his appearances at the start of the week. He speaks this Saturday at an ECB forum on a panel with ECB President Draghi and BoJ Governor Kuroda and we would attach low odds to comments on the US outlook or policy in keeping with the European focus of his comments earlier this past week. On Monday, however, he speaks about "Global Economic Developments" in Israel when the US will be on holiday and then on Tuesday he speaks about "The Federal Reserve And The Global Economy" and will take audience Q&A on both occasions and therefore anything could be fair game. **By the title of the speech we'll get an update on how the Fed views international risks and feedback effects onto the US as well as spillover effects of Fed policy elsewhere.** Other Fed speakers over the course of the week will include Cleveland Fed President Mester (alternate, hawk), Richmond Fed President Lacker (voting, hawk), San Francisco Fed President Williams (voting, moderate) and Minneapolis Fed President Kocherlakota (nonvoting, dove).

Macro risk will be concentrated upon Friday's **Q1 GDP revision** by way of how bad it will be. Recall that the first estimate showed essentially no growth in the US economy (+0.2% q/q annualized). The median call for the first revision is that **the economy contracted by around a percentage point.** This is significantly due to a weaker trade performance than first understood when the initial estimate lacked March trade figures.

Now the attention is upon how quickly the US economy rebounds from Q1 weakness. Fed Chair Yellen closed off this past week by sounding more upbeat than the FOMC minutes or the last statement. That's because she dismissed Q1 weakness as "largely" due to transitory factors like weather, port strikes, and seasonality adjustments as opposed to longer lasting effects. The statement and minutes had stated that weakness was due "in part" to such temporary factors which implied greater unease going forward. Clearly Yellen is more inclined than the average FOMC official to look through recent softness. **I think Yellen's view may be challenged given how poorly Q2 growth is tracking with what we know so far.** The question is whether Yellen can dismiss as 'transitory' a whole first half of 2015 that gets largely written off with no net growth. I view it as a stretch that we'll get much more positive growth data in time for the September FOMC but I'd love to be dead wrong on this.

Less relevant macro risk will be focused upon Tuesday's durable goods print that faces downside risk because of the prior month's large gain and hence hand-off effects, but also because the aircraft order book was flat in April. More important than the volatile headline metrics that can be swung around by lumpy aircraft and vehicle orders will be to look at core capital goods orders and shipments excluding aircraft and defence as a closer proxy for business investment. **Core capital goods orders have been very soft since last Fall** and have failed to gain traction after recovering over the 2009-11 period (chart 2). Spare capacity across multiple industries may be one reason. Knock-on effects of lower oil prices even via creating uncertainty for non-energy businesses could be another.

Housing will also be a continued theme with the release of Case-Shiller house prices, pending home sales and new home sales. Consumer confidence and regional manufacturing surveys round out the hits.



THE WEEK AHEAD

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The US auctions 2s, 2 year FRNs, 5s and 7s next week. Earnings releases will be light but Wednesday's Costco numbers could sway consumer stocks & the S&P.

Europe — Will Draghi's Optimism Infect Other Central Bankers?

"The economic outlook for the euro area is brighter today than it has been for seven long years." I hope ECB President Mario Draghi will be proven correct in his most recent remarks. In some respects one might quip that's hardly a ringing endorsement given the problems that have plagued the monetary union, but Draghi's supporting observations were valid. Draghi went on to remark that "Several countries have however made significant progress with structural reforms during the crisis, and we can already see how this has altered the relationship between inflation and unemployment" and "Demand is today being meaningfully buttressed in the short-term by monetary policy, and the stance of fiscal policy is broadly neutral." With perhaps a touch of audacity, we might add to the President's views by noting that lower energy prices, currency depreciation, still very low bond yields, and spillover effects of greater-than-expected ECB stimulus across multiple asset classes all combine to offer the classic ingredients for a reflation trade that we think will continue over the duration of the year albeit with many fits and starts along the way.

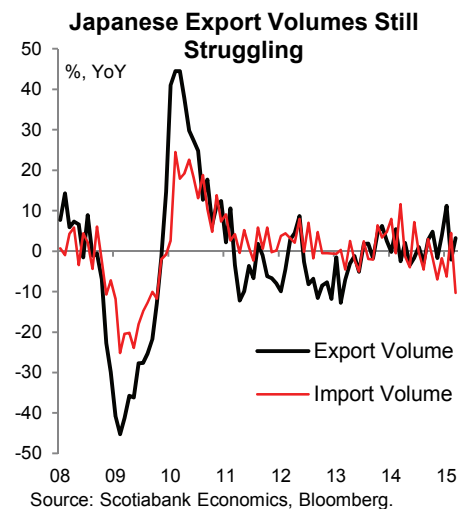
All of this is mentioned with an eye on potential policy remarks into next week. That starts with Draghi appearing on a panel with the Fed's Fischer and BoJ Governor Kuroda this weekend and ends with the meeting of G7 Finance Ministers and Central bank heads in Dresden over the back half of the week. On the theory that central banks move in packs at times, Draghi's newfound optimism may prove to be infectious by way of lifting assessments of international prospects at other central banks.

Data risk out of the Eurozone will be fairly modest including consumer spending updates for the month of April from Germany, France and Spain, Spanish and Italian CPI, and a possible small upward revision to Q1 UK GDP.

Asia — More Apparent That Japanese Inflation Is Very Weak

The Asia focus will be far and away upon **Japan's bulk of key data releases** that will either confirm or deny Bank of Japan Kuroda's recent spike in optimism exhibited at the BoJ's May 22nd press conference. There will be an added element of scrutiny this month in particular given that most releases are April data, implying several year-ago distortions created by the April '14 consumption tax hike will finally shake out. Trade data is due out on Sunday evening and, as usual, we'll be watching specifically for any pick-up in *volumes*, which have been far less impressive than nominal trade data which has benefited from the weaker yen (see chart). Thursday's CPI y/y print will plunge when the roughly 2% bump from the consumption tax shakes out. Nobody has been fooled by this, of course, but it will certainly make it easier to see true underlying price pressures without having to scroll down to second paragraphs or resort to back-of-the-envelope calculations. The BoJ's only comment on inflation in its May 22nd policy statement was: *"inflation expectations appear to be rising on the whole from a somewhat longer-term perspective"*, but the central bank's increasingly firm comments about no need for further easing imply they are not worried (yet). Thursday evening will also deliver Japanese industrial production, but it's far less likely to be market-moving than the CPI data released 20-minutes earlier. Retail sales, however, are going to continue to suffer from tax hike distortions for one more month as base effects from a particularly rough contraction in April '14 likely result in an upside surprise this month. These will probably once again be discounted.

Chart 3



THE WEEK AHEAD

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The Reserve Bank of Australia will be keenly watching new home sales on Thursday for any (further) sign of frothiness in the market. The RBA has generally appeared much less sanguine than the Bank of Canada about housing market imbalances and has frequently cited housing as one key reason for easing restraint. That said, markets have generally interpreted the RBA's most recent interest rate cut as the last for some time with fairly strong conviction, so this secondary data point may only move the needle at the margin.

Chinese industrial profits are not usually a widely-watched China macro data point, but they've been negative y/y since July '14 and are beginning to filter into broader concerns about banks, defaults and the broader financial system. It's unlikely that the market will move strongly on this figure (particularly Chinese mainland equities which rarely respond to macro figures), but for China, Australia and commodity-market watchers, it's sure to make it into a few chart packs.

Both **India and the Philippines** will release Q1 GDP reports next week. GDP is expected to decelerate in India from 7.5% to 7.1% in Q1, but remain supported by accommodative monetary policy, increasing fiscal spending, an improved business environment and relative political stability. The Philippines is expected to see growth moderate from 6.9% to 6.1% in Q1, and unlike many regional peers, growth is expected to remain well supported by domestic demand, particularly household consumption. New Zealand and Thai trade figures round out this week's key Asian releases.

GLOBAL PMIs

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Global Economic Activity Continues To Underachieve

- **Private sector output growth fails to gain traction in the advanced nations, and disappoints across the emerging markets.**

A slate of flash Purchasing Managers' Indices (PMIs) released this week highlight the persistent underperformance across most of the developed world and key emerging markets. The Euro zone composite PMI index dipped to a three-month low in May with weakness in services offsetting an uptick in manufacturing. In the United States, manufacturing activity moderated for the second consecutive month, and is now 7% below its peak in August of last year. China saw its industrial output dip to its lowest level in thirteen months. Russia and Brazil both remain mired in recession, more than offsetting stronger-than-expected activity in India, dragging emerging market growth to a twelve-month low.

PMI data indicate that Chinese manufacturing has remained below the '50' mark that separates contraction from expansion for three consecutive months, and in five of the last six months. Weak domestic demand and falling real estate prices in the world's second-largest economy combined with a backdrop of softening global trade and industrial activity will likely lead to the slowest growth in China in more than two decades. Policy makers in Beijing are expanding infrastructure project spending, particularly in transportation, to counter the slowdown that is threatening China's 7% growth target for this year.

Conditions in Japan are improving incrementally, with May's manufacturing index moving above 50 following a small contraction in April. Leading indicators point to modest growth in Japan, as backlogs and new orders continue to straddle the line between expansion and contraction. The French service sector is also improving modestly, buoying the composite PMI reading to a fourth consecutive month of expansion despite ongoing weakness in manufacturing. Optimism is high in France, evidenced by the business expectations index reaching a 38-month high, as stronger-than-expected household consumption and GDP prints for the first quarter of 2015 have boosted confidence.

Slumping oil prices have been a boon to U.S. consumers, but lower prices at the pump have not translated into sharply higher consumer spending. Instead, consumers are boosting their savings, which are up 12% so far this year to the highest rate since 2012. Oil price weakness has also driven the greenback to a twelve-year high against a basket of major currencies, limiting the competitiveness of American exports and slashing oil and gas drilling activity more than 50% from last May. Knock-on effects from falling oil rig counts has led to layoffs and plant closures in the steel industry, which manufactures drilling and pipeline equipment, and broad slowdowns in states dependent on the oil patch.

