Global Views

Weekly commentary on economic and financial market developments

August 2, 2013

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

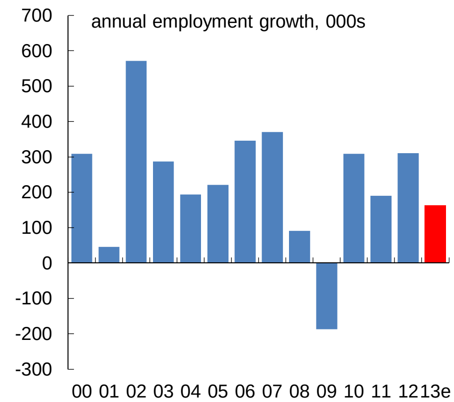
Derek Holt (416) 863-7707
derek.holt@scotiabank.com

Is True Policy Innovation Coming From The Bank Of England?

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

CANADA

Slower Canadian Job Growth



Source: Statistics Canada, Scotiabank

Canadian markets will be primarily focused upon next Friday's jobs lottery, but the real stories well could be housing and earnings. Markets will be shut on Monday for the annual civic holiday weekend. Friday's jobs picture may well continue what has been an exceptionally volatile pattern throughout this year on a generally softer path for job growth than what was experienced over 2012H2. There is rarely deep insight to be offered on the particular month's call in no small part due to the paucity of other leading indicators, and so a 10-15k print in line with the monthly average with two tail risk is about as precise as anyone is likely to be able to get. The shocks that hit the economy in June and that included flooding in Alberta and Quebec's construction strike may carry lagged reverberating negative effects on hours worked and jobs into July but these are likely to be modest if at all evident. The year has so far been marked by prints like the whopping 95,000 monthly gain in May and the large 55,000 drop in March amid few credible explanations for such survey volatility. The year's monthly average rate of creation has been only 13,500 which is markedly lower than the monthly average of about 26,000 last year. After the country grew 309,000 jobs in 2010, 190,000 jobs in 2011, and then 310,000 jobs in 2012, it has thus far only created about 81,000 positions in the first half of this year. Even if this pace were kept up throughout the year to hit 162,000 for the full year, employment growth would still rank as the weakest of the recovery years and the weakest since 2001 excluding the shock years of 2008 and particularly 2009 that put 274,000 jobs on the chopping block.

Canadian housing starts have been in at least temporary defiance of this jobs picture so far in 2013. After correcting sharply lower over 2012H2 from a peak of 253,000 annualized units in the Spring of 2012 to enter 2013 at 161,000, starts have since rebounded to the 200k range. As low rise and high rise new home sales have pushed sharply lower in Toronto so far this year, the trend toward lower housing starts may be restored over 2013H2 and beyond. A softer employment growth trend would support such a directional shift. Other housing data may not be on the markets' radar screen but will be informative nonetheless. Included are monthly reports on resale volumes from the major regional real estate boards, and probably Urbanation Inc's quarterly report on Toronto condominiums that will update us on inventory, absorption, sales and pricing patterns in much greater depth than what is available elsewhere. Toronto has already reported a large 16% y/y jump in resales during July that included strength across all types of housing. What is to be made of this acceleration? One possibility is that the rate shock spooked enough households into buying now before their fixed mortgage rate commitments expired in anticipation of facing higher mortgage rates later. If so, then sales are being brought forward at the expense of future months. An alternative possibility is that since the multi-month trend is favourable, this may suggest that something greater is going on. Even as trend job growth has decelerated this year, confidence may have picked up in support of homebuying. A yet further possibility is that new home sales and supply have plummeted for many reasons, and so more people are forced into buying resale because zoneable land supply has been constrained against growth in developments. We'll have further comfort with this debate when we get more data that pushes further into the rate shock environment and after rate commitment options begin to get repriced higher. For now, however, we're left with a touch of a conundrum: new home sales are weak and this matters more to construction and GDP, but resales are surging and reflecting confidence that could trickle over elsewhere into complementary types of consumer spending.

Canada's export and import picture will start the week off with a heavily split consensus on whether the monthly trade deficit improved or deteriorated, but the outcome often matters little to markets in contrast to higher profile releases. Of greater relevance will be that 79 firms release earnings on the TSX composite including fairly well known and often global firms like Sun Life, Franco-Nevada, Rio Alto, Canadian Natural

Derek Holt (416) 863-7707
derek.holt@scotiabank.com

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Resources, BCE, TELUS, Canadian Tire, Cineplex, Manulife, Brookfield, Quebecor, ShawCor, Magna, and Metro. Finally, note that the Government of Canada auctions 3 year bonds on Wednesday.

UNITED STATES

US markets will be watching the sequel to the July 31st FOMC statement when the usual parade of FOMC officials take to the podium to reveal what they argued within the two day meeting. The die are little loaded in favour of birds of prey as both Dallas Fed President Richard Fisher (alternate 2013, voting 2014) and Philadelphia Fed President Charles Plosser (alternate 2013, voting 2014) speak on the economy and monetary policy. Chicago Fed President John Evans (voting 2013, alternate 2014) will represent the doves, while relative moderates will be championed by Cleveland Fed President Sandra Pianalto's speech. A nonfarm payroll growth deteriorated in July with small downward revisions while the Fed's preferred inflation gauge accelerated a touch, the FOMC may begin to face a new conundrum by way of cooling employment growth alongside a gradual move toward its inflation forecast. The balance of this debate is dovish for the Fed that has stated it would be comfortable rising to as much as a half percentage point above its long-run inflation target but is likely to be intolerable toward renewed job market disappointment. We are therefore remaining committed to our view that tapered asset purchases will commence in December with the risk of later as opposed to earlier. First tier data that could carry a material further effect will be largely absent next week after the US released most of the most pertinent reports in the past week. ISM-services kicks it off on Monday and the key here will be that the composite manufacturing and services gauge is likely to show an acceleration from what had been the prior month's weakest reading since June 2010. Consensus expects Tuesday's trade deficit to narrow somewhat, but the nominal trade deficit will remain well off the US$37 billion March print that had been the smallest since early 2010.

Notable additional US releases will include whether further damage is done to mortgage purchase applications that are now 13% lower than the peak in early May as mortgage rates have spiked higher since. Indeed, the progress toward an upward trend in mortgage purchases applications throughout much of 2012 has been largely reversed over the past three months. That is likely to carry adverse consequences for resales and new home sales with lagged closing effects in data by late summer and into the Fall. The week also brings an update on mortgage delinquencies and foreclosures for Q2. Finally, jobless claims will be assessed for whether the recent lowest level since 2008 sticks or whether it was motivated by problems with seasonal adjustment factors that are related to many fewer than normal auto sector shut downs for retooling this summer such that artificially high seasonal adjustments may be overcompensating for such issues. It will take until well through August and into September to evaluate this theory so treat claims data with caution in the meantime.

US earnings season slows down next week with only 57 companies on the S&P500 due out before the season comes to a close thereafter. Names like Molson Coors, Walt Disney, Time Warner, and JC Penney are on tap. Finally, the US auctions 3s, 10s and 30s. Treasury's guidance has been to expect reduced auction sizes first in the 2 year space, and they do not get auctioned again until August 27th.

EUROPE

European markets probably won't have enough sway over the global market tone, but we'll have an eye on developments in two of the bigger economies. German data is expected to be constructive by way of positive growth in exports, factory orders, and industrial production after disappointing May data on all three fronts. That could feed sentiment that the Eurozone economy is on the mend.

While UK data will be watched, it's the Bank of England's Quarterly Inflation Report that will get most of the attention. On the path toward the report's release on Wednesday, material data will be released. The National Institute of Economic and Social Research's monthly GDP estimate has been sharply accelerating over the past three months and it is hoped that July will continue this trend after the 'triple dip' fears of earlier in the year. The freshest prints for industrial production, trade, and the purchasing managers' index for the services sector are all expected to be growth supportive.

Derek Holt (416) 863-7707
derek.holt@scotiabank.com

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The BoE's report, however, will garner significant attention because it has promised to reveal the central bank's decision on providing forward rate guidance. Governor Mark Carney speaks at a press conference after its release. Forward guidance may be of limited use to markets that are already largely convinced that policy won't be doing much for a long while yet, but we'll look for the possibility of something truly innovative. The concept of forward guidance was actually introduced by the RBNZ and Riksbank years ago as the first central banks to engage in such exercises long before others began to experiment. The BoC's conditional commitment in 2010 was a mixed success as a temporary pause conditional upon not breaching the central bank's 2% inflation target coincided with a period of substantial rate volatility in, say, Canada 2s. The experience may have been instructive to Carney in devising a more successful strategy tailored to the BoE and, if so, may be pertinent to debates at other central banks on how to strengthen forward guidance.

A distant third to these European influences will be Q2 Italian GDP, trade and industrial production figures from France and Italy, and the EC add-up for retail sales growth.

ASIA-PACIFIC

Asia-Pacific markets may continue to trade on the China-slowing theme. The Reserve Bank of Australia is almost unanimously expected to cut its cash target rate by 25bps to 2.5%. The country's currency has been jostling with South Africa's rand for the dubious distinction of the weakest performer against the USD so far this year with the A$ down by 14% as the attractiveness of the carry trade into Australia has diminished compared to late 2011 when the cash target rate stood at 4.75%. The RBA bought a little too much into the argument that the global economy was on the mend and would be sustainably led by China when it hiked from 3% in 2009. Australia and South Africa have also suffered from weakness across the metals space that is in turn partly a China commodities play but has broader forces behind it. This in turn begs the question why another commodity currency — CAD — has not weakened in commensurate fashion and I view the past drivers of CAD strength as in the ongoing stages of persistent weakening.

The RBA's decision is unlikely to be swayed by data, but may be further informed by three important indicators next week. Two land before the RBA's decision. Retail sales growth may accelerate, but the bigger question mark concerns the employment figures the day after the rate statement. Jobs numbers have been very volatile over the months, but on a more constructive trend over the past three months as an offset against some of the concerns about the impact of slowing mining sector activity that is related to less demand from China. The trade balance arrives pre-RBA and will be watched for how the export picture is holding up.

Indeed, trade data will be a major theme across Asia-Pacific markets next week. China's export growth contracted in year-over-year terms in June as the government began to clamp down on an over-reporting bias over the past couple of months while growth abroad remained weak. From artificially inflated export figures until April that the government has stated it will not revise in order to address the over-reporting bias, markets will be sensitive toward any further downward pressure and whether they should trust the data any more today than in the past. Trade figures will also be released by Japan and thus the Abenomics' impact on the yen will be in the spotlight again, and Malaysia.

Other central banks with policy decisions on tap include the Bank of Japan and the Bank of Korea, both of which are expected to leave policy unchanged but for different reasons. South Korean economic data has held up better than the country had feared in response to the appreciation in the won versus the yen, while the Bank of Japan is somewhat divided about future policy directions and content to let what it has done thus far continue to be implemented while observing the lagged effects. A risk is whether the BoJ weighs in on the debate over raising Japan's sales tax next April; if they do, we expect a civil indirect tone.

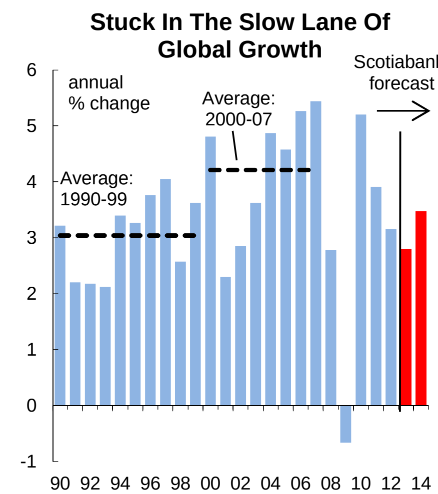
China's economy will also be in the spotlight through updates on inflation which is expected to tick higher again and remain in the upper-2% range, as well as industrial production growth and retail sales. Tertiary releases will include jobs in New Zealand, and CPI in the Philippines.

Aron Gampel (416) 866-6259
aron.gampel@scotiabank.com

Global Growth — Better Luck Next Year

The global economy has followed a pattern of decelerating annual gains since 2010, the first full year of recovery when real GDP increased by an average of 5.2%. This year is no exception, with the global economy struggling to post stronger growth. We project global real GDP to advance by a relatively sluggish 2.8% this year, following moderating increases in 2011 and 2012 of 3.9% and 3.2%.

At around a 3% rate of advance, the globe's output is about a percentage point below the average advance of around 4% in 2000-07, a period characterized by significant economic gains in the emerging market economies, and generally solid output increases in the advanced nations. It is in line with the average performance in the 1990s when the emerging market economies were less robust, and the advanced nations were recovering from a deep and long recession.



Source: IMF, Scotiabank Economics.

This year, a renewed flare-up in the euro zone's lingering sovereign debt crisis is not responsible for the loss of momentum globally. The deterioration in some of the region's hardest hit economies appears to have slowed. While public sector spending continues to contract, renewed export gains are leading to an increase in industrial activity in a number of these economies, notably Spain and Greece. Importantly, confidence has stabilized with the support provided by ECB pledges, leading to some uptick in consumer spending despite limited employment gains. Tourism remains a solid performer. Nevertheless, a myriad of economic, financial as well as political problems continue to weigh against an early end to the region's recession and massive unemployment problems.

The Japanese economy is regaining traction slowly. Policymakers have introduced a number of pro-growth initiatives — fiscal stimulus and quantitative easing — which along with a weaker yen should go a long way towards sustaining a period of comparatively better growth and reviving inflation, even modestly. Improving business investment and exports remain the key to longer-term growth prospects, since consumer spending gains are limited by aging demographics and an impending increase in consumption taxes to help contain exceptionally high government debt levels. The U.K. economy is also exhibiting signs of improving activity, though like Japan, prospective output gains are likely to be contained under a 2% annual rate.