Labour markets have been a bright spot in an otherwise soft start to the year, underpinning expectations for improving economic prospects. Several advanced economies including the United States, United Kingdom, and Japan have recently recorded multi-year low unemployment rates, while Germany has reached a twenty-four year low in their unemployment rate at 6.4%, a Euro zone best.

Chart 1: Global Economic Activity Slumps Into The Summer

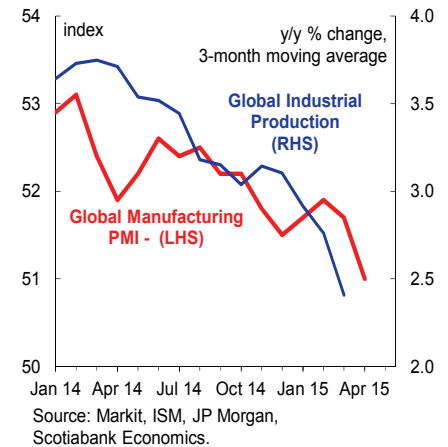


Chart 2: Chinese Manufacturing Slowdown

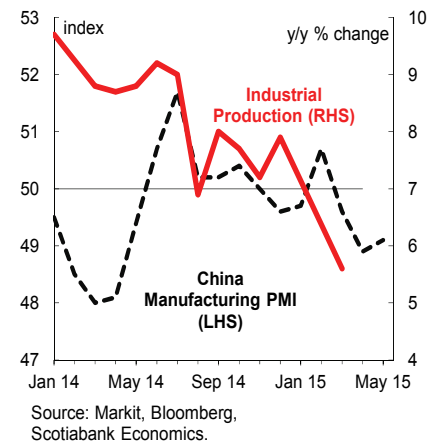
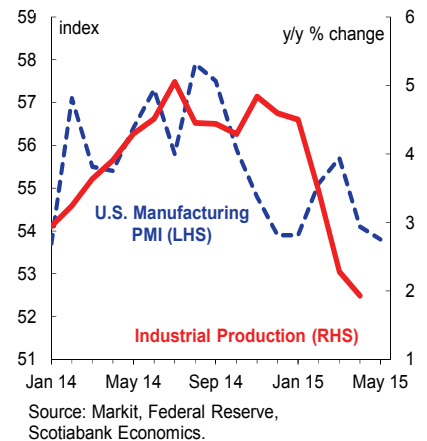


Chart 3: U.S. Industrial Activity Losing Momentum



U.S. MACRO COMMENT

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It's Probably Too Late To Save U.S. Rebound Hopes — For Now

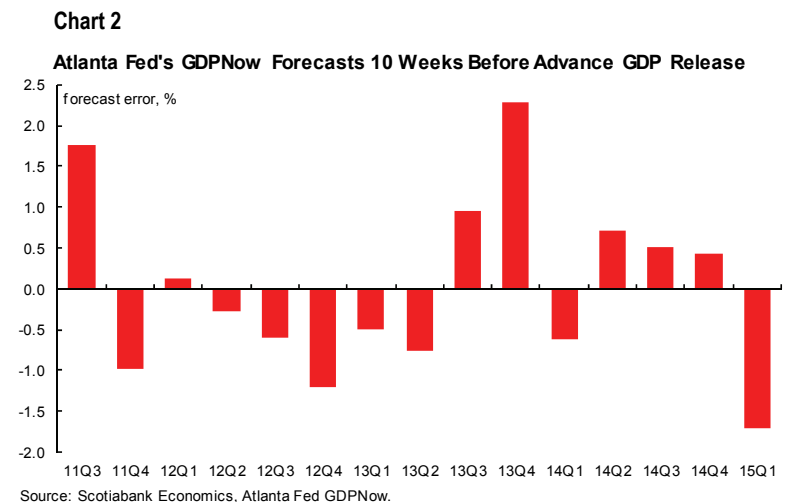
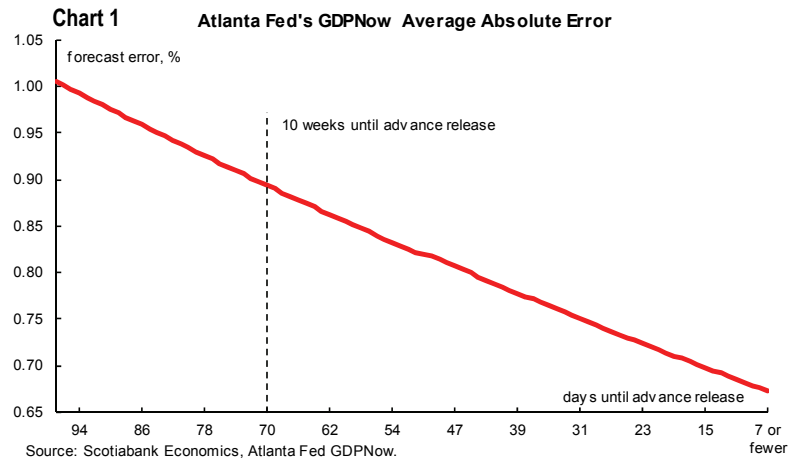
- **The Atlanta Fed's 'nowcast' tracking error isn't big enough to raise its estimate anywhere close to the consensus call for Q2 US GDP growth.**

The Atlanta Fed's paltry 'nowcast' estimate for Q2 GDP growth now stands at 0.7% q/q at a seasonally adjusted and annualized rate after incorporating this past week's macro reports. It remains far below the consensus call for growth even though consensus has now moved down from 3.1% to 2.7%. Here we go again, as consensus is revising lower to catch up to the 'nowcast' that tracks growth as indicators evolve. **But if the Atlanta Fed's estimate is wrong, then could it be wrong by enough to head off further likely downward revisions in the consensus Q2 growth forecast?**

That's unlikely. Enter charts 1 and 2. Chart 1 shows the average absolute forecast error of the 'nowcast' and how it diminishes as the advance release of Q2 GDP approaches. We're about 70 days ahead of the first glimpse at Q2 GDP and the average 'nowcast' error at this stage has tended to be about 0.9 percentage points. Within that average, only a relatively small handful of quarters have swung the average higher and misses of +/-0.5 percentage points are more the norm (chart 2). Therefore, with what we know now, the best case for Q2 GDP is looking like sub-2% growth, with something higher not impossible but something considerably lighter more probable. That is far below our house view for 3.4% growth that is looking much too high again. It would crush hopes that, after a likely Q1 contraction, the economy rebounded smartly and released pent-up demand following temporary growth interruptions. It would still leave a picture intact of sub-par growth following really only two outstanding quarters in Q2 and Q3 last year while four other quarters last year and in the first half of this year have disappointed.

This new information on rebound tracking continues to have me thinking the Fed could well not hike until late this year contingent upon a deferred rebound over 2015H2, and perhaps not at all this year. Our official forecast remains for a first hike in September and at risk in our forecasts by year-end is only 0.5% worth of hikes in the target range. That could well still be achieved but it might require a postponed acceleration in Q3 to materialize alongside continued progress in the Fed's dual price stability and full employment mandate accompanied by continued financial stability concerns.

For now, there just is not enough conviction at the Fed over the mixture of transitory and longer-lived factors that sideswiped Q1 growth and are weighing on Q2. This includes uncertainty among the Fed's own staff economists about Q1 seasonality distortions (such as [here](#) and [here](#)). Until such conviction exists, the Fed is going to play it safe and run the risks of reacting later rather than prematurely.



ASIA

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Japan's Economic Growth Prospects Are Gradually Brightening

- **Yet major challenges persist given absent inflationary pressures, weak government finances, and lacklustre reform implementation.**

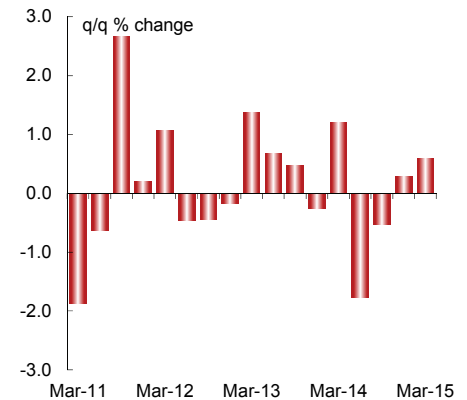
Signs of a moderate recovery are emerging in the Japanese economy, though substantial challenges remain in place. Real GDP increased by 0.6% q/q (non-annualized) in the first quarter of 2015, following a 0.3% gain in the final three months of 2014. Nevertheless, year-over-year growth remained in contractionary territory (-1.4% y/y) given the strong expansion a year earlier ahead of the consumption tax rate increase in April 2014. Household spending picked up, yet given the substantial accumulation of inventories, it is clear that consumer outlays did not grow in tandem with production. Investment and government spending gains remained muted, while net exports were a drag on growth.

We expect the Japanese economy to expand by around 0.7% this year, followed by an acceleration to 1.2% in 2016. The somewhat stronger momentum through the next year and a half will reflect recuperating export sector performance, a pickup in private sector investment given rising corporate profits, as well as increasing purchasing power of Japanese consumers due to improving employment conditions, gradually rising wages, and low international oil prices. Nevertheless, consumer spending prospects in the longer-term will be adversely impacted by a shrinking labour force.

Japan will release national inflation data for April on May 28th (EST); we estimate that the headline inflation rate, at 2.3% y/y in March, will drop substantially to 0.7% y/y as the April 2014 consumption tax rate hike falls out of the price index. The Bank of Japan (BoJ) estimates that core inflation that excludes fresh food and the impact of the tax increase is currently hovering around 0% y/y, falling significantly short of the BoJ's 2% target. While Japanese monetary policymakers remain confident that rising inflation expectations will translate into stronger price gains, we assess that it is unlikely that the inflation target will be achieved before the end of 2016 given low global energy prices and the Japanese economy's muted performance.

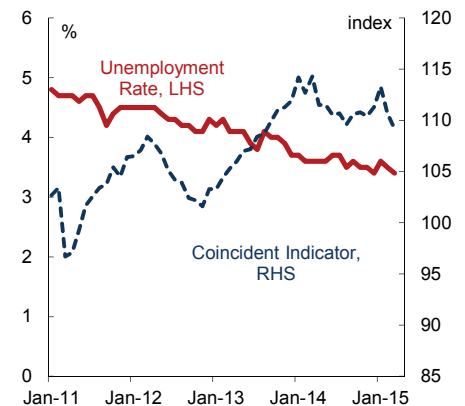
Japan's ultra-accommodative monetary policy stance is set to remain in place for the foreseeable future, with the monetary base continuing to increase substantially, at an annual pace of ¥80 trillion (35-40% y/y) on the back of asset purchases by the BoJ. The central bank's "Quantitative and Qualitative Monetary Easing" program was introduced two years ago, and recently BoJ Governor Haruhiko Kuroda stated that the country's economic and price situation has improved substantially under the program. We refrain from being as optimistic, however, as any future inflationary pressures will fail to be primarily demand-driven. Furthermore, any substantial fiscal stimulus will be limited by weak government finances. While the government's structural reform plans are encouraging — if actually implemented — successful productivity-boosting reforms will take time to be reflected in stronger economic activity. Against this backdrop, we assess that further monetary stimulus remains a possibility.

Chart 1: Real GDP Growth



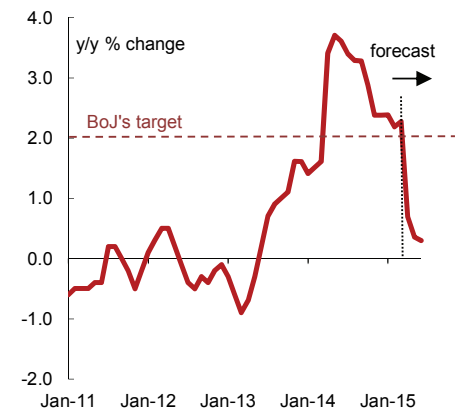
Source: Bloomberg, Scotiabank Economics.

Chart 2: Labour Market And Business Conditions



Source: Bloomberg, Scotiabank Economics.

Chart 3: Consumer Price Inflation



Source: Bloomberg, Scotiabank Economics.

FISCAL

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Canada Sets A New GHG Emissions Target

- **The 2030 goal envisions a substantive emissions reduction.**

In the run-up to the December 2015 Paris Summit negotiations for a post-2020 global climate change plan, Canada's federal government has announced its intended Nationally Determined Contribution to the UNFCCC¹ — a 30% reduction in greenhouse gas (GHG) emissions below 2005 levels by 2030 (*chart 1*). This compares with the U.S. 2025 target of a 28% emissions cut relative to 2005 and the ambitious 2030 EU goal of an emissions drop of at least 40% below its 1990 level. For Canada, recently released GHG data for 2013 shows a 1.5% rise over 2012 (+11 megatonnes of carbon dioxide equivalent, Mt CO₂ eq, to 726 Mt), extending the upward trend since the 2009 recession low of 699 Mt. Relative to 2005, Canada's 2013 GHG emissions were 3.1% lower (-23 Mt); relative to 1990 they are 18½% higher (+113 Mt).

Canada's climate change advantage is its share of power generation from hydro, nuclear and renewable sources approaching 80% in 2013. The fall in national GHG emissions since 2005 was primarily due to the power sector's emissions decline of about 30% (-36 Mt), as the share of coal- and oil-fired power output fell from 18.8% in 2005 to 11.2%. This drop largely reflects Ontario phasing out coal-fired power, trimming power emissions by 23½ Mt (-68½%) from 2005 to 2013 (*chart 2*). In 2012, Ottawa, with its sector-by-sector regulatory approach, outlined for coal-fired units (either new or at the end of their useful life) an emissions intensity standard of 420 t/GWh as of July 2015, typical of Natural Gas Combined Cycle technology². New federal gas-fired generation guidelines are now promised.

At almost 22% of total emissions in 2013, GHGs from freight and domestic passenger transport slightly exceed 2005. Aligned with U.S. regulations, which lower compliance costs for Canada's vehicle manufacturers and fuel refiners, the sulphur content of Canadian gasoline will be cut by nearly 70% as of 2017. For cars and light trucks, building on existing targets for model years 2011-16, standards for the following nine years are expected to result in gas consumption up to 50% less for the 2025 model year relative to 2008 vehicles.

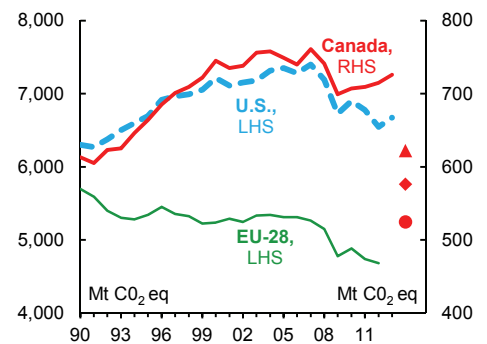
GHG emissions from Canada's oil & natural gas sector have climbed by 22 Mt since 2005, as output gains outstripped GHG intensity improvements (*chart 3*). Oil sands output, more emissions-intensive than conventional production, is expected to rise substantially by 2030. For this sector, Ottawa plans to align its emissions regulations for methane, a GHG 25 times more potent than CO₂, with the U.S. proposal. Alignment for other GHGs would further ensure a level North American playing field.

¹ The United Nations Framework Convention on Climate Change.

² A high-efficiency model with a gas turbine generating power and a steam turbine using the waste heat to produce additional power. U.S. coal-fired power proposals: [Fiscal Pulse: U.S. Clean Power Plan \(May 15, 2015\)](#).

Chart 1 Canada's Target Commitments

- ◆ **Kyoto:** 2008-12 avg. 6% below 1990 level*
- ▲ **Copenhagen:** by 2020, 17% below 2005 level
- **2030:** 30% below 2005 level



* Canada withdrew from the Kyoto Protocol in Dec. 2011.

Chart 2

Provincial GHG Emissions

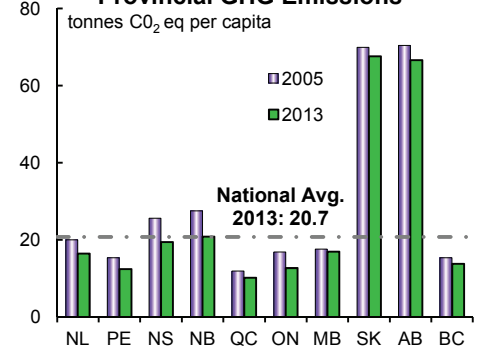
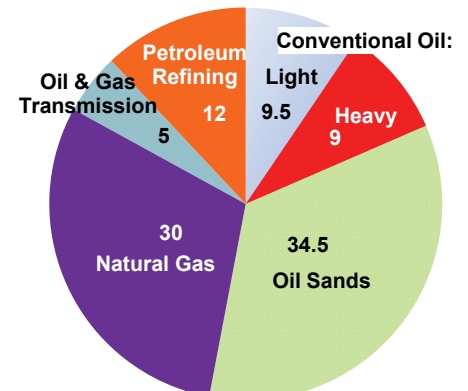


Chart 3

Oil & Gas Sector Emissions

% share of total



Source for charts: Environment Canada, U.S. Environmental Protection Agency, European Environmental Agency.

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Latin America Week Ahead: For The Week Of May 25 - 29

Week-ahead highlights:

Next week will likely kick off slow, due to the US bank holiday, especially given the lack of major data releases in Europe — although we do have elections in Spain over the week-end. However, there are a number of important indicators worth watching: US GDP, durable goods, Fed indices, as well as housing indicators. In LATAM, additional colour on the Brazilian fiscal adjustment, as well as the fiscal result releases will be highly relevant after 2 months of weak fiscal data. In Mexico, we are now only a couple of weeks away from the mid-term elections.

Week-ahead views:

Brazil (BRL): On the monetary policy front, the BCB continues to send a hawkish message, with Director Volpon stating that the institution cannot afford to let down its guard on the inflation front. Our base case is that the BCB will deliver 2 X 25bps hikes to close the cycle, but we are starting to fear that DI rates may be right, and us wrong, as the hawkish tone has continued to be delivered even as DI's price in one more +50bps hike, followed by a final +25bps move (and a partial pricing of an additional +25bps move). On the FX front, we believe that USD/BRL has likely bottomed, but the problem is that high carry makes USD longs an important position to trade right. Potential catalysts for a move higher are important political dates (i.e., June 1st, although we believe Levy's plans will be approved in diluted form, as well as the Fed's lift-off). Another important issue to monitor is the roll rate of the BCB's swaps program, which still stands near US\$100bn, and where maturities for June stand around US\$4bn, and for July US\$9bn.

Next week is an important one for Brazil on 3 counts:

- 1) The fiscal austerity decrees are set to expire on June 1, which means that the changes need to be approved by then in order to avoid a large negative blow to FinMin Levy's adjustment plans. Signs from within the legislative seem to suggest the government is likely to gain enough support to approve somewhat diluted versions of the initial proposals, which may need additional changes in order to meet the 1.2% of GDP primary surplus target.
- 2) In addition, we are also set to get GDP for Q1, where consensus looks for a -1.5% y/y contraction.
- 3) Finally, but in our view most importantly along with point 1 above, we are set to get the primary budget balance. The past two months have been relatively strong disappointments; our fear is that if we continue to see underperformed targets, both markets and rating agencies could start turning more impatient regarding Levy's plans.