After a promising start to 2013, the U.S. economy has lost some of its drive. Early-year tax hikes, the subsequent stepped-up spending restraint under sequestration, as well as reduced exports abroad, have taken a toll. This year's anticipated real GDP advance of 1.5% will come in slightly slower than had been expected. However, the U.S. economy should begin to rebuild momentum with the pace of fiscal drag expected to diminish. The private sector continues to generate close to 200,000 net new jobs on a monthly basis, a key factor supporting income growth, and along with rising home values, confidence and spending power. There is considerable pent-up demand in the U.S. for 'big-ticket' purchases of motor vehicles and homes, now that Americans have made important progress in reducing their leverage and rebuilding their wealth. Business investment caution will give way to increased capital expenditures to meet expanded infrastructure demands. The United States will continue to benefit from the development of its significant shale oil and gas reserves.

Canadian output is on track to post a second consecutive year of 1.7% growth in 2013, slightly above the projected U.S. advance after the sizeable data revisions south of the border. The weakening trend in Canadian housing market activity is contributing to the pullback in construction, as well as a slower trend in consumer spending and job hiring. Like the United States, fiscal retrenchment is biting, with the federal and most provincial governments in consolidation mode. Resource-related activity has moderated, as witnessed by the pullback in production, shipments and prices primarily in the metal markets. This largely reflects the slower pace of growth around the world, especially in the emerging market economies, as well as the hurdles presented by domestic competitive factors, including a very strong Canadian dollar until recently. Even so, oil market and

Aron Gampel (416) 866-6259
aron.gampel@scotiabank.com

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price conditions have recently improved, resulting from infrastructure upgrades that have unclogged some of the supply bottlenecks around the Cushing, Oklahoma hub for Canadian and U.S. crude, as well as improved fundamentals in the United States attributable to increased driving demand and reduced imports from overseas.

Canadian producers of goods and service will continue to benefit from the recovery in U.S. demand over the forecast horizon. A weaker Canadian dollar, which has gravitated lower to about US$0.97 after averaging around 'parity' vis-à-vis the greenback over the past 2½ years, will provide some added bottom-line relief to domestic exporters. Nevertheless, the performance dynamics underpinning the U.S. and Canadian economies are on different paths. Domestic-led activity will lag in Canada because much of the pent-up demand for autos and houses built up during the recession has been exhausted, and household debt levels are being reined in.

For the most part, responsibility for this year's loss of global economic momentum lies with the much greater-than-expected slowdowns in China, India, Brazil and Mexico. Most of the larger emerging market Asian economies have been unable to transition quickly from export dependency to domestically led demand. Structural, not cyclical factors are behind the weaker economic performances, with governments increasingly pressured to expedite economic, financial, legal and regulatory reforms. In the case of China, a stronger currency has reinforced its slowdown, though the yuan has been trading flat to the U.S. dollar over the past two months. While Chinese authorities have introduced some short-term economic and financial measures to prevent the deceleration in output growth from sinking below an annualized 7%, they are effectively constrained by an overextended credit cycle for lenders and households alike.

The reduced demand from emerging market economies has already resulted in slower production, shipments, and lower prices for a number of key commodities, especially minerals, adding to the already challenging conditions Canadian exporters are confronted with. Around the world, commodity-producers already have begun to trim production to counter the reduced demand and lower prices and prevent even larger discounting in the future. The ripple effects and consolidation have impacted bulk shippers, manufacturers of heavy equipment, and providers of business services. In the short-term, we expect that the price of crude oil will be supported by increasing demand, primarily from the large emerging market economies and the United States. Longer-term, the expansion of the globe's conventional and shale oil and gas resources and increasing motor vehicle mileage to meet tighter environmental regulations suggest that the global economy may be entering a period of relatively stable crude oil prices, and potentially weaker prices if supply factors begin to dominate.

Global activity is expected to build momentum through 2014. The U.S. will continue to be the growth leader among the advanced nations. There is still considerable monetary stimulus in the economic pipeline even after the Fed begins to 'taper' its bond purchases later this year, while federal fiscal restraint will be unwound gradually. Aggressive policy actions by the Japanese government should help buoy activity in the Asia-Pacific region, while the United Kingdom and Europe will benefit from the competitive adjustments underway, pent-up demand, continued monetary support, and on the continent, a gradual shift away from the severe austerity measures of recent years. Major infrastructure projects have the potential to jump-start domestic-led growth in Canada. The combined effect of the structural reform process underway and improving U.S. macroeconomic conditions will support a better performance for the Mexican economy and currency in the coming months.

Nonetheless, hurdles remain. The BRIC economies are adjusting to slower but more sustainable growth paths, though most of the respective governments have the financial capabilities and robust international reserves positions to support stronger domestic activity. The renewed rise crude oil prices and the roughly one percentage point rise in U.S. long-term mortgage rates have the potential to dampen consumer and business spending if they continue to trend higher. The outlook for interest rates and foreign exchange markets has become increasingly volatile, reflecting the unevenness of the expansion around the world, uncertainty surrounding the United States plan to wind down unconventional stimulus measures through large-scale asset purchase programs, and heightened geopolitical risks internationally. Nevertheless, yield curves, especially in the advanced nations, are likely to gradually steepen over time as U.S. longer-term borrowing costs trend higher against the backdrop of a strengthening U.S. economy and greenback.

Pablo Bréard (416) 862-3876
pablo.breard@scotiabank.com

Renewed USD Strength In The Months Ahead

The United States is back at the center of global investors' radar screens. US equity securities remain in ascendancy accompanied by increasing long-term interest rates as the process of global risk re-pricing and asset (re)allocation away from emerging-market assets runs its course. Ironically, the US dollar (USD) was unable to extend its appreciating trend against the euro (EUR) on the grounds of market participants' reassessment of near-term economic conditions in the US as well as imprecise forward guidance regarding the unwinding of monetary stimulus (i.e., reduction of US treasury and mortgage-backed securities holdings) by the US Federal Reserve (Fed). Nevertheless, we are of the view that the USD will regain an appreciating trajectory through the remainder of the year.

The NAFTA zone as a whole offers a promising economic outlook for 2014 despite decelerating trends in the three economies this year. Employment, housing, inflation and energy market conditions are all positive factors underpinning a brighter growth outlook for the United States. We estimate that the US real GDP growth rate will accelerate to 2.6% in 2014, up from a modest 1.5% growth rate in 2013. Securities markets are already discounting such an improved economic context. Both Canada and Mexico will benefit from better US economic conditions over the next 18 months, yet financial market metrics indicate a preference for increased US dollarization.

The Canadian dollar (CAD) is entering August having lost 3% year to date during a period of broad USD strength. It is being subjected to conflicting forces. Relative growth differentials vis-à-vis the United States, declining metal markets, unsupportive monetary policy direction and a generalized global move in favour of the USD are expected to be partially offset by the energy complex and flow of funds. We are of the view that USDCAD will trade in a relatively narrow range through the end of 2014, interrupted only briefly with periods of volatility. The risk to our view is that the CAD will undergo some modest depreciation in the next quarter.

Europe remains in economic distress, though with tentative signs of a fragile recovery. We maintain our bearish view for the EUR for year end; our forecast implies a EURUSD rate of 1.25 and 1.23 by the end of 2013 and 2014, respectively. The recent strength of the EUR versus the USD will be short-lived as improved economic prospects in the United States coupled with the upward adjustment in long-term interest rates redirect capital flows towards USD-denominated assets. The 10-year US Treasury (UST) bond yield traded at 2.75% at the end of July whereas end-December metrics implied in futures markets indicate further a upward trajectory towards 3.11%.

The British pound is behaving in an erratic way, mainly influenced by global central bank policy shifts, recovery dynamics in the European continent and, to a lesser extent, uncertainties related to the systemic improvement of the still fragile banking sector and new central bank forward guidance policy. We expect the GBPUSD rate to weaken further to close the year at 1.45. Finally, both the Russian ruble (RUB) and the Turkish lira (TRY) retain a bearish tone in line with core emerging-market currencies as the sell-off momentum in high-yield investment portfolios remains in place.

The Asia/Pacific currency outlook presents a mixed picture as heavy intervention coupled with divergent growth dynamics have caused intra-regional differentiation forces. The Australian dollar (AUD) regained a steep weakening bias as investors anticipate a potential easing of monetary conditions to spur growth in the context of contained inflation. The Japanese yen (JPY) has not abandoned a weakening path against the USD despite a recent pause in the depreciation trend, strongly guided by government intervention in support of its export sector.

The emerging market asset class remains in vulnerable territory influenced by the triple adverse effect of decelerating endogenous economic growth, declining equity securities valuations and expected shifts in US monetary policy direction implied by forward guidance rhetoric. Of utmost relevance to regional currency

Pablo Bréard (416) 862-3876
pablo.breard@scotiabank.com

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dynamics, China has temporarily interrupted its guided gradual appreciation strategy; indeed, USDCNY has been trapped in a narrow trading range over the past three months amidst ongoing stress in equity markets. It is worth noting the acute devaluation of the Indian rupee (INR) and the Malaysian Ringgit (MYR) since early May on the back of steady foreign capital outflows (Malaysia may step up intervention to curb ill-justified sell-off pressures).

We expect that the dollarization of investment portfolios will increase in Latin America as the US economy recovers, underpinning stock markets and higher interest rates and increasing the attractiveness of USD holdings. The Brazilian real (BRL) has experienced material weakness due to a sharp economic slowdown, intensifying inflation and deteriorating socio-political dynamics. Mexico offers the best potential within the Latin American currency landscape, yet it is not immune to sporadic bouts of financial market volatility affecting developing-market trends. The combined effect of the structural reform process underway and improving demand conditions in the US will support a relatively better performance for the Mexican peso (MXN) in the coming months. The commodity-sensitive currencies, the Chilean peso (CLP) and the Peruvian sol (PEN) will retain a soft bias due to the combined effect of strengthening USD and declining metal prices.

Derek Holt (416) 863-7707
derek.holt@scotiabank.com

Dov Zigler (416) 862-3080
dov.zigler@scotiabank.com

Fed More Dovish, Leaves All Options Open

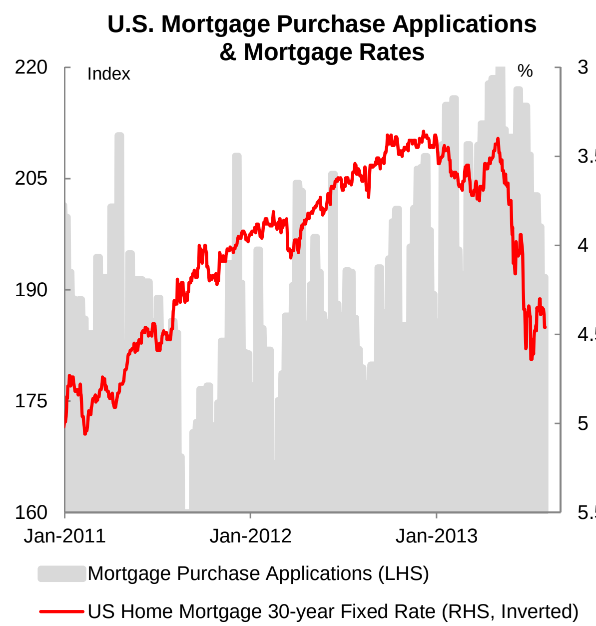
- **We continue to expect asset purchase tapering in December or later.**

We think the latest policy pronouncement by the US Federal Reserve was supportive of our long held view that the flow of Treasury and MBS purchases will not be reduced until late this year or perhaps later (December is our forecast). To arrive at this conclusion, we survey the things that changed in the latest policy statement by the Federal Open Market Committee. The FOMC statement was more notable, however, for what it didn't change than for the relatively minor changes that were made. This in itself is a signal that the Federal Reserve is buying more time for itself to evaluate how the economy and markets perform before it decides to alter its asset purchases without making major changes in commitments at this stage. The disappointing nonfarm payrolls report for the month of July suggested renewed deceleration in job growth that only adds to reasons for the Federal Reserve to remain cautious and err on the side of keeping all options open for a while yet.

Dovish Signals

In the accompanying comparison of the July policy statement with the June policy statement, we flag five main changes that made it appear somewhat more dovish. First is that instead of "moderate" growth the first sentence flags "modest" which is presumably ever so slightly more cautious. The last time the Federal Reserve used the code word 'modest' was over three years ago and closer to the depths of the crisis. This might sound like a small issue, but in the code language used by the Federal Reserve and the care that goes into attempting to signal its bias through precise wording changes it is taken as a more cautious signal.

Second, what lends support to this first observation is that the third paragraph cites how "economic growth will pick up from its recent pace" in the context of policy accommodation and that's changed from previously stating that growth "will proceed at a moderate pace" which may be a way of saying that policy accommodation is needed in order to improve upon soft recent growth.



Source: Bloomberg, Bankrate.com, Scotiabank Economics

Third is the addition of the statement that "…mortgage rates have risen somewhat..." That flags rate concerns and a need to monitor housing markets as mortgage purchase applications decline (see chart). This is essentially the Federal Reserve's way of saying it is uncomfortable with the extent of the backing up in fixed borrowing costs over the past three months and particularly after the June 19th statement. The Federal Reserve is signaling that it intends to observe housing market data over a number of months in order to assess the lagged effects of higher mortgage rates as they pass through mortgage rate commitments and potentially knock purchases applications on a further downward trend. Further in this regard is that the Fed changed language describing the housing market's performance from the "housing sector has strengthened further" to the "housing sector has been strengthening" which is an ever so subtle shift from past tense active to past tense passive.

Fourth is a greater nod toward the risks of low inflation: "The Committee recognizes that inflation persistently below its 2 percent objective could pose risks to economic performance, but it anticipates that inflation will move back toward its objective over the medium term."

Derek Holt (416) 863-7707
derek.holt@scotiabank.com

Dov Zigler (416) 862-3080
dov.zigler@scotiabank.com

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Fifth, and related to this last one, is that Bullard is no longer dissenting and has been brought back on side through acknowledgement of the risks to operating at low rates of inflation. Only Esther George of the KC Fed dissented again.

Nevertheless, observe that the Fed somewhat dug in its heels on the importance of maintaining stimulus over the longer term. It did this by changing language in the second last paragraph toward how it has 'reaffirmed its view' versus prior statement wording that it 'expects' the outcome "that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens."