Another important policy area where information is starting to emerge is infrastructure. With consumer, government, and parts of the corporate sector all facing a likely multi-year deleveraging process, it is important to find an alternate growth driver. The government, like others in LATAM, seems to hope infrastructure will be that driver. A key question is how that is going to be financed. [According to O'Globo, one of the planned sources of financing is multilaterals.](#) O'Globo reported that the government plans to triple the borrowing from multilaterals aimed at infrastructure from US\$10bn to US\$30bn per year. On the fiscal front, the government took an additional measure to boost its chances of meeting its fiscal target by raising profit taxes on financial institutions from 15% to 20%. In addition, the government is expected to announce the size of its planned spending freeze today.

Chile (CLP): President Bachelet held her State of the Union speech yesterday, where some of the relevant themes included:

- Bachelet said she expects the labour "reform" will be approved in the second half of the year.
- The president also said she expects to present the "free-education bill" in the second half of 2015.

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- President Bachelet announced plans to cut energy costs in regions where it is produced — our take is this plan has both a good and a bad angle: the good is that by giving producing regions a benefit, it could help reduce some of the opposition to major energy projects. The bad side is that in the long run, it can distort the incentives for investment decisions.
- The other important topic touched by Bachelet was that the new “Constitutional Debate” remains part of her plans. The president wants to create a new Constitution for the country. Our take on this, based on what we have read from political analysts is that it can be a risky idea. While the current constitution has flaws, Chile is arguably the most institutionally robust country in LATAM. The key question for us is whether it is a good idea to risk that.

On the data front, next week is a very important one, with unemployment, retail sales, copper production and manufacturing index all in the pipeline. Recent data releases have been quite underwhelming, and seem to undermine our view that the economy has already hit bottom and is starting to show signs that it will gradually pick up from here.

Colombia (COP): This week’s data pipeline is relatively shallow, but still features unemployment data. In our view, the main macro question related to Colombia at the moment is the depth of the slowdown, and particularly of domestic demand, and how long it will stretch for. The other big news item at the moment seems to be on hold until August — the ruling on the US\$2.1bn government stake in Isagen sale. In our view, the lack of macro data suggests that COP will mostly be at the mercy of Fed expectations and oil.

Mexico (MXN): Yesterday’s [GDP print for the first quarter](#) of 2015 was a mixed result in our view:

The good:

- Growth for the first quarter beat expectations of a +2.4% y/y expansion, posting instead a modestly stronger expansion of +2.5% y/y.
- More importantly, we believe that the strong performance of components like restaurants (+3.6% y/y) and entertainment (+3.5% y/y) signals consumer demand remains in “strengthening mode”.
- Given the data we are seeing elsewhere in LATAM, in the US ([even with the more optimistic take discussed by the FRB SF](#)), and globally, a +2.5% print is not particularly bad news in our view.
- Our take is that Mexico is one of the few countries globally where the economy seems to be accelerating, and doing so in a relatively balanced way (investment, consumption, etc., are mostly doing relatively well — with the exception of sectors such as oil and mining).

The bad:

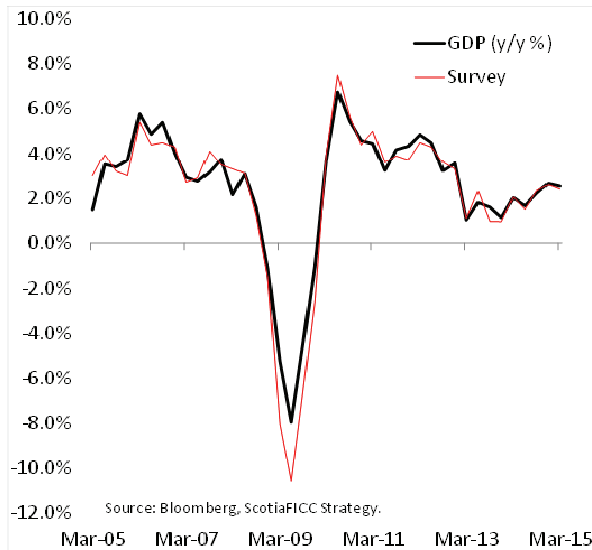
- On a q/q basis, the economy only expanded +0.4% q/q, down from +0.7% q/q at the end of 2014.
- The softness in the industrial sector’s expansion was slightly concerning, although not unexpected.
- We are a little concerned about the slowdown in the real-estate industry (+1.6% y/y).
- The deceleration in the manufacturing component (to +2.9% y/y) was likely expected, but is still something that has to be monitored, given the importance of the sector for the economy overall. Our sense is that a longer-lasting deceleration in this sector would likely flag a dimmer outlook for the linked service sector going forward.

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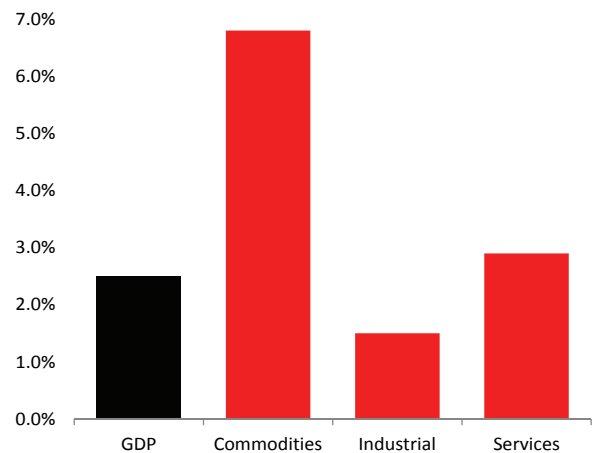
GDP growth is far from spectacular for Q1, although taking the performance of the global economy into account, and that of the rest of LATAM, +2.5% y/y hardly looks bad

The component performance of Q1 GDP is a “mixed bag”, with the slowdown in the industrial sector being somewhat concerning, even if not unexpected



Q1 GDP by component (y/y %)

Source: INEGI, ScotiaFICC Strategy.



In terms of the release's implications for monetary policy, we don't think it has much: 1) the economy seems to continue in gradual acceleration mode, led by domestic demand. However, at this pace of growth we don't think the output gap is even closing, so Banxico will likely continue to signal that domestic economic conditions in isolation do not justify a hike. Accordingly, we continue to see the main trigger for Banxico's main policy action being the Fed's lift-off.

For next week, we have a fairly important pipeline of data releases, of which we are most interested to see the retail sales print. Our sense is that during Q1, a large part of the economic momentum was driven by domestic demand strength, and it will be interesting to see if it continues to hold on, despite a less benign environment in some other sectors as Q1 progressed. In addition, we will also get trade balance & current account data. The other important release scheduled for next week is unemployment — which we don't really consider to be as relevant as the IMSS formal employment creation numbers — which we see as the US non-farm equivalent.

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Key Data Preview

UNITED STATES

We expect **U.S. Q1 GDP** will be revised downward from +0.2% quarterly annualized growth to -0.8%, mainly because the second print will incorporate March trade data which had to be estimated in the first reading but has since been released. The March trade deficit widened substantially thanks to a surge in imports following the opening of West Coast ports after a strike. In the initial Q1 GDP print, exports of goods fell by 13.3% q/q SAAR dragging on GDP by 130bps while imports were higher by 0.9%, dragging on GDP by 12bps. March's trade data, however, leaves exports lower by 15.7% q/q SAAR and imports higher by 4.9% q/q SAAR, which looks like it will produce a much bigger drag and could singlehandedly push Q1 GDP into contraction territory.

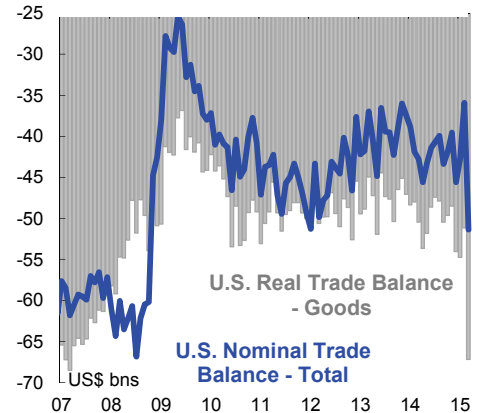
We're anticipating a reversion back to trend in **April new home sales** to around 510k SAAR after weather effects pushed sales higher to 543k SAAR in February, but then correspondingly fell back to 481k SAAR in March. While existing home sales were soft in April, we've recently seen a shift in preferences towards new home sales as the inventory of distressed homes clears and the home sales market increasingly becomes a function of basic consumer demand. Leading indicators such as foot traffic of prospective buyers in model homes suggests resilience in this segment of the housing market, though not necessarily a standout figure.

Durable goods orders have been fairly weak over the past several quarters, and even the better headline figures like March's +4.7% m/m gain have been mainly supported by new orders of planes and automobiles, not solid capex. Our short-term outlook for April remains constrained and we are anticipating a -0.5% m/m result in April. In part, a stronger USD and a weaker oil price environment are restraining capex (and being reflected in weak manufacturing sentiment surveys), but there also isn't likely to be much support from aircraft orders or autos. Boeing reported only 37 aircraft orders in April vs. 39 in March, and auto orders are unlikely to replicate their March strength.

CANADA

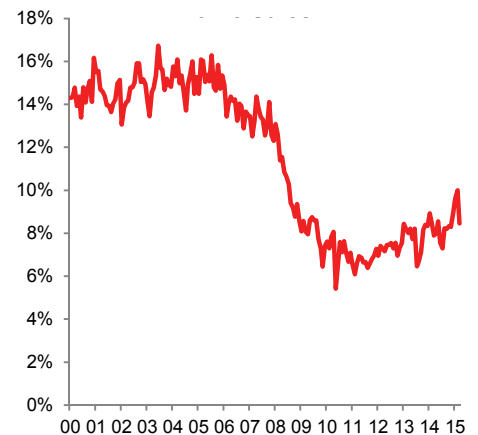
We expect **Q1 GDP** to print at 0.2% q/q annualized with downside risk. Stronger consumption to the tune of 1.4% q/q annualized is about the only thing going for growth this quarter. Growth will likely be substantially weighed down by an 8.3% drop in business investment largely attributed to the effects of the oil price shock. Trade won't help either, as imports fell -0.7% q/q annualized and exports dropped by -0.1% q/q annualized, while manufacturing shipments were also weak, falling -4.5%. Monthly income-based tracking suggests some downside risk and flat q/q growth, though the monthly income-based and quarterly expenditure-based figures do not generally line up that precisely, and we are still missing March monthly GDP figures.

U.S. Trade Balance, Real & Nominal



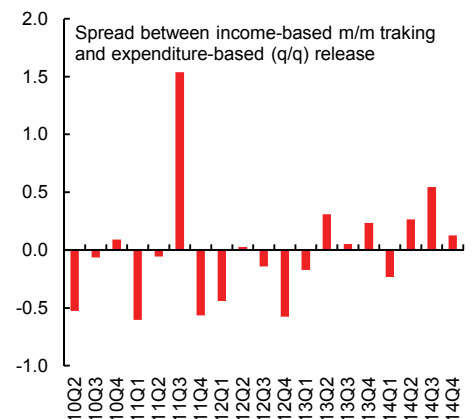
Source: U.S. Census Bureau, Scotiabank

New Home Sales As A % Of Total Home Sales



Source: Scotiabank Economics, Bloomberg

CDN GDP: Income vs. Expenditure Approach



Source: Scotiabank Economics, Statistics Canada

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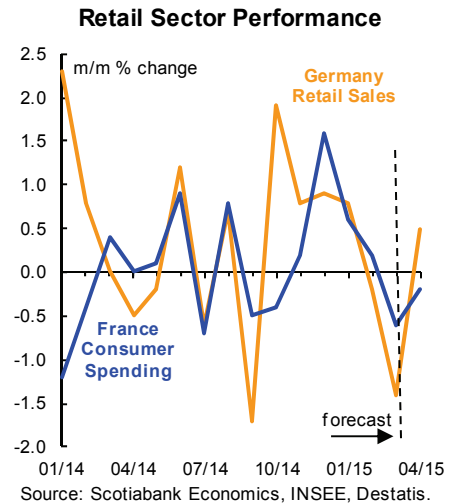
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EUROPE

While details of Q1 euro zone GDP have not been released, data from both Germany and France show that strong consumer spending was a key driver of accelerated growth at the beginning of the year. However, as oil prices rebound, the boost to household consumption could now be easing. The fall in euro zone consumer confidence for the second month in a row in May seems to validate this view. In Germany, we estimate that retail sales recorded a slight improvement of +0.5% m/m in April after two consecutive monthly decreases. However, this would still leave retail sales down by close to -0.5% vs. the first-quarter average. Therefore, further improvement would be needed in the months ahead to offset this trend. In terms of French consumer spending, there is downside risk for a second monthly drop in a row, at -0.2% m/m, mainly on the back of lower car sales after positive March figures.



LATIN AMERICA

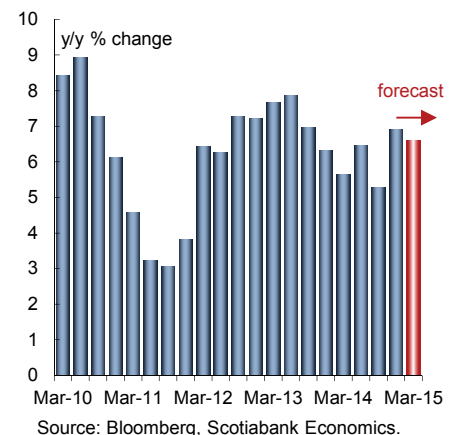
Brazilian first quarter GDP will be released on May 29th and we expect the print to record a 1.3% y/y contraction. The economy has experienced headwinds as of late stemming from poor business confidence, a drought that impacted the country's ability to generate electricity (over 80% of Brazil's electricity is sourced from hydroelectric dams), and the government's attempts to rein in federal public debt in order to avoid a credit downgrading. We expect that the economy will remain in a contractionary state for the remainder of 2015, with annual average growth of -1.4%.



ASIA

The Philippines will release first quarter GDP data on May 27th (EST). The country's economic outlook remains favourable, with solid growth momentum likely to be maintained in the coming quarters. We estimate that output expanded by 6.6% y/y in the first three months of the year, following a 6.9% gain in the final quarter of 2014. Real GDP growth will likely average 6.5% this year. Philippine domestic demand — particularly household consumption — will continue to be the main economic driver, underpinned by remittances from Filipinos working abroad that totalled over US\$24.3 billion in 2014 (equivalent to 8.6% of GDP). These earnings inflows grew by 5.5% y/y (in USD terms) in the first quarter of 2015.

The Philippines Real GDP Growth



Japan will release April inflation data, along with various other economic indicators, on May 28th (EST). For our insights regarding inflationary developments in Japan, please refer to the article on the country's economic outlook earlier in this publication.

Key Indicators for the week of May 25 – 29

North America



Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
MX	05/25	09:00	Trade Balance (US\$ mn)	Apr	--	--	479.8
US	05/26	08:30	Durable Goods Orders (m/m)	Apr	-0.5	-0.4	4.7
US	05/26	08:30	Durable Goods Orders ex. Trans. (m/m)	Apr	0.2	0.4	0.3
MX	05/26	09:00	Retail Sales (INEGI) (y/y)	Mar	--	--	5.6
US	05/26	09:00	S&P/Case-Shiller Home Price Index (m/m)	Mar	--	0.9	0.9
US	05/26	09:00	S&P/Case-Shiller Home Price Index (y/y)	Mar	--	4.6	5.0
US	05/26	10:00	Consumer Confidence Index	May	93.0	95.0	95.2
US	05/26	10:00	New Home Sales (000s a.r.)	Apr	510.0	507.0	481.0
US	05/26	10:00	Richmond Fed Manufacturing Index	May	--	0.0	-3.0
US	05/26	10:30	Dallas Fed. Manufacturing Activity	May	--	-11.0	-16.0
US	05/27	07:00	MBA Mortgage Applications (w/w)	MAY 22	--	--	-1.5
CA	05/27	10:00	BoC Interest Rate Announcement (%)	May 27	0.75	0.75	0.75
CA	05/28	08:30	Current Account (C\$ bn a.r.)	1Q	--	--	-13.9
CA	05/28	08:30	IPPI (m/m)	Apr	--	--	0.3
CA	05/28	08:30	Raw Materials Price Index (m/m)	Apr	--	--	-0.9
US	05/28	08:30	Initial Jobless Claims (000s)	MAY 23	270	270	274
US	05/28	08:30	Continuing Claims (000s)	MAY 16	--	2195	2211
MX	05/28	09:00	Unemployment Rate (%)	Apr	--	4.3	3.9
US	05/28	10:00	Pending Home Sales (m/m)	Apr	--	0.9	1.1
CA	05/29	08:30	Real GDP (m/m)	Mar	0.2	0.2	0.0
CA	05/29	08:30	Real GDP (q/q a.r.)	1Q	0.2	0.2	2.4
US	05/29	08:30	GDP (q/q a.r.)	1Q S	-0.8	-0.9	0.2
US	05/29	08:30	GDP Deflator (q/q a.r.)	1Q S	--	-0.1	-0.1
US	05/29	09:45	Chicago PMI	May	--	53.0	52.3
US	05/29	10:00	U. of Michigan Consumer Sentiment	May F	--	90.0	88.6

Europe



Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
HU	05/26	08:00	Base Rate (%)	May 26	--	1.65	1.80
SP	05/26		Budget Balance YTD (€ mn)	Apr	--	--	-9850.0
GE	05/27	02:00	GfK Consumer Confidence Survey	Jun	--	10.0	10.1
SP	05/28	03:00	Real GDP (q/q)	1Q F	0.9	0.9	0.9
SP	05/28	03:00	Real Retail Sales (y/y)	Apr	--	--	3.7
UK	05/28	04:30	Business Investment (q/q)	1Q P	--	1.6	-0.9
UK	05/28	04:30	GDP (q/q)	1Q P	--	0.4	0.3
UK	05/28	04:30	Index of Services (m/m)	Mar	--	0.3	0.3
EC	05/28	05:00	Business Climate Indicator	May	--	0.4	0.3
EC	05/28	05:00	Economic Confidence	May	103.3	103.5	103.7
EC	05/28	05:00	Industrial Confidence	May	-2.9	-3.0	-3.2
UK	05/28	19:05	GfK Consumer Confidence Survey	May	--	4.0	4.0
UK	MAY 28-JUN 2		Nationwide House Prices (m/m)	May	--	0.3	1.0
SZ	05/29	01:45	GDP (y/y)	1Q	--	1.6	1.9
GE	05/29	02:00	Retail Sales (m/m)	Apr	0.5	1.0	-1.4
FR	05/29	02:45	Consumer Spending (m/m)	Apr	-0.2	0.4	-0.6
FR	05/29	02:45	Producer Prices (m/m)	Apr	--	--	0.1
SP	05/29	03:00	CPI (m/m)	May P	--	0.2	0.9
SP	05/29	03:00	CPI (y/y)	May P	--	-0.5	-0.6
SP	05/29	03:00	CPI - EU Harmonized (m/m)	May P	0.1	0.2	0.7
SP	05/29	03:00	CPI - EU Harmonized (y/y)	May P	-0.6	-0.6	-0.7

Forecasts at time of publication.