Holding Back From Stronger Commitments

More interesting, however, is what the FOMC didn't change against rumoured possibilities. There was no codification of 'later in the year' purchase tapering in the statement to take it from Bernanke's press conference into the statement and so the FOMC is still keeping all options open with no calendar specificity as it watches incoming data and markets. There were also no changes to the policy thresholds for the unemployment rate and inflation rate. Further, the FOMC did not soften the comment that downside risks have diminished since the Fall. The Fed also retained 'increase' or 'reduce' language in describing the possible next direction on the flow of purchases that were maintained as unchanged in accordance with the expectations of economists across all of the US primary dealers including Scotiabank's Economics team. Increasing purchases is a remote option, but still retaining such language does not make it sound like the Fed feels like it is in a rush to taper asset purchases.

Conclusion

While it may not be the most ground-breaking conclusion, we take the FOMC's tinkering with its statement to mean that the Fed is trying to talk markets into maintaining a more stable long-term interest rate environment — even as the Fed tries to keep its options open, including options that will eventually result in higher interest rates.

The Fed is playing the quintessential 'two handed economist' here: On the one hand, growth is modest, mortgage rates are rising, etc. On the other hand, the Fed didn't discuss 'tapering,' it didn't adjust its policy thresholds, didn't eliminate its claim that 'downside risks have diminished', etc. In short, the Fed kept its options open on all of the major questions. To us, that doesn't make it seem as though the Fed is about to limit the pace of its purchases or as if it is satisfied that the economy is on a sound footing. Whether its policy tools can get the economy onto a sound footing is another matter.

Derek Holt (416) 863-7707
derek.holt@scotiabank.com

Dov Zigler (416) 862-3080
dov.zigler@scotiabank.com

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FOMC: Side-By-Side Comparison

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Information received since the Federal Open Market Committee met in June suggests that economic activity expanded at a modest pace during the first half of the year. Labor market conditions have shown further improvement in recent months, on balance, but the unemployment rate remains elevated. Household spending and business fixed investment advanced, and the housing sector has been strengthening, but mortgage rates have risen somewhat and fiscal policy is restraining economic growth. Partly reflecting transitory influences, inflation has been running below the Committee's longer-run objective, but longer-term inflation expectations have remained stable.
Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with appropriate policy accommodation, economic growth will pick up from its recent pace and the unemployment rate will gradually decline toward levels the Committee judges consistent with its dual mandate. The Committee sees the downside risks to the outlook for the economy and the labor market as having diminished since the fall. The Committee recognizes that inflation persistently below its 2 percent objective could pose risks to economic performance, but it anticipates that inflation will move back toward its objective over the medium term.
To support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate, the Committee decided to continue purchasing additional agency mortgage-backed securities at a pace of $40 billion per month and longer-term Treasury securities at a pace of $45 billion per month. The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. Taken together, these actions should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative.
The Committee will closely monitor incoming information on economic and financial developments in coming months. The Committee will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until the outlook for the labor market has improved substantially in a context of price stability. The Committee is prepared to increase or reduce the pace of its purchases to maintain appropriate policy accommodation as the outlook for the labor market or inflation changes. In determining the size, pace, and composition of its asset purchases, the Committee will continue to take appropriate account of the likely efficacy and costs of such purchases as well as the extent of progress toward its economic objectives.
To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens. In particular, the Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and currently anticipates that this exceptionally low range for the federal funds rate will be appropriate at least as long as the unemployment rate remains above 6-1/2 percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored. In determining how long to maintain a highly accommodative stance of monetary policy, the Committee will also consider other information, including additional measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent.
Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; William C. Dudley, Vice Chairman; James Bullard; Elizabeth A. Duke; Charles L. Evans; Jerome H. Powell; Sarah Bloom Raskin; Eric S. Rosengren; Jeremy C. Stein; Daniel K. Tarullo; and Janet L. Yellen. Voting against the action was Esther L. George, who was concerned that the continued high level of monetary accommodation increased the risks of future economic and financial imbalances and, over time, could cause an increase in long-term inflation expectations.
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Information received since the Federal Open Market Committee met in May suggests that economic activity has been expanding at a moderate pace. Labor market conditions have shown further improvement in recent months, on balance, but the unemployment rate remains elevated. Household spending and business fixed investment advanced, and the housing sector has strengthened further, but fiscal policy is restraining economic growth. Partly reflecting transitory influences, inflation has been running below the Committee's longer-run objective, but longer-term inflation expectations have remained stable.
Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with appropriate policy accommodation, economic growth will proceed at a moderate pace and the unemployment rate will gradually decline toward levels the Committee judges consistent with its dual mandate. The Committee sees the downside risks to the outlook for the economy and the labor market as having diminished since the fall. The Committee also anticipates that inflation over the medium term likely will run at or below its 2 percent objective.
To support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate, the Committee decided to continue purchasing additional agency mortgage-backed securities at a pace of $40 billion per month and longer-term Treasury securities at a pace of $45 billion per month. The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. Taken together, these actions should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative.
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Derek Holt (416) 863-7707
derek.holt@scotiabank.com

Mary Webb (416) 866-4202
mary.webb@scotiabank.com

Dov Zigler (416) 862-3080
dov.zigler@scotiabank.com

US Treasury Confirms Supply Side Tapering

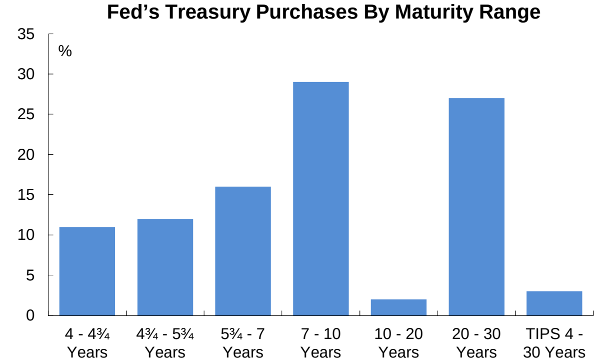
- **Duration implications could arise as Fed tapers longer maturity purchases.**

The U.S. Treasury is proceeding with significant issuance changes at the shorter end of the curve. Following consultations over the past two years, a final term sheet is offered for two-year Floating Rate Notes (FRNs), with the first auction slated for the end of January 2014 *(text box),* a move intended to broaden the Treasury investor base and over time lower financing costs. To safeguard the liquidity and depth of the Treasury bill market, issuance will not be systematically reduced (T-bills outstanding were $1.57 trillion as of June 30); in fact the October-to-December financing schedule raises the 4-week and 3-month weekly auctions from the June -to-September averages.

While direct lending programs such as student loans will continue to add significantly more than $100 billion annually to Washington's net marketable borrowing, with the introduction of FRNs and the projected deficit contraction (Scotiabank expects deficits of US$720 billion for fiscal 2013; $680 billion for fiscal 2014 and less than $600 billion for fiscal 2015) Treasury plans to trim 2- and 3-year auctions. The prior $35 billion 2-year auction will fall by $1 billion per month from August to October, and the current $32 billion 3-year auction will drop by $1 billion per month in September and October. The possibility of deficits edging wider late this decade cautions against dramatic cuts in auction size, but further reductions are still anticipated. With declining 2- and 3-year maturities, the Treasury portfolio's weighted average maturity will continue to shift higher from 66 months at the end of June (the three decade average is 58.1 months). The U.S. Treasury has confirmed that it can finance the government past Labour Day without Congressional approval of a debt ceiling increase using the extraordinary measures begun on May 17th. Further guidance is promised as forecast factors permit.

Supply side issuance tapering is likely to intensify toward FY2015 and restrain concerns over tapered Treasury demand by the Federal Reserve when we think it begins to reduce asset purchases in December of this year or later (as opposed to the consensus call for September). Since issuance is first being reduced in the 2s and 3s space but the Fed's QE3 program has concentrated buying in the 4s and longer maturity buckets (see chart), duration implications could well still surface. For more on our views on supply side tapering, please go here and here, and for Fed tapering here.

Fed's Treasury Purchases By Maturity Range



Source: New York Federal Reserve, Scotiabank Economics.

The Treasury's New Floating Rate Notes (FRNs)

Maturity & Amount: A two-year term is selected for the first two years of FRN issuance, followed by a reassessment. Monthly issuance, dated for the last calendar day of each month, will be between $10 billion and $15 billion with further information on the monthly size provided at the November Quarterly Refunding.

Auction: With a single-price auction format, the auction process in terms of minimum and maximum purchase and award amounts will be similar to other marketable securities. Competitive tenders will be accepted from the lowest Discount Margin to the Discount Margin required to fill the offering.

Interest: Quarterly payments are planned, with interest accrual on a particular day based on the Index Rate (the High Rate from the most recent 13-week Treasury bill auction) plus the spread determined at the initial FRN auction, subject to a minimum of zero.

[1] U.S federal fiscal year-end is September 30th. All data in US dollars.

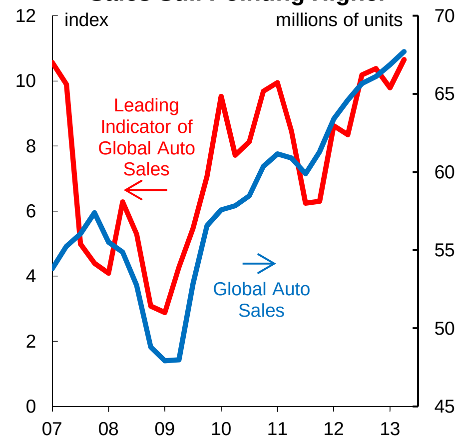
Carlos Gomes (416) 866-4735
carlos.gomes@scotiabank.com

On The Road To Record Global Car Sales In 2013

- **Employment growth, improving confidence and financial conditions drive gains.**

Global car sales advanced 4% in the first half of 2013 and will climb to a record high this year, as reduced headwinds emanating from Western Europe and a renewed focus on global job creation offset the recent moderation in the pace of economic growth in the emerging markets of Asia and South America. We expect continued gains in the second half supported by low short- and long-term interest rates across the world, strengthening global job creation and improving financial market conditions which have propelled several equity market indices to record highs. Consumer confidence is also on the mend, helping lift our leading indicator of global sales to a six-year high.

Leading Indicator Of Global Sales Still Pointing Higher



Source: Scotiabank Global Auto Report.

China has led the gain in global auto sales this year, with purchases of cars and CUVs accelerating 20% y/y in the first half of 2013, more than double the full-year 2012 increase of 8%. The quickening sales reflect a pickup in money supply growth — a leading indicator of auto sales — in the first half of 2013, as well as continued solid gains in employment and urban income growth. However, we expect gains to moderate in the second half as the government has started to reduce liquidity. For example, the pace of social financing eased to only 1.0 trillion yuan in June, down from an average of 1.6 trillion per month over the past year.

Despite some near-term moderation, we still expect a 15% increase in full-year 2013 auto sales in China. A recent survey found that Chinese consumers born since 1980 see owning a vehicle as a necessity, with these consumers accounting for about 85% of overall auto purchases. This age group totals more than 450 million people, nearly 4 times the 120 million vehicles currently on the road in China.

Throughout North America, purchases are moving steadily higher with passenger vehicle sales (cars and light trucks) in Canada on target to climb to a record high in 2013 of 1.72 million units, surpassing the 2002 peak of 1.70 million. Volumes also continue to rebound in the United States and Mexico, jumping to the highest level since 2007, with leading indicators pointing to further gains. A near-record number of Americans plan to replace their aging in the near-term, and after five years of deleveraging, American households now have the ability to purchase new vehicles.

The sales trend has even started to stabilize in Western Europe. During the second quarter, car sales in Western Europe advanced 3% from the previous quarter, the first quarter-to-quarter improvement in more than two years. Further gains are expected, as our leading indicators have recently turned more positive. Business and consumer confidence has started to improve, while some easing in credit conditions at European banks has led to some acceleration in money supply growth. The U.K. is the strongest auto market in Europe, with first-half 2013 sales posting a double-digit increase. Employment growth in the U.K. is advancing 1.5% y/y — in line with the upswing in both Canada and the United States.

The Brazilian auto market had been a source of strength through the spring, with car sales climbing to record highs. However, purchases have recently lost momentum in the face of high inflation, rising interest rates. Inflation has jumped by more than two percentage points over the past year and is now approaching 7% y/y. This has prompted the monetary authorities in Brazil to increase short-term interest rates by 75 basis points since April to 8%, with further increases likely over the coming year. Despite slower growth in the second half, full-year sales will exceed 3 million units, double the level of 2005.

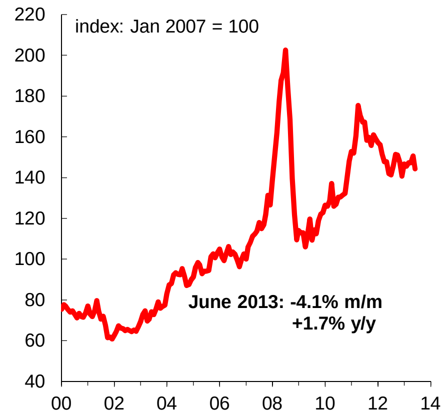
Patricia Mohr (416) 866-4210
patricia.mohr@scotiabank.com

TransCanada's 'Energy East Pipeline Project' Opens Up Valuable Market Opportunities For Western Canada's 'Oil Patch' — Both At Home & Abroad (Including In India)

TransCanada's proposed 'Energy East Pipeline Project' would open up valuable new outlets for Alberta and Saskatchewan crude oil in Eastern Canada and in export markets, via marine tanker loading terminals in Québec City and Saint John, New Brunswick. One of six existing lines on the TransCanada mainline natural gas system would be converted to oil and, together with new line construction, would transport as much as 1.1 mb/d from a new tank terminal at Hardisty, Alberta to Montréal and Québec City refineries by 2017, with onward transportation to Saint John — the location of Canada's largest refinery (300,000 b/d) — by 2018.