Source: Bloomberg, Scotiabank Economics.

Key Indicators for the week of May 25 – 29

Europe (continued from previous page)

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
SW	05/29	03:30	GDP (y/y)	1Q	--	2.9	2.7
IT	05/29	04:00	Real GDP (q/q)	1Q F	0.3	0.3	0.3
PD	05/29	04:00	GDP (y/y)	1Q F	--	--	3.50
SP	05/29	04:00	Current Account (€ bn)	Mar	--	--	-2.0
GR	05/29	05:00	Real GDP NSA (y/y)	1Q F	--	--	0.1
IT	05/29	05:00	CPI (m/m)	May P	--	0.1	0.2
IT	05/29	05:00	CPI (y/y)	May P	--	0.0	-0.1
IT	05/29	05:00	CPI - EU Harmonized (m/m)	May P	0.1	0.0	0.4
IT	05/29	05:00	CPI - EU Harmonized (y/y)	May P	0.1	0.1	-0.1
PO	05/29	06:00	Real GDP (q/q)	1Q F	--	0.40	0.40

Asia Pacific

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
VN	MAY 23-24		CPI (y/y)	May	--	1.0	1.0
JN	05/24	19:50	Merchandise Trade Balance (¥ bn)	Apr	--	-351.1	227.4
JN	05/24	19:50	Adjusted Merchandise Trade Balance (¥ bn)	Apr	--	-386.8	3.3
JN	05/24	19:50	Merchandise Trade Exports (y/y)	Apr	--	6.0	8.5
JN	05/24	19:50	Merchandise Trade Imports (y/y)	Apr	--	-1.1	-14.5
VN	MAY 24-31		Exports (y/y)	May	--	--	8.2
VN	MAY 24-31		Imports (y/y)	May	--	--	19.9
VN	MAY 24-31		Industrial Production (y/y)	May	--	--	9.5
SI	05/25	01:00	CPI (y/y)	Apr	--	0.1	-0.3
TA	05/25	04:00	Commercial Sales (y/y)	Apr	--	-1.4	-0.7
TA	05/25	04:00	Industrial Production (y/y)	Apr	--	4.1	6.5
SK	05/25	17:00	Consumer Confidence Index	May	--	--	104.0
NZ	05/25	18:45	Trade Balance (NZD mn)	Apr	--	100.0	631.3
NZ	05/25	18:45	Exports (NZD bn)	Apr	--	4.3	4.9
NZ	05/25	18:45	Imports (NZD bn)	Apr	--	4.1	4.3
SI	05/25	20:00	Real GDP (y/y)	1Q F	2.2	2.2	2.1
PH	05/25	21:00	Imports (y/y)	Mar	--	--	11.2
PH	05/25	21:00	Trade Balance (US\$ mn)	Mar	--	-400.0	-813.0
SK	MAY 25-29		Department Store Sales (y/y)	Apr	--	--	-5.7
TH	05/26	00:00	Customs Exports (y/y)	Apr	--	-3.3	-4.5
TH	05/26	00:00	Customs Imports (y/y)	Apr	--	-6.8	-5.9
TH	05/26	00:00	Customs Trade Balance (US\$ mn)	Apr	--	-650.0	1495.2
SI	05/26	01:00	Industrial Production (y/y)	Apr	--	-3.4	-5.5
CH	05/26	21:30	Industrial Profits YTD (y/y)	Apr	--	--	-0.4
JN	05/27	19:50	Large Retailers' Sales (y/y)	Apr	--	9.1	-13.0
JN	05/27	19:50	Retail Trade (y/y)	Apr	--	5.7	-9.7
AU	05/27	21:30	Private Capital Expenditure	1Q	--	-2.4	-2.2
PH	05/27	22:00	Real GDP (y/y)	1Q	6.6	6.6	6.9
CH	MAY 27-31		Leading Index	Apr	--	--	98.3
HK	05/28	04:30	Exports (y/y)	Apr	--	1.0	-1.8
HK	05/28	04:30	Imports (y/y)	Apr	--	0.5	-2.7
HK	05/28	04:30	Trade Balance (HKD bn)	Apr	--	-44.0	-46.2
SK	05/28	17:00	Business Survey- Manufacturing	Jun	--	--	82.0
SK	05/28	17:00	Business Survey- Non-Manufacturing	Jun	--	--	78.0
SK	05/28	19:00	Industrial Production (y/y)	Apr	--	-0.2	-0.1
SK	05/28	19:00	Cyclical Leading Index Change	Apr	--	--	0.7

Forecasts at time of publication.

Source: Bloomberg, Scotiabank Economics.

Key Indicators for the week of May 25 – 29

Asia Pacific (continued from previous page)

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Indicator</u>	<u>Period</u>	<u>BNS</u>	<u>Consensus</u>	<u>Latest</u>
JN	05/28	19:30	Household Spending (y/y)	Apr	--	3.0	-10.6
JN	05/28	19:30	Jobless Rate (%)	Apr	3.4	3.4	3.4
JN	05/28	19:30	National CPI (y/y)	Apr	0.7	0.6	2.3
JN	05/28	19:30	Tokyo CPI (y/y)	May	0.4	0.5	0.7
JN	05/28	19:50	Industrial Production (y/y)	Apr P	--	-0.1	-1.7
AU	05/28	21:00	HIA New Home Sales (m/m)	Apr	--	--	4.4
AU	05/28	21:30	Private Sector Credit (y/y)	Apr	--	6.3	6.2
JN	05/29	00:00	Vehicle Production (y/y)	Apr	--	--	-6.5
JN	05/29	01:00	Housing Starts (y/y)	Apr	--	0.0	0.7
JN	05/29	01:00	Construction Orders (y/y)	Apr	--	--	10.8
TH	05/29	03:30	Exports (y/y)	Apr	--	--	-4.3
TH	05/29	03:30	Imports (y/y)	Apr	--	--	-6.2
TH	05/29	03:30	Trade Balance (US\$ mn)	Apr	--	--	3465.0
TH	05/29	03:30	Current Account Balance (US\$ mn)	Apr	--	-630.0	2223.0
TH	05/29	03:30	Business Sentiment Index	Apr	--	--	52.4

Latin America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Indicator</u>	<u>Period</u>	<u>BNS</u>	<u>Consensus</u>	<u>Latest</u>
BZ	05/26	09:30	Current Account (US\$ mn)	Apr	--	--	-5736.2
BZ	05/29	08:00	GDP (IBGE) (y/y)	1Q	-1.3	-1.5	-0.3
CL	05/29	08:00	Industrial Production (y/y)	Apr	--	--	-2.8
CL	05/29	08:00	Retail Sales (y/y)	Apr	--	--	0.4
CL	05/29	08:00	Unemployment Rate (%)	Apr	--	6.2	6.1
CO	05/29	12:00	Urban Unemployment Rate (%)	Apr	--	--	10.1

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

Global Auctions for the week of May 25 – 29

North America



<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	05/26	11:30	U.S. to Sell USD24 Bln 3-Month Bills
US	05/26	11:30	U.S. to Sell USD24 Bln 6-Month Bills
US	05/26	13:00	U.S. to Sell USD26 Bln 2-Year Notes
US	05/27	11:30	U.S. to Sell USD25 Bln 52-Week Bills
US	05/27	11:30	U.S. to Sell USD13 Bln 2-Year Floating Rate Notes Reopening
US	05/27	11:30	U.S. to Sell 4-Week Bills
US	05/27	13:00	U.S. to Sell USD35 Bln 5-Year Notes
US	05/28	13:00	U.S. to Sell USD29 Bln 7-Year Notes

Europe



<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
NE	05/26	04:00	Netherlands to Sell Up to EUR3 Bln 0.25% 2020 Bonds
IT	05/26	05:00	Italy to Sell Up to EUR2 Bln Zero Coupon 2017 Bonds
IT	05/26	05:00	Italy to Sell EUR1 Bln 2.6% I/L 2023 Bonds
IT	05/26	05:00	Italy to Sell EUR1 Bln 3.1% I/L 2026 Bonds
EC	05/26	05:10	ECB Main Refinancing Operation Result
SZ	05/26	05:15	Switzerland to Sell 91-Day Bills
FR	05/26	08:50	France to Sell Up to EUR3.4 Bln 90-Day Bills
FR	05/26	08:50	France to Sell Up to EUR1.6 Bln 153-Day Bills
FR	05/26	08:50	France to Sell Up to EUR1.4 Bln 335-Day Bills
IT	05/27	05:00	Italy to Sell Bills
SW	05/27	05:03	Sweden to Sell SEK10 Bln 82-Day Bills
SW	05/27	05:03	Sweden to Sell SEK7.5 Bln 201-Day Bills
NO	05/27	05:05	Norway to Sell NOK3 Bln 3.75% 2021 Bonds
EC	05/27	05:10	ECB Long-Term Refinancing Operation Result
GE	05/27	05:30	Germany to Sell EUR2 Bln 2.5% 2046 Bonds
UK	05/27	05:30	U.K. to Sell GBP700 Mln 0.125% I/L 2058 Bonds
PO	05/27	05:30	Portugal to Sell Up to EUR1 Bln 3.85% 2021 Bonds
DE	05/28	04:30	Denmark to Sell Bills
IT	05/28	05:00	Italy to Sell Bonds
SW	05/28	05:03	Sweden to Sell SEK1 Bln 1% I/L 2025 Bonds
UK	05/29	06:00	U.K. to Sell GBP2 Bln 28-Day Bills
UK	05/29	06:00	U.K. to Sell GBP1 Bln 92-Day Bills
UK	05/29	06:00	U.K. to Sell GBP2 Bln 182-Day Bills

Asia Pacific



<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
CH	05/24	23:00	China To Sell CNY15 Bln Zero 273-Day Bills
AU	05/25	21:00	Australia Plans to Sell AUD200 Mln 1% 2018 Indexed Bonds
CH	05/25	23:00	China to Sell 5-Year Bonds
JN	05/25	23:45	Japan to Sell 20-Year Bonds
AU	05/26	21:00	Australia Plans to Sell AUD700 Mln 3.25% 2025 Bonds
CH	05/26	23:00	China to Sell CNY30 Bln 5-Year Bonds
AU	05/26	20:30	Australia Plans to Sell AUD500 Mln 147-Day Bills
JN	05/27	23:35	Japan to Sell 3-Month Bill
JN	05/27	23:45	Japan to Sell 2-Year Bonds
AU	05/28	21:00	Australia Plans to Sell AUD700 Mln 2.75% 2019 Bonds

Source: Bloomberg, Scotiabank Economics.

Events for the week of May 25 – 29

North America



<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	05/25	09:10	Fed's Mester Speaks to Academic Conference in Reyjavik
US	05/25	11:30	Fed's Fischer Speaks on Global Economic Developments in Israel
US	05/26	11:30	Fed's Fischer Speaks on the Global Economy in Israel
US	05/26	20:10	Fed's Lacker Discusses Financial Stability in Louisiana
CA	05/27	10:00	Bank of Canada Rate Decision
US	05/28	02:20	Fed's Williams Speaks on Banking Supervision in Singapore
US	05/28	14:45	Fed's Kocherlakota Speaks on Monetary Policy in Montana

Europe



<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
EC	05/23	09:30	ECB's Draghi, Fed's Fischer, BOJ's Kuroda on Panel in Portugal
SP	05/24	03:00	Regional, Local Elections Across Spain
PO	05/25		Portugal Releases Year-to-Date Budget Report
IT	05/26	04:30	Governor Visco Speaks at Bank of Italy Annual Meeting
HU	05/26	08:00	Central Bank Rate Decision
SW	05/26	11:30	Riksbank Deputy Governor Per Jansson gives speech
PO	05/26		Bank of Portugal Releases Financial Stability Report
NO	05/27	03:30	Norway's Nicolaisen Speaks in Oslo
UK	05/27		State Opening of U.K. Parliament
GE	MAY 27-29		G-7 Finance Ministers and Central Bank Chiefs Meet in Dresden
NO	05/28	02:30	NBIM's Petter Johnsen Speaks in Oslo
PO	05/28	04:30	Portugal Releases Consumer, Business Confidence Report
AS	05/28	05:15	ECB's Nowotny Speaks after Austrian C.Bank's AGM

Asia Pacific



<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
JN	05/25	01:00	Bank of Japan's Monthly Economic Report for May
JN	05/26	19:50	Bank of Japan April 30 meeting minutes
AU	05/26	20:45	RBA's Lowe Gives Speech in Sydney
JN	05/26	21:30	BOJ Iwata speaks in Sapporo
NZ	05/27	23:00	RBNZ Reports Net Currency Sales
AU	05/28	18:30	RBA's Edey Participates in Panel

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	0.75	May 27, 2015	0.75	0.75
Federal Reserve – Federal Funds Target Rate	0.25	June 17, 2015	0.25	0.25
Banco de México – Overnight Rate	3.00	June 4, 2015	3.00	--

The **BoC** will release a policy statement on Wednesday, with no press conference or forecast revisions, and no material change is expected. Data risk is squarely on Friday's March and Q1 GDP readings, with Q1 expected to grow only 0.2% q/q annualized. There is **Fed**-speak aplenty next week, with Regional Fed Presidents Mester (Monday), Lacker (Tuesday), Williams (Thursday) and Kocherlakota (Thursday) on tap, while Vice Chair Fischer is speaking on Monday and Tuesday in Israel about the Federal Reserve and the global economy. Data risk centers on a string of economic releases on Tuesday including durable goods, consumer confidence, house prices, and new home sales, and then the second revision to Q1 GDP on Friday which is expected to be downgraded to a contraction.

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	June 3, 2015	0.05	--
Bank of England – Bank Rate	0.50	June 4, 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	12.50	June 15, 2015	12.50	--
Central Bank of the Republic of Turkey – 1 Wk Repo Rate	7.50	June 23, 2015	7.50	--
Sweden Riksbank – Repo Rate	-0.25	July 2, 2015	-0.35	--
Norges Bank – Deposit Rate	1.25	June 18, 2015	1.00	--

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	June 2, 2015	2.00	2.00
Reserve Bank of New Zealand – Cash Rate	3.50	June 10, 2015	3.50	3.50
People's Bank of China – Lending Rate	5.10	TBA	--	--
Reserve Bank of India – Repo Rate	7.50	June 2, 2015	7.25	7.25
Bank of Korea – Bank Rate	1.75	June 11, 2015	1.75	--
Bank of Thailand – Repo Rate	1.50	June 10, 2015	1.50	--
Bank Indonesia – Reference Interest Rate	7.50	June 18, 2015	7.50	--

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	13.25	June 3, 2015	13.25	--
Banco Central de Chile – Overnight Rate	3.00	June 11, 2015	3.00	--
Banco de la República de Colombia – Lending Rate	4.50	June 25, 2015	4.50	--
Banco Central de Reserva del Perú – Reference Rate	3.25	June 11, 2015	3.25	--



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	5.75	July 23, 2015	5.75	--

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



Economic Statistics



North America



Canada 					United States 				
	2014	14Q4	15Q1	Latest		2014	14Q4	15Q1	Latest
Real GDP (annual rates)	2.5	2.4			Real GDP (annual rates)	2.4	2.2	0.2	
Current Acc. Bal. (C\$B, ar)	-43.5	-55.7			Current Acc. Bal. (US\$B, ar)	-411	-454		
Merch. Trade Bal. (C\$B, ar)	4.6	-9.6	-28.2	-36.2 (Mar)	Merch. Trade Bal. (US\$B, ar)	-736	-741	-755	-847 (Mar)
Industrial Production	2.5	1.4	-1.8	-1.8 (Mar)	Industrial Production	4.1	4.5	3.3	1.9 (Apr)
Housing Starts (000s)	189	184	175	183 (Apr)	Housing Starts (millions)	1.00	1.06	0.97	1.14 (Apr)
Employment	0.6	0.7	0.6	0.7 (Apr)	Employment	1.9	2.2	2.3	2.2 (Apr)
Unemployment Rate (%)	6.9	6.7	6.7	6.8 (Apr)	Unemployment Rate (%)	6.2	5.7	5.6	5.4 (Apr)
Retail Sales	4.6	4.4	2.3	3.1 (Mar)	Retail Sales	3.6	3.8	1.6	-0.1 (Apr)
Auto Sales (000s)	1850	1905	1794	1791 (Mar)	Auto Sales (millions)	16.4	16.7	16.6	16.5 (Apr)
CPI	1.9	1.9	1.1	0.8 (Apr)	CPI	1.6	1.2	-0.1	-0.2 (Apr)
IPPI	2.5	1.4	-1.8	1.8 (Mar)	PPI	1.9	0.8	-3.2	-4.4 (Apr)
Pre-tax Corp. Profits	9.0	6.7			Pre-tax Corp. Profits	8.3	6.7		

Mexico 				
	2014	14Q4	15Q1	Latest
Real GDP	2.1	2.6	2.5	
Current Acc. Bal. (US\$B, ar)	-26.5	-21.2		
Merch. Trade Bal. (US\$B, ar)	-2.4	-2.7	-8.7	6.1 (Mar)
Industrial Production	1.9	2.4	1.4	1.7 (Mar)
CPI	4.0	4.2	3.1	3.1 (Apr)

Europe

Euro Zone 					Germany 				
	2014	14Q4	15Q1	Latest		2014	14Q4	15Q1	Latest
Real GDP	0.9	1.0			Real GDP	1.6	1.5	1.0	
Current Acc. Bal. (US\$B, ar)	281	454	216	324 (Mar)	Current Acc. Bal. (US\$B, ar)	219.7	301.7	290.2	363.2 (Mar)
Merch. Trade Bal. (US\$B, ar)	327.1	405.2	294.4	371.2 (Mar)	Merch. Trade Bal. (US\$B, ar)	289.7	301.4	266.1	251.8 (Mar)
Industrial Production	0.8	0.3	1.5	1.8 (Mar)	Industrial Production	1.5	0.7	0.2	-0.1 (Mar)
Unemployment Rate (%)	11.6	11.5	11.3	11.3 (Mar)	Unemployment Rate (%)	6.7	6.6	6.5	6.4 (Apr)
CPI	0.4	0.2	-0.3	0.0 (Apr)	CPI	0.9	0.5	0.0	0.5 (Apr)

France 					United Kingdom 				
	2014	14Q4	15Q1	Latest		2014	14Q4	15Q1	Latest
Real GDP	0.2	0.0	0.7		Real GDP	2.8	3.0	2.4	
Current Acc. Bal. (US\$B, ar)	-28.1	0.8	-9.6	-23.7 (Mar)	Current Acc. Bal. (US\$B, ar)	-97.9	-101.2		
Merch. Trade Bal. (US\$B, ar)	-40.1	-34.4	-42.8	-50.7 (Mar)	Merch. Trade Bal. (US\$B, ar)	-197.1	-184.5	-181.2	-181.9 (Mar)
Industrial Production	-1.1	-1.5	1.0	1.3 (Mar)	Industrial Production	1.6	1.0	0.6	0.7 (Mar)
Unemployment Rate (%)	10.3	10.5	10.6	10.6 (Mar)	Unemployment Rate (%)	6.2	5.7		5.5 (Feb)
CPI	0.5	0.3	-0.2	0.1 (Apr)	CPI	1.5	0.9	0.1	-0.1 (Apr)








Italy 					Russia 				
	2014	14Q4	15Q1	Latest		2014	14Q4	15Q1	Latest
Real GDP	-0.4	-0.5	0.0		Real GDP	0.6	0.4	-1.9	
Current Acc. Bal. (US\$B, ar)	30.9	57.4	22.2	23.6 (Mar)	Current Acc. Bal. (US\$B, ar)	59.5	15.4	23.5	
Merch. Trade Bal. (US\$B, ar)	56.7	73.3	34.7	52.8 (Mar)	Merch. Trade Bal. (US\$B, ar)	15.8	14.1	14.5	15.0 (Mar)
Industrial Production	-0.5	-1.0	-0.5	0.9 (Mar)	Industrial Production	-1.6	2.1	-0.4	-4.5 (Apr)
CPI	0.2	0.1	-0.4	-0.1 (Apr)	CPI	7.8	9.6	16.2	16.4 (Apr)

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





Source: Bloomberg, Global Insight, Scotiabank Economics.