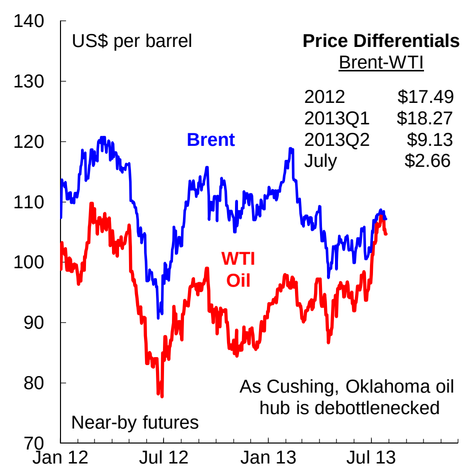
The 'Energy East Pipeline Project' offers the following advantages: 1) the line would allow access to less expensive and more secure domestic crude oil, allowing displacement of imports into the Suncor Energy and Ultramar (Valero) refineries in Montréal and in Lévis (near Québec City) as well as the large Irving Oil refinery in Saint John. These refineries have in the past been mostly supplied by expensive light oil imports, with prices linked to Brent (probably from the North Sea, West & North Africa), though less expensive crude has more recently been imported by tanker from the USGC and by rail from the North Dakota Bakken and Western Canada. 2) Greater access to stable supplies of domestic oil would improve the financial viability of current refineries and could eventually encourage development of a larger domestic refining industry in Québec and Atlantic Canada. History shows that pipeline developments — linking crude oil supplies to markets — often precede refinery expansion; and 3) the line could provide vitally needed new export outlets for Western Canadian oil — to Europe and, most interestingly, to India (a growth market) as well as to PADD I and III in the United States — accompanied by expanded port and marine service-sector activity near Québec City and Saint John.

Scotiabank Commodity Price Index



A trade-weighted U.S. dollar-based index of key Canadian exports: Oil & Gas, Metals & Minerals, Forest Products and Agricultural prices.

WTI Closes Gap With Brent



Source: Scotiabank Commodity Price Index.

The economics of the 'Energy East Pipeline Project' are compelling. Initial flows through the line to Montréal and Québec City would likely involve 'light' crude oil from Western Canada — conventional, 'light, tight' oil or upgraded light synthetic crude oil from the Alberta oil sands. Had the pipeline been available in the first half of 2013, the cost of Edmonton Par crude from Alberta delivered to Montréal/Québec City would have been US$14.85 per barrel cheaper than imported Brent. The differential between light oil prices in Alberta/Saskatchewan and Brent has narrowed in July, given the rebound in WTI to international levels. However, a significant discount on WTI could re-emerge and other light crudes in the Houston area could start to be discounted as early as late 2014, given the remarkably rapid development of the North Dakota Bakken and light oil from the Eagle Ford & Permian Basin (bound for the USGC). Production from the North Dakota Bakken is expected to soar from today's 780,000 b/d to 1.6 mb/d by 2020. Forecasts call for much more light, than heavy oil, supply across the United States and Canada over the balance of the decade; (Alberta bitumen will be in relatively tight supply and in strong demand in the Houston-area refining market.)

Patricia Mohr (416) 866-4210
patricia.mohr@scotiabank.com

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Refiners in India have shown considerable interest in importing Alberta blended bitumen. Estimated tanker charges from Québec City & Saint John to the west coast of India average a mere US$4.20 per barrel in a Suezmax vessel. A marine terminal at Saint John would be ice-free year round and could accommodate VLCCs of 350,000 DWT, cutting tanker costs to India to only US$3 per barrel. Based upon the price of Saudi Arabian heavy delivered to India, we estimate that WCS heavy (discounted by US$3 for quality) could have earned a much higher price in India than actually received in 2013:H1.

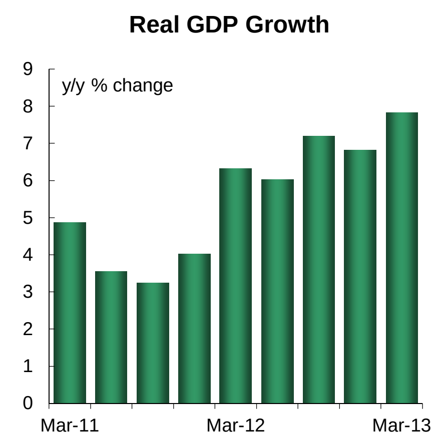
The development of overseas export markets remains vitally important for Western Canada's oil industry. With output in Alberta expected to climb annually by 225,000 b/d from 2013-22 plus growth in Saskatchewan, in an environment of rising U.S. domestic supplies, developing low-cost transportation infrastructure to access overseas export markets is critical.

Tuuli McCully (416) 863-2859
tuuli.mccully@scotiabank.com

Favourable Economic Prospects In The Philippines

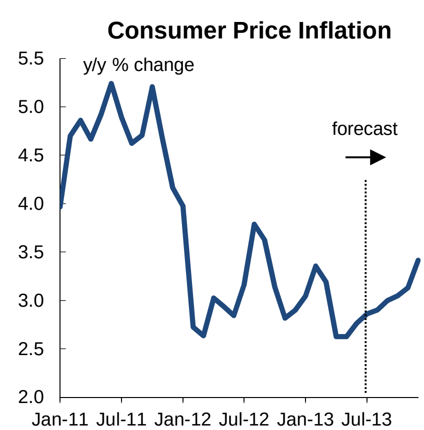
- **Robust economic growth combined with anchored inflation expectations and improving sovereign creditworthiness bode well for medium-term outlook.**

The Philippine economic growth momentum remains solid. The country's real GDP expanded by 7.8% y/y in the first quarter of the year, supported by surging domestic demand. We expect output growth to average 6% in the next two years, following a 6.8% gain in 2012. Contrary to many of its export-dependent regional peers, Philippine domestic demand — particularly household consumption — will continue to be the main economic driver through the forecast horizon, underpinned by remittances from the 2.2 million Filipinos working abroad that totalled over US$21 billion in 2012 (equivalent to 8½% of GDP). These earnings inflows grew by close to 6% y/y in the first five months of the year. Meanwhile, investment is fuelled by public spending, low interest rates, and upbeat business confidence. Demand for Philippine exports will likely start showing signs of a pick-up in early 2014 alongside the improving growth momentum in Japan and the US, which together purchase almost 30% of the country's shipments abroad.



Source: Bloomberg.

The inflation outlook is manageable helped by firmly anchored inflation expectations, though strong domestic demand combined with the recent depreciation of the Philippine peso will likely push consumer price inflation gradually higher in the coming months from the June level of 2.8% y/y. Nevertheless, we expect inflation to remain within the central bank's 3-5% target through 2014, closing this year at 3.4% y/y. Inflation data for July will be released on August 5th; we estimate that the consumer price index climbed by 0.4% m/m, taking the annual inflation rate to 2.9% in July. Monetary authorities are maintaining an accommodative policy stance with the benchmark overnight borrowing rate at a record low of 3.5%. The most recent interest rate reduction occurred in October 2012, taking the cumulative cuts to 100 bps since January 2012; we do not foresee any further monetary accommodation, with the central bank likely to adopt a gradual tightening bias in the first half of 2014 along with a pick-up in inflation and global growth prospects.



Source: Bloomberg, Scotiabank Economics.

Perceptions of the Philippines' creditworthiness are improving, with two out of three major rating agencies classifying the country in the investment grade category. In May, Standard & Poor's upgraded the Philippines' long-term foreign currency rating to "BBB-" from "BB+" on the back of a strengthening external profile, a moderate inflation outlook, and a decreasing reliance on foreign currency debt. Fitch took a similar action last March (upgrading to "BBB-" from "BB+") likewise highlighting the country's strengthening external finances, but also its strong policymaking framework and improving fiscal management. Moody's rates the Philippines' credit in the highest speculative grade category of "Ba1", though the rating is currently under review for a possible upgrade.

For further information regarding the outlook of the Philippines, please refer to the *Philippines Executive Briefing*, published on July 30th, 2013, at www.scotiabank.com/economics.

Araceli Espinosa (5255) 9179-5237
araceli.espinosa@scotiabank.com

Joe Kogan (212) 225-6541
joe.kogan@scotiabank.com

PAN's Pemex Proposal — Is It Too Much?

The following article was published on August 1, 2013.

As promised a few weeks ago, PAN leadership presented the party's proposal at a press conference late morning yesterday. The most radical elements of the proposal, namely the intention to privatize a portion of Pemex through a listing of shares, garnered the most attention. A few hours later, the PAN distributed an 85-page document outlining its proposal, accompanied by an addendum with 37 PAN Senators' signatures (out of 38) to demonstrate the broad support within the party. That document explicitly states that Pemex will not be privatized.

The issue of privatization is a troubling point because it does not have enough political support, is difficult to implement, and distracts attention from much-needed but simpler reforms. Some investors worry that the emphasis on privatization is further evidence of the fracturing of the country's political consensus, while others are concerned about the credit impact if a privatization were to reduce the amount of implicit government support available to the company. In that sense, it is actually good news that privatization may not be supported by the entire party.

The reforms endorsed by the official document are still quite deep, and we are not sure if all will be endorsed by the PRI, which is expected to announce its own proposal next week. The thrust of the proposals is that the country's oil reserves exist for the benefit of the Mexican people, though not necessarily for the benefit of Pemex. An autonomous National Oil Commission would administer these reserves, forcing Pemex to compete against both domestic and foreign companies for exploration rights and concessions. In order to help Pemex compete, its governance and financial structure would be changed to mimic more a private company. Representatives of Pemex's labor union would be removed from the firm's board of directors (they currently have five out of fifteen seats), and approval of Pemex's budget would be separated from the federal government's budget.

In our opinion, these are exactly the reforms that are needed. While the increased competition threatens Pemex's market share, it will also increase the size of the market and force Pemex to pursue that market more efficiently. It is not clear what the net effect on Pemex's creditworthiness would be. In Brazil for example, a country Mexican politicians have spoken of emulating, it is the opening of the industry to competition rather than a partial privatization that had the largest impact on the efficiency, according to an academic study.[1] Petrobras was able remain the dominant player by reforming its operations in response to that competition.

Do these reforms go too far? Pemex labor unions seem to lose here, at least in the short-run, and that will certainly generate some opposition. The last thing these labor unions would want is for Pemex to be forced to compete against private companies with non-unionized labor. On the other hand, the PAN is taking an important step here in reforming not just downstream activities but the more controversial and important upstream part of the business. We still have not received a proposal on fiscal reform, which would be critical for privatization, but also important to the proposed financial reform of the company. Bond markets did not respond to yesterday's news, demonstrating once again how insensitive Pemex spreads can be to firm fundamentals.

Meanwhile, Pemex has completed its negotiations with labor unions. A new contract was signed on July 30th for the period 2013-2015 with a 4% increase in salaries and a 2% increase in benefits. While the local press had speculated last week that these negotiations would also lead to significant savings from modifications to retirement and health benefits, those changes were either not seriously considered, or did not make it into the final version.

Javier Santiago contributed to this article.

<u>Recent articles about Pemex:</u>
"Pemex 2Q13 commentary – expectations of reform," July 26, 2013
"Do Pemex investors care about fundamentals," July 12, 2013

[1] Benjamin Bridgman, Victor Gomes, and Arilton Teixeira, "Threatening to Increase Productivity: Evidence from Brazil's Oil Industry," World Development, Vol 39, No. 8, 2011.

Frédéric Prêtet (00 33) 17037-7705
frederic.pretet@scotiabank.com

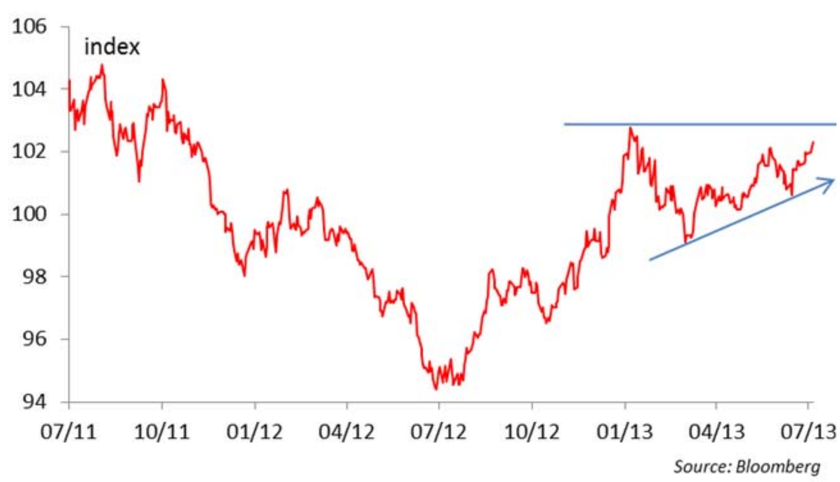
Implications Of Slower Emerging-Market Growth For Germany

- Compared to one month ago, at the lastest ECB press conference President Draghi sounded more optimistic on the EMU recovery. It is true that available hard data suggest an upward surprise on EMU Q2 GDP growth with, in our view, the possibility to have positive quarterly growth after six quarters of contraction. Furthermore, the on-going rise in business sentiment bodes well for Q3 dynamics. However, is there a risk of renewed disappointment beyond this? One point of fragility regarding the magnitude of the EMU growth recovery could come from the traction linked to the global demand, a key element always mentioned by the ECB president. Indeed, two factors appear to be less favourable.

    - First, it is the strength of this global demand itself which has been revised down. In its World Economic Outlook released early July, the IMF indeed warned of slowing global growth, now expected to be around 3.1% and 3.8% respectively for this and next year vs. 3.3% and 4.0% in its April forecast. While this downgrade impacts all economies, its magnitude was in particular stronger for emerging-market economies now expected to rise 5.0% and 5.4% for this and next year (0.3% lower for both years) and with the IMF indicating that *"risks of a longer growth slowdown in emerging market economies have now increased"*. This weaker outlook for global demand could be particularly worrying at a time when the impact of austerity measures and high unemployment are still weighing on EMU domestic demand.

    - Second, the euro nominal effective exchange rate is once again re-strengthening, up 3% over the past four months to be back not far from its recent highs reached early this year. At that time, this level was seen as worrying enough to even raise some nervousness inside the ECB on the EMU recovery process.

Chart 1: Euro nominal effective exchange rate



- Tracking the impact of softer global growth and of this re-strengthening of the euro on the EMU scenario, we will closely watch the dynamics of German exports. Indeed, Germany is the EMU's export champion and has greatly benefited from stronger global demand, especially from emerging markets, in recent years. In 2012 for example, behind the 0.9% rise in German GDP growth, the contribution from net trade accounted for 1.2% of GDP, offsetting the negative impact coming from inventories and declining investment. While Euro partners still represent close to 40% of German exports, this performance has been mainly linked to a rise in shipments to outside the EMU area as exports to the region declined by around to 2%. In particular, while representing 8% of total exports, shipments to the US increased by more than 17% last year while, also, although less buoyant, exports to Asia increased close to 8% yoy. Softer global demand seems nonetheless already to be felt. German exports outside Europe in the first five months of the year slowed down to around 3% yoy vs. more than 11% last year. In particular, exports to Asia are now declining.

Frédéric Prêtet (00 33) 17037-7705
frederic.pretet@scotiabank.com

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Table 1 :German export by region

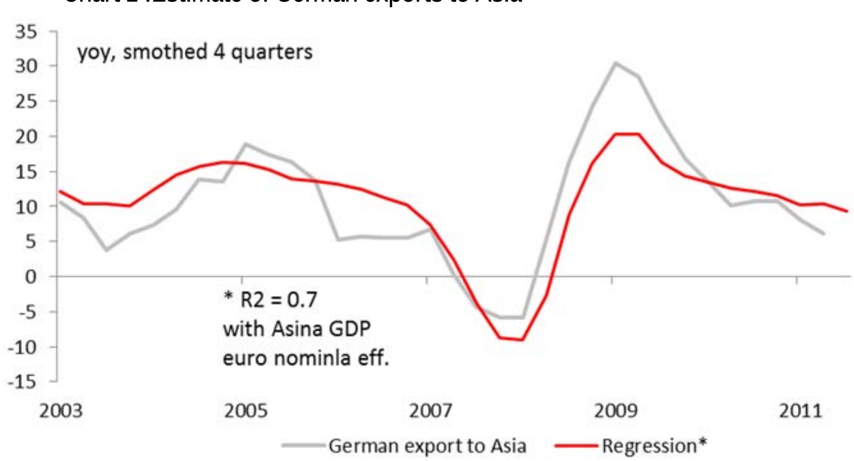
Germany, yoy Export	2012 weight in %	2011	2012	2013
Total Europe	**68.9**	**11.6**	**1.0**	**-0.7**
EU-27	57.1	10.0	0.2	-1.4
Euro area	**37.4**	**8.4**	**-1.9**	**-2.7**
France	9.5	13.2	2.9	-4.4
Italy	5.1	5.9	-10.0	-7.2
Spain	2.8	1.7	-10.4	-3.0
Netherlands	6.5	10.2	2.1	-1.7
Belgium	4.0	4.3	-5.5	-0.1
Austria	5.2	10.6	-0.2	-4.6
UK	6.6	11.8	11.2	4.6
Other European Countries	11.9	20.0	5.4	2.9
Non European countries	**31.1**	**11.7**	**11.4**	**2.9**
US	7.9	12.5	17.7	2.9
Asia	16.4	13.3	7.9	-0.6
China	6.1	20.6	2.7	-4.3
Japan	1.6	15.0	13.1	-3.4
OPEC	2.7	-2.1	19.4	8.0

Source: Scotiabank, Macrobond

- We try to estimate the impact of lower Asian growth on German exports by looking to a simple relationship with Asian GDP growth and the trend in the euro nominal effective exchange rate. While of course, there are other factors impacting export performance, these two elements nonetheless appear to explain around 60% to 70% of the trend. Looking to this simple relationship, it seems that a 1% drop in Asian GDP could cut German exports to the region by around 4%.

- Also, a 10% appreciation of the euro could lower German exports to Asia by around 4%. With German exports to Asia accounting for 16% of total exports, this means a potential negative impact of 0.6% on total exports and 0.3% on GDP (exports account for around 50% of German GDP). Regarding the impact of the euro, a 10% appreciation would lower German exports to Asia by around 8%, having a total impact on exports of 1.2% and 0.6% on GDP.

Chart 2 :Estimate of German exports to Asia



Frédéric Prêtet (00 33) 17037-7705
frederic.pretet@scotiabank.com

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- The July consensus forecast looks for German growth of 0.4% and 1.6%, respectively, for this and next year. Therefore, any significant downgrading in global demand could raise the risk of pushing German GDP growth closer to the 1% line next year and with potential spill-over consequences for the EMU as Germany is supposed to provide positive traction for the rest of the area. For the moment, the cumulative 0.6% downgrading in Asian GDP growth for both this and next year suggested by the IMF and the recent 3% rise in the euro nominal effective exchange rate could have a negative impact on German growth over the coming year of around 0.3% to 0.4% of GDP. A figure which so far does not put into question the recovery process but could nonetheless start to question its magnitude.

- German business surveys will be used as an early indicator for the EMU as a whole to address this potential threat of lower global demand and will therefore be closely watched in the months ahead. In the more immediate term, next week will see the release of German June manufacturing orders which dropped over the previous two months. While part of the fall was likely explain by the adverse impact of the floods on domestic activity, foreign orders also weakened. We will watch for potential payback at a time when export sentiment in recent Ifo survey seems to have weakened.

Chart 3: German manufacturing orders & Ifo expectations

Eduardo Suárez (416) 945-4538
eduardo.suarez@scotiabank.com

Latin America Week Ahead: For The Week Of August 5 - 9

Although the US data pipeline for this week looks very quiet, we do have scheduled speeches from the Fed's Fisher, Evans, Plosser and Pianalto, which should be relevant given current "Fed focus". Following the release of lower-than-anticipated US non-farm payrolls, LATAM FX could get some temporary relief from the stronger USD trend. In broad terms, LATAM has been trading relatively sideways since the May-June sell-off lost steam, despite the rally in equities, with investors apparently still careful about the potential Fed tapering, suggesting any upside for LATAM FX will likely be slow to materialize as there appears to be a large amount of USD buyers out there. As we have mentioned before, our current bias is to focus on alpha, rather than beta bets, and would seek to limit directional USD / S&P500 bets by crossing FX intra region. EPFR data suggest that outflows from emerging markets are slowing (outflows have dipped below the US$1bn, after 2 months of topping the mark), with hard currency funds still seeing the larger share of the asset classes' outflows (US$400mn from hard currency funds, vs US$300mn of outflows from local currency). The stabilizing data appear consistent with the trend of foreign holdings of m-bonos we see in Banxico's data, which shows foreign holdings have once again begun rising (they appear to have bottomed in lateJune — see charts on the next page).

Week-ahead country views:

Brazil: Despite last week's positive surprise on China's manufacturing PMI, the real (BRL) got little relief, as its USD cross continued to creep upwards towards 2.30. So far, the upward move in yields (and a 7% downwards on BRL's valuations so far in 2013) does not appear to have been enough to offset weak sentiment towards Brazil, on the back of doubts about economic policy making and a softening Chinese growth story. On the domestic front, data remain mixed, with June's industrial production data rebounding with a +3.1% y/y expansion in June, following the sluggish +1.4% y/y print in May. However, the manufacturing PMI for July posted a decline back below 50 (48.5 after a 50.4 print for June), suggesting the rebound in manufacturing remains lacklustre. With the manufacturing picture still cloudy, this week's services PMI will likely be watched for signs of optimism elsewhere in the economy. In addition, with DI rate's (local interest rate derivatives) price action over the past couple of weeks signaling the market remains split over whether the central bank will slow the pace of rate hikes (currently it's fully pricing a +50bp hike for the next meeting), the IBGE IPCA inflation report will also be worth watching.

Chile: Our sense is that the three major drivers for Chilean assets are currently: China growth concerns, Fed tapering views and the debate over whether the central bank is getting ready to start an easing cycle. This week is loaded with datapointsto shed light into all three factors as Chinese IP & CPI, multiple Fed speakers and Chilean monthly economic activity, CPI and trade balance are all scheduled for release.

Colombia: Central bank co-director Cano's comments last week signaled that he views rates as being on hold in Colombia, at least until 14Q1, and the peso (COP) overvalued somewhere in the 6%-7% range. However, co-director Cano also sounded less concerned over the danger of Dutch Disease as a result of fading upward pressure on commodity prices. Accordingly, although this week's CPI & exports data are still relevant, a seemingly "on hold central bank", and diminished concerns over currency valuations should somewhat detract from their relevance. Another important factor to look at this week is the minutes from the last MPC meeting, where it will be interesting to see how much of the board shares co-director Cano's view, and what the likelihood is for the extension of the central bank's USD purchase program beyond September.

Mexico: With the US data pipeline slimming substantially this week, we see room for domestic drivers to assert themselves and given a relatively heavy domestic pipeline, this should be an interesting week for the peso (MXN). In particular, expectations that the central bank's next move on rates may be to the downside have heated up, making this week's Banxico's Q2 Inflation Report, CPI, industrial production and manufacturing output all worth watching to assess the likelihood of cuts. In addition, there have been strong indications that the government will submit its own energy reform proposal this week (potentially August 7, as government officials, including President Peña Nieto have suggested the proposal's presentation is planned for next week), which should lead the reform debate / political front to heat up markedly, and AMLO's anti-reform campaign to start accelerating. Besides the content of the reforms themselves, we think the other important element to monitor is the strength of the support for AMLO and the Morena movement, which has threatened to organize mobilizations against the fiscal / energy reforms. In this regard, it will be important to monitor the strength of his support, especially given the problems we have seen with social mobilizations in other parts of the emerging world.

Eduardo Suárez (416) 945-4538
eduardo.suarez@scotiabank.com

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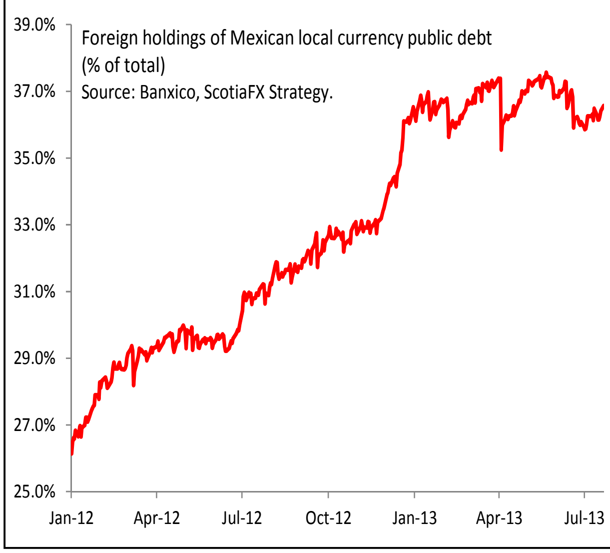
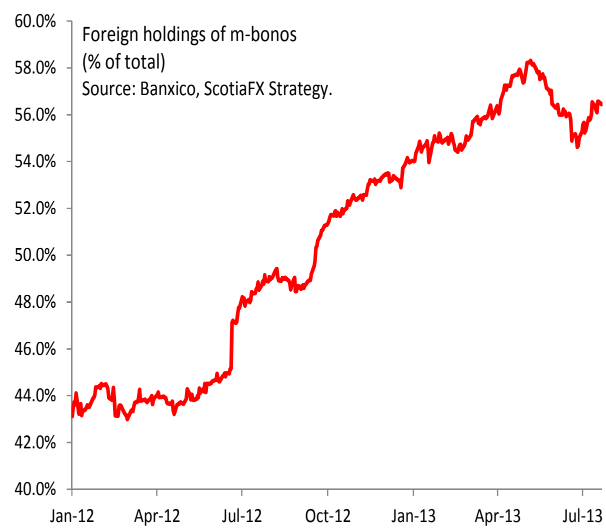
Foreign holdings of Mexican local debt appear to have stabilized in a 35% - 37% range since last fall…	Recovery of m-bono holdings suggest return of comfort with duration … at least for now
	

Peru: The BCRP returned to the FX market, intervening in both the spot and swaps markets last week to help anchor the sol (by selling CDs). With the Soberano curve having mostly tightened (about 25bps) over the past month, the next release of "holdings data" will be interesting to watch, in order to gain information of what foreign investors are doing. This week, the BCRP is scheduled to hold its MPC meeting, where the vast majority of observers continue to look for unchanged rates. In our view, with monetary policy seemingly in neutral mode, the trade balance release may be more relevant to watch for signs of whether external demand is turning more constructive, or whether soft commodity prices remain a drag.

Derek Holt (416) 863-7707
derek.holt@scotiabank.com

Dov Zigler (416) 862-3080
dov.zigler@scotiabank.com

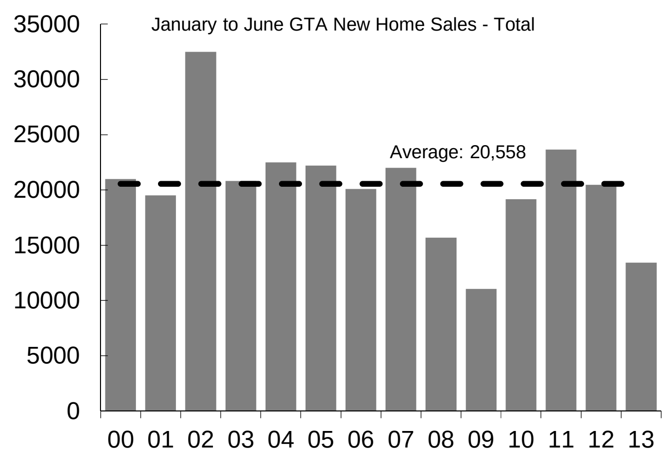
Key Data Preview

CANADA

The **jobs** market was flat in June, losing a statistically insignificant 4.4k jobs. We're expecting better in July (August 9), forecasting a modest rebound to +10k jobs, in line with what we think was a softer economy mid-year. The main question mark is how two temporary factors impacted Canada's labor market: June featured both a construction strike in Quebec and flooding in Alberta. Both have the potential either to drag on job growth in July (workers remaining displaced for longer than intended) or to add substantially to payrolls (workers reporting the resumption of work that they didn't do the month before as new employment). Add to those two factors the unpredictable volatility that education-related hiring and firing often cause, and we may be in for a fairly wild (and confusing) ride when it comes to the July numbers.