Economic Statistics

Asia Pacific

Australia 					Japan 				
	2014	14Q4	15Q1	Latest		2014	14Q4	15Q1	Latest
Real GDP	2.7	2.5			Real GDP	-0.1	-0.8	-1.4	
Current Acc. Bal. (US\$B, ar)	-40.3	-39.1			Current Acc. Bal. (US\$B, ar)	24.4	54.0	143.5	278.6 (Mar)
Merch. Trade Bal. (US\$B, ar)	12.4	4.8	3.6	11.4 (Mar)	Merch. Trade Bal. (US\$B, ar)	-122.5	-79.5	-29.8	0.3 (Mar)
Industrial Production	4.2	3.3			Industrial Production	2.1	-1.4	-2.2	-3.3 (Mar)
Unemployment Rate (%)	6.1	6.2	6.2	6.2 (Apr)	Unemployment Rate (%)	3.6	3.5	3.5	3.4 (Mar)
CPI	2.5	1.7	1.3		CPI	2.7	2.5	2.3	2.3 (Mar)
South Korea 					China 				
Real GDP	3.3	2.7	2.4		Real GDP	7.4	7.3	7.0	
Current Acc. Bal. (US\$B, ar)	89.2	108.9	93.7	124.7 (Mar)	Current Acc. Bal. (US\$B, ar)	219.7			
Merch. Trade Bal. (US\$B, ar)	47.2	73.4	86.7	102.0 (Apr)	Merch. Trade Bal. (US\$B, ar)	382.5	599.6	494.9	409.6 (Apr)
Industrial Production	0.5	-1.7	-1.6	-1.5 (Mar)	Industrial Production	7.9	7.9	5.6	5.9 (Apr)
CPI	1.3	1.0	0.6	0.4 (Apr)	CPI	1.5	1.5	1.4	1.5 (Apr)
Thailand 					India 				
Real GDP	0.9	2.1	3.0		Real GDP	6.9	7.5	7.5	
Current Acc. Bal. (US\$B, ar)	13.1	8.7	8.2		Current Acc. Bal. (US\$B, ar)	-27.4	-8.2		
Merch. Trade Bal. (US\$B, ar)	2.0	2.5	2.5	3.5 (Mar)	Merch. Trade Bal. (US\$B, ar)	-11.6	-13.2	-9.0	-11.0 (Apr)
Industrial Production	-4.6	-2.1	0.0	-2.5 (Mar)	Industrial Production	1.8	2.0	3.2	2.1 (Mar)
CPI	1.9	1.1	-0.5	-1.0 (Apr)	WPI	3.8	0.3	-1.8	-2.7 (Apr)
Indonesia 									
Real GDP	5.0	5.0	4.7						
Current Acc. Bal. (US\$B, ar)	-25.4	-5.7	-3.8						
Merch. Trade Bal. (US\$B, ar)	-0.2	-0.1	0.8	0.5 (Apr)					
Industrial Production	4.6	4.8	4.7	6.7 (Mar)					
CPI	6.4	6.5	6.5	6.8 (Apr)					

Latin America









Brazil 					Chile 				
	2014	14Q4	15Q1	Latest		2014	14Q4	15Q1	Latest
Real GDP	0.1	-0.2			Real GDP	1.9	1.8	2.4	
Current Acc. Bal. (US\$B, ar)	-104.0	-119.3	-101.6		Current Acc. Bal. (US\$B, ar)	-5.1	-2.8	4.8	
Merch. Trade Bal. (US\$B, ar)	-3.9	-12.9	-22.2	5.9 (Apr)	Merch. Trade Bal. (US\$B, ar)	6.7	7.0	10.9	13.8 (Apr)
Industrial Production	-3.0	-3.8	-6.0	-6.8 (Mar)	Industrial Production	0.4	-1.0	0.5	-3.2 (Mar)
CPI	6.3	6.5	7.7	8.2 (Apr)	CPI	4.4	5.3	4.4	4.1 (Apr)
Peru 					Colombia 				
Real GDP	2.4	1.0			Real GDP	4.6	3.5		
Current Acc. Bal. (US\$B, ar)	-8.0	-1.3			Current Acc. Bal. (US\$B, ar)	-19.8	-6.4		
Merch. Trade Bal. (US\$B, ar)	-0.1	0.0	-0.4	-0.6 (Mar)	Merch. Trade Bal. (US\$B, ar)	-0.5	-1.4	-1.4	-1.0 (Mar)
Unemployment Rate (%)	6.0	5.6	6.8	6.8 (Apr)	Industrial Production	1.5	0.4		-0.1 (Mar)
CPI	3.2	3.2	3.0	3.0 (Apr)	CPI	2.9	3.5	4.2	4.6 (Apr)

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

Source: Bloomberg, Global Insight, Scotiabank Economics.

Financial Statistics

Interest Rates (% , end of period)

Country	14Q4	15Q1	May/15	May/22*	Country	14Q4	15Q1	May/15	May/22*
Canada 					United States 				
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	0.65	0.64	3-mo. T-bill	0.04	0.02	0.01	0.02
10-yr Gov't Bond	1.79	1.36	1.71	1.77	10-yr Gov't Bond	2.17	1.92	2.14	2.21
30-yr Gov't Bond	2.34	1.98	2.34	2.36	30-yr Gov't Bond	2.75	2.54	2.93	2.98
Prime	3.00	2.85	2.85	2.85	Prime	3.25	3.25	3.25	3.25
FX Reserves (US\$B)	74.6	77.6	77.6	(Mar)	FX Reserves (US\$B)	119.0	108.2	108.2	(Mar)
Germany 					France 				
3-mo. Interbank	0.02	-0.02	-0.02	-0.04	3-mo. T-bill	-0.05	-0.16	-0.18	-0.19
10-yr Gov't Bond	0.54	0.18	0.62	0.60	10-yr Gov't Bond	0.83	0.48	0.90	0.89
FX Reserves (US\$B)	62.3	61.2	61.2	(Mar)	FX Reserves (US\$B)	49.5	50.5	50.5	(Mar)
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	-0.11	-0.11	3-mo. T-bill	0.44	0.45	0.49	0.48
FX Reserves (US\$B)	327.6	331.0	331.0	(Mar)	10-yr Gov't Bond	1.76	1.58	1.88	1.92
Japan 					FX Reserves (US\$B)	95.7		102.9	(Feb)
Discount Rate	0.30	0.30	0.30	0.30	Australia 				
3-mo. Libor	0.05	0.04	0.04	0.04	Cash Rate	2.50	2.25	2.00	2.00
10-yr Gov't Bond	0.33	0.41	0.40	0.42	10-yr Gov't Bond	2.74	2.32	2.89	2.92
FX Reserves (US\$B)	1231.0	1216.1	1216.1	(Mar)	FX Reserves (US\$B)	50.8	53.8	53.8	(Mar)

Exchange Rates (end of period)

USDCAD	1.16	1.27	1.20	1.23	¥/US\$	119.78	120.13	119.25	121.44
CADUSD	0.86	0.79	0.83	0.81	US¢/Australian\$	0.82	0.76	0.80	0.78
GBPUSD	1.558	1.482	1.573	1.549	Chinese Yuan/US\$	6.21	6.20	6.21	6.20
EURUSD	1.210	1.073	1.145	1.102	South Korean Won/US\$	1091	1110	1086	1090
JPYEUR	0.69	0.78	0.73	0.75	Mexican Peso/US\$	14.752	15.264	15.008	15.294
USDCHF	0.99	0.97	0.92	0.94	Brazilian Real/US\$	2.658	3.197	2.997	3.067

Equity Markets (index, end of period)

United States (DJIA)	17823	17776	18273	18223	U.K. (FT100)	6566	6773	6960	7052
United States (S&P500)	2059	2068	2123	2131	Germany (Dax)	9806	11966	11447	11831
Canada (S&P/TSX)	14632	14902	15108	15192	France (CAC40)	4273	5034	4994	5148
Mexico (IPC)	43146	43725	45333	45028	Japan (Nikkei)	17451	19207	19733	20264
Brazil (Bovespa)	50007	51150	57249	54491	Hong Kong (Hang Seng)	23605	24901	27822	27993
Italy (BCI)	1038	1273	1292	1298	South Korea (Composite)	1916	2041	2107	2146

Commodity Prices (end of period)

Pulp (US\$/tonne)	1020	980	980	980	Copper (US\$/lb)	2.88	2.74	2.88	2.81
Newsprint (US\$/tonne)	595	570	560	560	Zinc (US\$/lb)	0.98	0.94	1.04	0.98
Lumber (US\$/mfbm)	340	282	251	262	Gold (US\$/oz)	1206.00	1187.00	1220.50	1204.10
WTI Oil (US\$/bbl)	53.27	47.60	59.69	59.78	Silver (US\$/oz)	15.97	16.60	17.25	17.25
Natural Gas (US\$/mmbtu)	2.89	2.64	3.02	2.92	CRB (index)	229.96	211.86	231.46	226.15

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

Foreign Exchange Strategy

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