We're expecting **housing starts** (August 9) to come down moderately from the nearly 200k level experienced in June, falling to 185k in July. The leading indicators are mixed here: on the bearish side of the ledger, new home sales in Toronto have fallen precipitously so far this year (see chart) and existing home sales are down on the order of 8% YTD y/y in key markets such as Toronto. On the other hand, summer construction season has been strong thus far (205k SAAR starts in May, 200k in June), and building permits numbers are ok, leading us to wonder if builders are simply ignoring weakness on the sales front and plowing ahead.

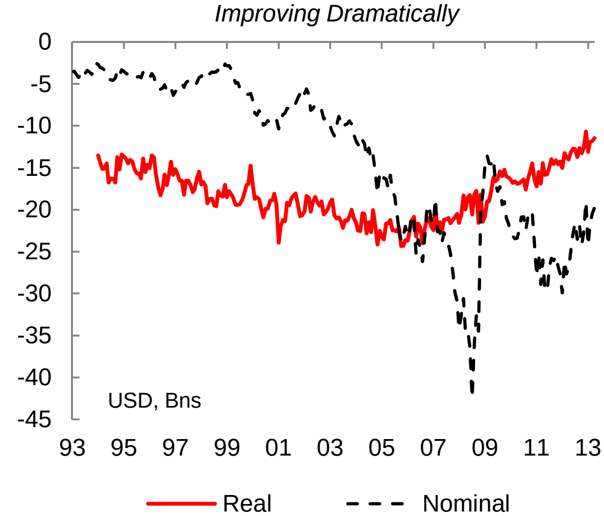
Falling Sales of New Homes In Toronto Not Just About Condos



Source: Realnet, Scotiabank Economics

Countervailing forces should pull **Canadian trade** (August 6) in opposite directions. On the one hand, prices for Western Canadian Select crude were up sharply (+8.7% m/m on average) while Brent crude was essentially flat. The supportive energy picture ought to lend a helping hand to the trade balance — and Canadian crude exporters who have been holding back probably availed themselves of the strong prices to ship meaningful volumes. On the other hand, USDCAD moved in the USD's favor (+1% on average), and we expect that to constrain the extent to which the higher energy haul will be a positive for Canada's trade balance. On net, we're expecting a deficit of C$300m (unchanged).

U.S. Petroleum Products Trade Balance
Improving Dramatically



Source: Census Bureau, Scotiabank Economics

UNITED STATES

While the **trade balance** deteriorated fairly sharply in April and May (the nominal trade balance was USD -37.bn in March, USD -45bn in May) we expect only a modest deterioration to USD -46bn in June (August 6). Part of the reason is that the DXY slipped quite a bit on the month (-1.6% on average), which should put a damper on many of the positive things that are happening with respect to the reduction of imports of crude. That said, in volume terms, the reduction of U.S. crude oil imports in recent months has been nothing short of staggering (see chart), and we remain optimistic that as U.S. domestic crude production increases, imports will fall and exports of refined products will grow.

Sarah Howcroft (416) 862-3174
sarah.howcroft@scotiabank.com

Tuuli McCully (416) 863-2859
tuuli.mccully@scotiabank.com

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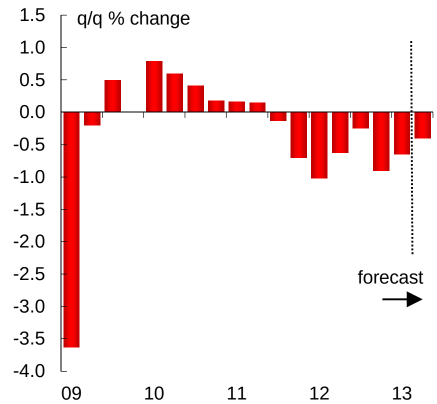
EUROPE

The preliminary estimate of Italian GDP growth for the second quarter will be released on August 6th. We expect a quarter-on-quarter loss of 0.4%, marking the eighth straight quarter of recession. The pace of decline has moderated since the fourth-quarter (when output sank 0.9% q/q), and survey indicators point to a stabilization around the end of the year. Our central forecast calls for a decline of 1.9% in 2013 overall (in line with the projections of the Bank of Italy and IMF) followed by a flat performance in 2014 (lower than the 0.7% expectation of the BoI and IMF). However, we note that a further downgrading in the outlook for global growth and/or renewed tightening in domestic credit conditions could keep Italy in recession into 2014, as the economy is dependent on increased traction in investment and exports to drive the recovery amid ongoing fiscal consolidation and still high unemployment (currently 12.1% and nearly 40% for youth).

Real GDP Growth - Italy

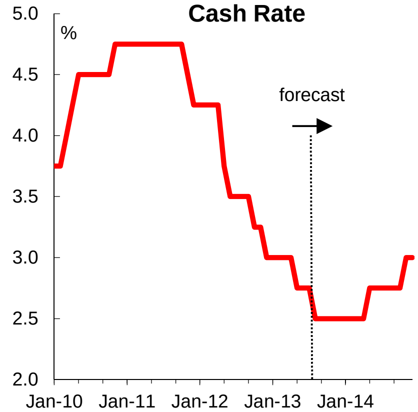


Source: Bloomberg, Scotiabank Economics.

ASIA/PACIFIC

The Board of the Reserve Bank of Australia (RBA) will meet on August 6th to discuss the country's monetary policy stance, which is shaped by three key factors. First, the RBA assesses that domestic economic activity is growing at a below-trend pace, with the investment outlook remaining uncertain (we expect real GDP to increase by 2½% in 2013). Second, monetary authorities maintain their view that the exchange rate of the Australian dollar remains "at a high level" despite its recent depreciation bias. Third, inflation remains low with consumer prices increasing by 2.4% y/y in the second quarter of the year (compared with a 2.5% y/y gain in the January-March period), and will likely remain near the current level through the end of the year. Against this backdrop, we anticipate that the RBA will act according to its view of there being "some scope for further easing" if needed, and lower the benchmark cash rate by an additional 25 basis points to 2.50% next week. We assess that with this cut the easing cycle reaches its bottom.

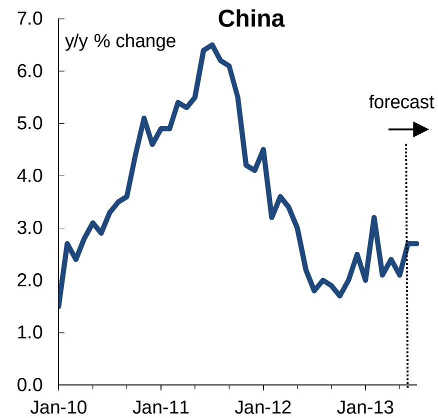
Reserve Bank of Australia – Cash Rate



Source: Bloomberg, Scotiabank Economics.

China will release July inflation data on August 8th. Following a pick-up to 2.7% y/y in June from 2.1% the month before, we estimate that consumer price inflation remained at the 2.7% level in July. Home price developments and credit growth dynamics will be key factors influencing the inflation outlook in the coming quarters. Price pressures will likely build up moderately over the forecast period, reaching 3⅓% y/y by the end of 2013 and close to 4% by end-2014, though persistent deflationary pressures further up the distribution chain should alleviate concerns regarding significant upside pressure on prices. Industrial overcapacity is the main reason for producer price deflation.

Consumer Price Inflation – China



Bloomberg, Scotiabank Economics.

Key Indicators for the week of August 5 - 9

North America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	08/05	10:00	ISM Non-Manufacturing Composite	Jul	53.0	53.0	52.2
CA	08/06	08:30	Merchandise Trade Balance (C$ bn)	Jun	-0.3	-0.6	-0.3
US	08/06	08:30	Trade Balance (US$ bn)	Jun	-46.0	-43.5	-45.0
US	08/06	10:00	IBD/TIPP Economic Optimism Index	Aug	--	47.5	47.1
US	08/07	07:00	MBA Mortgage Applications (w/w)	AUG 2	--	--	-3.7
CA	08/07	08:30	Building Permits (m/m)	Jun	--	-1.2	4.5
US	08/07	15:00	Consumer Credit (US$ bn m/m)	Jun	17.0	15.0	19.6
CA	08/08	08:30	New Housing Price Index (m/m)	Jun	--	0.1	0.1
US	08/08	08:30	Continuing Claims (000s)	JUL 27	3000	--	2951
US	08/08	08:30	Initial Jobless Claims (000s)	AUG 3	345	336	326
MX	08/08	09:00	Bi-Weekly Core CPI (% change)	Jul 31	--	0.1	0.0
MX	08/08	09:00	Bi-Weekly CPI (% change)	Jul 31	--	0.1	0.0
MX	08/08	09:00	Consumer Prices (m/m)	Jul	--	0.0	-0.1
MX	08/08	09:00	Consumer Prices (y/y)	Jul	--	3.5	4.1
MX	08/08	09:00	Consumer Prices Core (m/m)	Jul	--	0.1	0.1
MX	08/09	06:59	Industrial Production (y/y)	Jun	--	-0.6	0.5
CA	08/09	08:15	Housing Starts (000s a.r.)	Jul	185.0	191.0	199.6
CA	08/09	08:30	Employment (000s m/m)	Jul	10.0	10.0	-0.4
CA	08/09	08:30	Unemployment Rate (%)	Jul	7.1	7.1	7.1
MX	08/09	09:00	Trade Balance (US$ mn)	Jun F	--	--	855.0
US	08/09	10:00	Wholesale Inventories (m/m)	Jun	--	0.4	-0.5

Europe

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
IT	08/05	03:45	Services PMI	Jul	--	46.5	45.8
FR	08/05	03:50	Services PMI	Jul F	48.3	48.3	48.3
GE	08/05	03:55	Services PMI	Jul F	52.5	52.5	52.5
EC	08/05	04:00	Composite PMI	Jul F	50.4	50.4	50.4
EC	08/05	04:00	Services PMI	Jul F	49.6	49.6	49.6
UK	08/05	04:30	Services PMI	Jul	--	57.4	56.9
EC	08/05	05:00	Retail Trade (m/m)	Jun	--	-0.7	1.0
IT	08/06	04:00	Industrial Production (y/y)	Jun	--	-3.7	-4.2
UK	08/06	04:30	Industrial Production (m/m)	Jun	--	0.7	0.0
UK	08/06	04:30	Manufacturing Production (m/m)	Jun	--	1.0	-0.8
IT	08/06	05:00	Real GDP (q/q)	2Q P	-0.4	-0.4	-0.6
GE	08/06	06:00	Factory Orders (m/m)	Jun	1.4	1.0	-1.3
FR	08/07	02:45	Trade Balance (€ mn)	Jun	--	-5350.0	-6014.0
GE	08/07	06:00	Industrial Production (m/m)	Jun	0.2	0.3	-1.0
GE	08/08	02:00	Current Account (€ bn)	Jun	--	16.0	11.2
GE	08/08	02:00	Trade Balance (€ bn)	Jun	--	15.0	13.1
SP	08/08	03:00	Industrial Output NSA (y/y)	Jun	--	--	-1.3
FR	08/09	02:45	Central Government Balance (€ bn)	Jun	--	--	-72.6
FR	08/09	02:45	Industrial Production (m/m)	Jun	0.3	0.3	-0.4
FR	08/09	02:45	Industrial Production (y/y)	Jun	0.7	1.5	0.4
FR	08/09	02:45	Manufacturing Production (m/m)	Jun	--	0.5	-1.1
UK	08/09	04:30	Visible Trade Balance (£ mn)	Jun	--	-8350.0	-8491.0
RU	08/09	07:59	**Russia Refinancing Rate (%)**	**Aug 9**	**8.25**	**8.25**	**8.25**
RU	08/09	07:59	Real GDP (y/y)	2Q A	1.9	2.0	1.6

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

Key Indicators for the week of August 5 - 9

Asia Pacific

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
TA	08/04	20:30	CPI (y/y)	Jul	0.5	0.6	0.6
AU	08/04	21:30	Retail Sales (m/m)	Jun	--	0.4	0.1
CH	08/04	21:45	HSBC Services PMI	Jul	--	--	51.3
HK	08/04	22:30	Purchasing Managers Index	Jul	--	--	48.7
MA	08/05	00:01	Exports (y/y)	Jun	--	-7.4	-5.8
MA	08/05	00:01	Imports (y/y)	Jun	--	4.8	-2.3
MA	08/05	00:01	Trade Balance (MYR bn)	Jun	--	3.0	2.5
SI	08/05	07:59	Real GDP (y/y)	2Q F	--	--	3.7
SI	08/05	07:59	GDP (q/q)	2Q F	--	--	3.7
PH	08/05	21:00	CPI (y/y)	Jul	2.9	2.9	2.8
PH	08/05	21:00	Core CPI (y/y)	Jul	--	2.8	2.9
AU	08/05	21:30	House Price Index (y/y)	2Q	--	3.0	2.6
AU	08/05	21:30	Trade Balance (AUD mn)	Jun	--	800.0	670.0
AU	08/06	00:30	**RBA Cash Target Rate (%)**	**Aug 6**	**2.50**	**2.50**	**2.75**
JN	08/06	01:00	Coincident Index CI	Jun P	--	105.1	106.0
JN	08/06	01:00	Leading Index CI	Jun P	--	107.3	110.7
NZ	08/06	18:45	Unemployment Rate (%)	2Q	6.2	6.3	6.2
NZ	08/06	18:45	Employment Change (y/y)	2Q	--	0.7	0.3
AU	08/06	21:30	Home Loans (%)	Jun	--	2.0	1.8
AU	08/06	21:30	Investment Lending (% change)	Jun	--	--	1.5
MA	08/07	00:01	Industrial Production (y/y)	Jun	--	3.7	3.4
JN	08/07	19:50	Bank Lending (y/y)	Jul	2.0	1.9	1.9
JN	08/07	19:50	Current Account (¥ bn)	Jun	--	396.5	540.7
JN	08/07	19:50	Trade Balance - BOP Basis (¥ bn)	Jun	--	-128.7	-906.7
NZ	08/07	20:00	QV House Prices (y/y)	Jul	--	--	7.6
SK	08/07	21:00	**BoK Base Rate (%)**	**Aug 8**	**2.50**	**2.50**	**2.50**
AU	08/07	21:30	Employment (000s)	Jul	--	6.0	10.3
AU	08/07	21:30	Unemployment Rate (%)	Jul	--	5.8	5.7
TH	08/07	23:30	Consumer Confidence Economic	Jul	--	--	71.8
TA	08/08	04:00	Exports (y/y)	Jul	--	5.0	8.6
TA	08/08	04:00	Imports (y/y)	Jul	--	0.0	6.8
TA	08/08	04:00	Trade Balance (US$ bn)	Jul	--	2.3	3.3
CH	08/08	06:59	Exports (y/y)	Jul	--	1.5	-3.1
CH	08/08	06:59	Imports (y/y)	Jul	--	1.0	-0.7
CH	08/08	06:59	Trade Balance (USD bn)	Jul	--	26.0	27.1
JN	08/08	06:59	Eco Watchers Survey (current)	Jul	--	53.5	53.0
JN	08/08	06:59	Eco Watchers Survey (outlook)	Jul	--	54.1	53.6
JN	08/08	07:59	**BoJ Target Rate (%)**	**Aug 8**	**0.10**	**--**	**0.10**
JN	08/08	19:50	Tertiary Industry Index (m/m)	Jun	--	-0.4	1.2
JN	08/08	19:50	Japan Money Stock M2 (y/y)	Jul	--	3.80	3.80
JN	08/08	19:50	Japan Money Stock M3 (y/y)	Jul	--	3.1	3.0
CH	08/08	21:30	CPI (y/y)	Jul	2.7	2.8	2.7
CH	08/08	21:30	PPI (y/y)	Jul	--	-2.1	-2.7
JN	08/09	01:00	Consumer Confidence	Jul	--	45.0	44.3
CH	08/09	01:30	Fixed Asset Investment YTD (y/y)	Jul	--	20.0	20.1
CH	08/09	01:30	Industrial Production (y/y)	Jul	--	9.0	8.9
CH	08/09	01:30	Retail Sales (y/y)	Jul	--	13.5	13.3

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

Key Indicators for the week of August 5 - 9

Latin America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CL	08/05	08:30	Economic Activity Index SA (m/m)	Jun	--	--	0.7
CL	08/05	08:30	Economic Activity Index NSA (y/y)	Jun	--	3.3	3.5
CO	08/05	20:00	Consumer Price Index (m/m)	Jul	--	0.1	0.2
CO	08/05	20:00	Consumer Price Index (y/y)	Jul	--	2.3	2.2
BZ	08/07	08:00	IBGE Inflation IPCA (m/m)	Jul	--	0.0	0.3
BZ	08/07	08:00	IBGE Inflation IPCA (y/y)	Jul	--	6.2	6.7
CL	08/08	08:00	CPI (m/m)	Jul	--	0.3	0.6
CL	08/08	08:00	CPI (y/y)	Jul	--	2.1	1.9
PE	08/08	19:00	**Reference Rate (%)**	**Aug**	**4.25**	**4.25**	**4.25**
PE	08/09	06:59	Trade Balance (PEN mn)	Jun	--	--	-404.3

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

Global Auctions for the week of August 5 - 9

North America

Country	Date	Time	Event
US	08/05	11:30	U.S. to Sell 3-Month Bills
US	08/05	11:30	U.S. to Sell 6-Month Bills
US	08/06	11:30	U.S. to Sell 4-Week Bills
MX	08/06	12:30	10Y Fixed Yield
MX	08/06	12:30	1M T-Bill Yield
MX	08/06	12:30	1M T-Bill Bid/Cover Ratio
MX	08/06	12:30	3M T-Bill Yield
MX	08/06	12:30	3M T-Bill Bid/Cover Ratio
MX	08/06	12:30	6M T-Bill Yield
MX	08/06	12:30	6M T-Bill Bid/Cover Ratio
US	08/06	13:00	U.S. to Sell 3-Year Notes
CA	08/07	12:00	Canada to Sell 3 Year Notes
US	08/07	13:00	U.S. to Sell 10-Year Notes
US	08/08	13:00	30Y High Yield Rate
US	08/08	13:00	U.S. to Sell 30-Year Bonds

Europe

Country	Date	Time	Event
NE	08/05	04:30	Netherlands to Sell 3-Month and 6-Month Bills
FR	08/05	08:50	France to Sell Bills
AS	08/06	05:00	Austrian Government to Sell Bonds
UK	08/06	05:30	UK to Sell Bonds
SZ	08/06	05:30	Switzerland to Sell 91-Day Bills
AS	08/06	05:30	Austria to Sell EUR770 Mln 1.75% 2023 Bonds
NO	08/06	06:00	Norway to Sell Bonds
GE	08/07	05:30	Germany to Sell EUR4 Bln 0.25% 2018 Bonds
UK	08/08	05:30	UK to Sell Inflation-linked Bonds
BE	08/09	06:00	Belgium to Sell Bonds
UK	08/09	06:10	UK to Sell Bills

Source: Bloomberg, Scotiabank Economics.

Global Auctions for the week of August 5 - 9

Asia Pacific

Country	Date	Time	Event
JN	08/05	23:35	Japan to Sell 6-Month Bill
JN	08/06	04:00	Japan Auction for Enhanced-Liquidity
CH	08/06	23:00	China to Sell 7-Year Bonds
JN	08/06	23:35	Japan to Sell 3-Month Bill
JN	08/08	23:45	Japan to Sell 30-Year Bonds
CH	08/09	23:00	China to Sell 3-Year Savings Bonds
CH	08/09	23:00	China to Sell 5-Year Savings Bonds

Latin America

Country	Date	Time	Event
BZ	08/05	11:00	Brazil to Sell Fixed-rate bonds due 1/1/2019
BZ	08/08	11:00	Brazil to Sell Bills due 4/1/2014
BZ	08/08	11:00	Brazil to Sell Bills due 07/01/2015
BZ	08/08	11:00	Brazil to Sell Bills due 1/1/2017
BZ	08/08	11:00	Brazil to Sell Fixed-rate bonds due 1/1/2019
BZ	08/08	11:00	Brazil to Sell Fixed-rate bonds due 1/1/2023
CO	08/08	11:30	3Y UVR I/L Yield
CO	08/08	11:30	3Y UVR I/L Bid/Cover Ratio
CO	08/08	11:30	3Y UVR I/L Total Peso Bids
CO	08/08	11:30	3Y UVR I/L Amount Pesos Sold
CO	08/08	11:30	7Y UVR I/L Yield
CO	08/08	11:30	7Y UVR I/L Bid/Cover Ratio
CO	08/08	11:30	7Y UVR I/L Total Peso Bids
CO	08/08	11:30	7Y UVR I/L Amount Pesos Sold
CO	08/08	11:30	20Y UVR I/L Yield
CO	08/08	11:30	20Y UVR I/L Bid/Cover Ratio
CO	08/08	11:30	20Y UVR I/L Total Peso Bids
CO	08/08	11:30	20Y UVR I/L Amount Pesos Sold

Source: Bloomberg, Scotiabank Economics.

Events for the week of August 5 - 9

North America

Country	Date	Time	Event
US	08/05	11:45	Fed's Fisher Speaks on the Economy in Portland, OR
US	08/06	13:00	Fed's Evans Speaks to Reporters in Chicago
US	08/07	12:30	Fed's Plosser Speaks on Economy in Washington
US	08/07	13:40	Fed's Pianalto Speaks on Monetary Policy in Cleveland
US	08/08		Greek Prime Minister Samaras Meets with U.S. President Obama

Europe

Country	Date	Time	Event
GE	08/04	05:00	Steinbrück holds panel discussion in Berlin
GE	08/04	13:10	Merkel Challenger Steinbrueck Interviewed on ZDF Television
EC	08/06	05:00	EBA Hearing on Own-Issued Covered Bonds
PO	08/06		Bank of Portugal Releases Data on Banks
UK	08/07	05:30	BOE's Carney Speaks at Publication of Inflation Report
PO	08/07	06:00	Portugal Reports Second-Quarter Unemployment Rate
NO	08/09	04:00	Norway's Sovereign Wealth Fund Present Second Quarter
EC	08/09	06:00	ECB Announces 3-Year LTRO Repayment
RU	08/09		**Refinancing Rate**
RU	08/09		Overnight Deposit Rate
RU	08/09		Overnight Auction-Based Repo

Asia Pacific

Country	Date	Time	Event
NZ	08/04	22:00	Treasury Publishes Monthly Economic Indicators
FJ	04-06 AUG		Inaugural Pacific Islands Development Forum
CH	04-09 AUG		Former Chinese Politboru Member to Probably Face Trial
IN	08/05	01:30	India Parliament Begins Monsoon Session to Pass Legislations
AU	08/06	00:30	**RBA Cash Rate Target**
SK	08/07	21:00	**BoK 7-Day Repo Rate**
JN	07-08 AUG		**BOJ Target Rate**
JN	07-08 AUG		BOJ 2014 Monetary Base Target
AU	08/08	21:30	RBA Statement on Monetary Policy
NZ	08/08	23:00	RBNZ Publishes Monthly Assessment of Currency Flows
JN	08/09	01:00	Bank of Japan's Monthly Economic Report for August

Latin America

Country	Date	Time	Event
PE	08/08	19:00	**Reference Rate (%)**

Source: Bloomberg, Scotiabank Economics.

Global Central Bank Watch

North America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Canada – Overnight Target Rate	1.00	September 4, 2013	1.00	--
Federal Reserve – Federal Funds Target Rate	0.25	September 18, 2013	0.25	--
Banco de México – Overnight Rate	4.00	September 6, 2013	4.00	--

FOMC: After a softer than expected employment print for July and a dovish, albeit non-committal FOMC statement, we do not expect the FOMC to reduce the pace of its asset purchases at the September meeting. We continue to expect the size of the current phase of the LSAP program to dwarf QE2, exceeding USD1.3tn. BoC: Although Canadian GDP figures disappointed somewhat for May (0.2% m/m), we still see a risk that growth might overshoot the BoC's very soft GDP forecast of 1% q/q SAAR in Q2. The policy effects though should be neutral, and won't meaningfully impact the BoC's output gap forecast.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	0.50	September 5, 2013	0.50	--
Bank of England – Bank Rate	0.50	September 5, 2013	0.50	0.50
Swiss National Bank – Libor Target Rate	0.00	September 19, 2013	0.00	--
Central Bank of Russia – Refinancing Rate	8.25	August 9, 2013	8.25	8.25
Hungarian National Bank – Base Rate	4.00	August 27, 2013	4.00	3.83
Central Bank of the Republic of Turkey – 1 Wk Repo Rate	4.50	August 20, 2013	4.50	--
Sweden Riksbank – Repo Rate	1.00	September 5, 2013	1.00	--
Norges Bank – Deposit Rate	1.50	September 19, 2013	1.50	--

We do not expect any changes from the Russian central bank next week, as the authorities will take some time to assess the effectiveness of the policy tool introduced at the last meeting. The new lending facility is aimed at lowering the cost of longer-term funding for banks (by broadening the range of accepted collateral for central bank loans) and thus stimulating credit activity in the wider economy, but demand at the first auction was lower than anticipated. With the inflation rate still running well above the 5-6% official target (at 6.9% y/y in June), the bank is reluctant to lower benchmark interest rates. This latest move reflects pressure from the government to do something to boost the flagging economy.

Asia Pacific

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Japan – Target Rate	0.10	August 8, 2013	0.10	--
Reserve Bank of Australia – Cash Target Rate	2.75	August 6, 2013	2.50	2.50
Reserve Bank of New Zealand – Cash Rate	2.50	September 11, 2013	2.50	2.50
People's Bank of China – Lending Rate	6.00	TBA	--	--
Reserve Bank of India – Repo Rate	7.25	September 18, 2013	7.25	--
Bank of Korea – Bank Rate	2.50	August 7, 2013	2.50	2.50
Bank of Thailand – Repo Rate	2.50	August 21, 2013	2.50	--
Bank Indonesia – Reference Interest Rate	6.50	August 15, 2013	6.50	--

The Bank of Korea will hold a monetary policy meeting on August 7th. We expect that monetary conditions will remain unchanged in the near term as the country's authorities will allow previous monetary and fiscal stimulus measures to filter through the economy. The most recent benchmark interest rate cut took place in May. The policymakers assess that a negative output gap will be maintained in the domestic economy "for a considerable time going forward"; therefore, we do not expect any tightening in monetary conditions before the second half of 2014. Japan's monetary authorities will meet on August 8th. We do not anticipate any additional stimulus measures at this point as the nation's authorities continue to implement the April decision of a substantial expansion of the monetary base. For our insights regarding Australia's monetary policy decision on August 6th, please refer to the Key Data Preview on Asia/Pacific page A2.

Latin America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	8.50	August 28, 2013	9.00	--
Banco Central de Chile – Overnight Rate	5.00	August 13, 2013	5.00	4.75
Banco de la República de Colombia – Lending Rate	3.25	August 30, 2013	3.25	--
Banco Central de Reserva del Perú – Reference Rate	4.25	August 8, 2013	4.25	4.25

Peru's central bank will hold a policy meeting on August 8th; we do not foresee any changes to monetary conditions. The reference rate has remained unchanged at 4.25% since mid-2011, with monetary authorities maintaining a "neutral" stance. Price pressures are well contained while the country's economic profile remains solid.

Africa

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
South African Reserve Bank – Repo Rate	5.00	September 19, 2013	5.00	--

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

Forecasts as at August 1, 2013*	2000-11	2012	2013f	2014f	2000-11	2012	2013f	2014f
Output and Inflation (annual % change)		**Real GDP**				**Consumer Prices[2]**		
World[1]	3.7	3.2	2.8	3.5				
Canada	2.2	1.7	1.7	2.3	2.1	1.5	1.1	1.8
United States	1.9	2.8	1.5	2.6	2.5	2.1	1.5	2.0
Mexico	2.2	3.9	2.9	4.2	4.8	3.6	4.0	4.0
United Kingdom	1.9	0.1	1.0	1.5	2.3	2.7	2.4	2.4
Euro Zone	1.4	-0.5	-0.7	0.5	2.1	2.2	1.5	1.6
Japan	0.8	1.9	1.7	1.7	-0.3	-0.1	0.7	1.2
Australia	3.0	3.6	2.5	3.0	3.1	2.2	2.5	3.0
China	9.4	7.8	7.3	7.3	2.4	2.5	3.3	3.9
India	7.4	5.1	5.5	6.0	6.6	7.3	5.5	6.5
South Korea	4.5	2.0	2.5	3.2	3.2	1.4	1.9	2.9
Thailand	4.0	6.5	4.5	4.2	2.6	3.6	2.1	3.0
Brazil	3.6	0.9	2.5	3.5	6.6	5.8	5.8	6.0
Chile	4.4	5.6	4.6	4.4	3.4	1.5	2.6	3.3
Peru	5.6	6.3	5.7	6.0	2.6	2.6	2.9	3.0

Central Bank Rates (%, end of period)	12Q4	13Q1	13Q2	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f
Bank of Canada	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Federal Reserve	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
European Central Bank	0.75	0.75	0.50	0.50	0.50	0.50	0.50	0.50
Bank of England	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Swiss National Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bank of Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Reserve Bank of Australia	3.00	3.00	2.75	2.50	2.50	2.50	2.75	2.75
Exchange Rates (end of period)								
Canadian Dollar (USDCAD)	0.99	1.02	1.05	1.04	1.05	1.05	1.05	1.04
Canadian Dollar (CADUSD)	1.01	0.98	0.95	0.96	0.95	0.95	0.95	0.96
Euro (EURUSD)	1.32	1.28	1.30	1.26	1.25	1.25	1.24	1.24
Sterling (GBPUSD)	1.63	1.52	1.52	1.47	1.45	1.45	1.45	1.44
Yen (USDJPY)	87	94	99	104	105	106	107	109
Australian Dollar (AUDUSD)	1.04	1.04	0.91	0.92	0.90	0.90	0.91	0.92
Chinese Yuan (USDCNY)	6.2	6.2	6.1	6.1	6.1	6.1	6.1	6.1
Mexican Peso (USDMXN)	12.9	12.3	12.9	12.6	12.6	12.7	12.5	12.6
Brazilian Real (USDBRL)	2.05	2.02	2.23	2.15	2.20	2.20	2.20	2.30

Commodities (annual average)	2000-11	2012	2013f	2014f
WTI Oil (US$/bbl)	57	94	99	102
Brent Oil (US$/bbl)	58	112	108	108
Nymex Natural Gas (US$/mmbtu)	5.67	2.83	3.75	4.00
Copper (US$/lb)	2.10	3.61	3.30	3.05
Zinc (US$/lb)	0.77	0.88	0.88	1.10
Nickel (US$/lb)	7.62	7.95	7.00	8.00
Gold, London PM Fix (US$/oz)	668	1,670	1,375	1,200
Pulp (US$/tonne)	718	872	925	870
Newsprint (US$/tonne)	581	640	615	645
Lumber (US$/mfbm)	272	299	350	390

[1] World GDP for 2000-11 are IMF PPP estimates; 2012-14f are Scotiabank Economics' estimates based on a 2011 PPP-weighted sample of 38 countries.

[2] CPI for Canada and the United States are annual averages. For other countries, CPI are year-end rates.

* See Scotiabank Economics 'Global Forecast Update' (http://www.gbm.scotiabank.com/English/bns_econ/forecast.pdf) for additional forecasts & commentary.

North America

Canada	2012	12Q4	13Q1	Latest	
Real GDP (annual rates)	1.7	0.9	2.5		
Current Acc. Bal. (C$B, ar)	-62.2	-58.5	-56.3		
Merch. Trade Bal. (C$B, ar)	-12.0	-8.6	-6.9	-3.6	(May)
Industrial Production	0.9	-0.6	0.8	0.0	(May)
Housing Starts (000s)	215	202	175	194	(Jun)
Employment	1.2	1.6	1.7	1.3	(Jun)
Unemployment Rate (%)	7.3	7.2	7.1	7.1	(Jun)
Retail Sales	2.5	1.0	1.0	3.6	(May)
Auto Sales (000s)	1673	1664	1680	1803	(May)
CPI	1.5	0.9	0.9	1.2	(Jun)
IPPI	0.6	-0.1	0.7	-0.6	(Jun)
Pre-tax Corp. Profits	-4.9	-12.9	-10.6		

United States	2012	12Q4	13Q1	Latest	
Real GDP (annual rates)	2.8	0.1	1.1	1.7	(Q2-A)
Current Acc. Bal. (US$B, ar)	-440	-409	-425		
Merch. Trade Bal. (US$B, ar)	-741	-730	-717	-761	(May)
Industrial Production	3.6	2.8	2.4	1.8	(Jun)
Housing Starts (millions)	0.78	0.90	0.96	0.84	(Jun)
Employment	1.7	1.6	1.6	1.7	(Jun)
Unemployment Rate (%)	8.1	7.8	7.7	7.6	(Jun)
Retail Sales	5.0	4.5	3.9	6.0	(Jun)
Auto Sales (millions)	14.4	14.9	15.2	15.8	(Jun)
CPI	2.1	1.9	1.7	1.8	(Jun)
PPI	1.9	1.7	1.5	2.5	(Jun)
Pre-tax Corp. Profits	18.5	16.5	1.4		

Mexico					
Real GDP	3.9	3.2	0.8		
Current Acc. Bal. (US$B, ar)	-11.4	-28.1	-22.1		
Merch. Trade Bal. (US$B, ar)	0.0	-7.7	-4.1	10.3	(Jun)
Industrial Production	3.6	1.8	-1.4	0.5	(May)
CPI	4.1	4.1	3.7	4.1	(Jun)

Europe

Euro Zone	2012	12Q4	13Q1	Latest	
Real GDP	-0.6	-0.9	-1.2		
Current Acc. Bal. (US$B, ar)	157	343	172	147	(May)
Merch. Trade Bal. (US$B, ar)	127.1	187.9	171.6	266.3	(May)
Industrial Production	-2.3	-3.1	-2.4	-2.5	(May)
Unemployment Rate (%)	11.3	11.8	12.0	12.1	(Jun)
CPI	2.5	2.3	1.9	1.6	(Jun)

Germany	2012	12Q4	13Q1	Latest	
Real GDP	0.9	0.3	-0.3		
Current Acc. Bal. (US$B, ar)	238.8	279.1	237.7	174.9	(May)
Merch. Trade Bal. (US$B, ar)	243.2	244.4	266.5	227.4	(May)
Industrial Production	-0.4	-2.4	-2.4	0.3	(May)
Unemployment Rate (%)	6.8	6.9	6.9	6.8	(Jun)
CPI	2.0	2.0	1.5	1.8	(Jun)

France					
Real GDP	0.0	-0.3	-0.4		
Current Acc. Bal. (US$B, ar)	-57.3	-47.6	-65.6	-148.2	(May)
Merch. Trade Bal. (US$B, ar)	-51.9	-48.0	-48.0	-55.6	(May)
Industrial Production	-2.4	-3.0	-2.8	-1.9	(May)
Unemployment Rate (%)	10.3	10.6	10.8	11.0	(Jun)
CPI	2.0	1.5	1.1	0.9	(Jun)

United Kingdom					
Real GDP	0.2	0.0	0.3		
Current Acc. Bal. (US$B, ar)	-93.8	-81.4	-97.5		
Merch. Trade Bal. (US$B, ar)	-171.1	-179.7	-164.3	-155.9	(May)
Industrial Production	-2.4	-3.3	-2.6	-4.1	(May)
Unemployment Rate (%)	8.0	7.8	7.8	7.8	(Apr)
CPI	2.8	2.7	2.8	2.9	(Jun)

Italy					
Real GDP	-2.4	-2.8	-2.4		
Current Acc. Bal. (US$B, ar)	-11.3	25.2	-31.0	13.3	(May)
Merch. Trade Bal. (US$B, ar)	13.8	35.7	14.1	60.7	(May)
Industrial Production	-6.3	-6.6	-4.4	-9.9	(May)
CPI	3.1	2.5	1.9	1.2	(Jun)

Russia					
Real GDP	3.4	2.1			
Current Acc. Bal. (US$B, ar)	74.8	12.8			
Merch. Trade Bal. (US$B, ar)	16.0	15.2	16.2	15.0	(May)
Industrial Production	-5.3	1.7	-0.1	0.1	(Jun)
CPI	5.1	6.5	7.1	6.9	(Jun)

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

Source: Bloomberg, Global Insight, Scotiabank Economics.

Asia Pacific

Australia

	2012	12Q4	13Q1	Latest
Real GDP	3.6	3.2	2.5	
Current Acc. Bal. (US$B, ar)	-56.9	-67.7	-38.9	
Merch. Trade Bal. (US$B, ar)	5.9	-7.3	14.4	31.7 (May)
Industrial Production	3.8	3.7	3.6	
Unemployment Rate (%)	5.2	5.4	5.5	5.7 (Jun)
CPI	1.8	2.2	2.5	

Japan

	2012	12Q4	13Q1	Latest
Real GDP	1.9	0.4	0.2	
Current Acc. Bal. (US$B, ar)	60.4	1.4	66.4	64.2 (May)
Merch. Trade Bal. (US$B, ar)	-85.9	-107.9	-114.1	-73.7 (Jun)
Industrial Production	0.2	-6.3	-6.5	-3.6 (Jun)
Unemployment Rate (%)	4.4	4.2	4.2	3.9 (Jun)
CPI	0.0	-0.2	-0.6	0.2 (Jun)

South Korea

	2012	12Q4	13Q1	Latest
Real GDP	2.0	1.5	1.5	
Current Acc. Bal. (US$B, ar)	43.1	59.3	39.9	86.8 (Jun)
Merch. Trade Bal. (US$B, ar)	28.3	39.8	22.8	71.9 (Jun)
Industrial Production	1.2	1.9	-0.8	-1.3 (Jun)
CPI	2.2	1.7	1.4	1.0 (Jun)

China

	2012	12Q4	13Q1	Latest
Real GDP	10.4	7.9	7.7	7.5 (Q2)
Current Acc. Bal. (US$B, ar)	290.0			
Merch. Trade Bal. (US$B, ar)	230.7	332.0	168.9	325.5 (Jun)
Industrial Production	10.3	10.3	8.9	8.9 (Jun)
CPI	2.5	2.5	2.1	2.7 (Jun)

Thailand

	2012	12Q4	13Q1	Latest
Real GDP	6.5	19.1		
Current Acc. Bal. (US$B, ar)	0.2	0.2	1.3	
Merch. Trade Bal. (US$B, ar)	0.5	0.0	-0.1	0.6 (Jun)
Industrial Production	2.4	42.7	3.9	-2.2 (Jun)
CPI	3.0	3.2	3.1	2.3 (Jun)

India

	2012	12Q4	13Q1	Latest
Real GDP	5.1	4.7		
Current Acc. Bal. (US$B, ar)	-91.5	-31.9		
Merch. Trade Bal. (US$B, ar)	-16.3	-19.1	-14.8	-12.2 (Jun)
Industrial Production	0.7	2.1	2.2	-1.6 (May)
WPI	7.5	7.3	6.7	4.9 (Jun)

Indonesia

	2012	12Q4	13Q1	Latest
Real GDP	6.2	6.1		
Current Acc. Bal. (US$B, ar)	-24.1	-7.6		
Merch. Trade Bal. (US$B, ar)	-0.1	-0.9	-0.1	-0.8 (Jun)
Industrial Production	4.1	11.0	8.9	10.4 (Mar)
CPI	4.3	4.4	5.3	5.9 (Jun)

Latin America

Brazil

	2012	12Q4	13Q1	Latest
Real GDP	0.8	1.1	1.8	
Current Acc. Bal. (US$B, ar)	-54.2	-80.4	-99.2	
Merch. Trade Bal. (US$B, ar)	19.4	14.9	-20.6	27.6 (Jun)
Industrial Production	-2.7	-0.5	1.2	4.2 (Jun)
CPI	5.4	5.6	6.4	6.7 (Jun)

Chile

	2012	12Q4	13Q1	Latest
Real GDP	5.6	5.7	4.1	
Current Acc. Bal. (US$B, ar)	0.1	-11.5	-6.8	
Merch. Trade Bal. (US$B, ar)	12.4	3.8	3.2	7.3 (Jun)
Industrial Production	2.9	1.4	3.3	2.3 (Jun)
CPI	3.0	2.2	1.5	1.9 (Jun)

Peru

	2012	12Q4	13Q1	Latest
Real GDP	9.2	5.9		
Current Acc. Bal. (US$B, ar)	-7.1	-1.9		
Merch. Trade Bal. (US$B, ar)	0.5	0.5	0.1	-0.4 (May)
Unemployment Rate (%)	7.0	5.9	6.3	5.8 (Jun)
CPI	3.7	2.8	2.6	2.8 (Jun)

Colombia

	2012	12Q4	13Q1	Latest
Real GDP	4.0	3.1		
Current Acc. Bal. (US$B, ar)	-11.9	-3.3		
Merch. Trade Bal. (US$B, ar)	0.4	0.4	0.2	0.3 (May)
Industrial Production	0.0	-1.9	-6.5	-3.1 (May)
CPI	3.2	2.8	1.9	2.2 (Jun)

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

Source: Bloomberg, Global Insight, Scotiabank Economics.

Interest Rates (%, end of period)

Canada	13Q1	13Q2	Jul/26	Aug/02*	United States	13Q1	13Q2	Jul/26	Aug/02*
BoC Overnight Rate	1.00	1.00	1.00	1.00	Fed Funds Target Rate	0.25	0.25	0.25	0.25
3-mo. T-bill	0.98	1.02	1.00	1.00	3-mo. T-bill	0.07	0.03	0.02	0.03
10-yr Gov't Bond	1.87	2.44	2.45	2.50	10-yr Gov't Bond	1.85	2.49	2.56	2.62
30-yr Gov't Bond	2.50	2.90	2.95	3.01	30-yr Gov't Bond	3.10	3.50	3.62	3.71
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US$B)	70.0	68.8	68.8	(Jun)	FX Reserves (US$B)	135.2	134.7	134.7	(Jun)
Germany					**France**				
3-mo. Interbank	0.11	0.14	0.15	0.15	3-mo. T-bill	0.01	0.03	0.05	0.05
10-yr Gov't Bond	1.29	1.73	1.67	1.65	10-yr Gov't Bond	2.03	2.35	2.28	2.20
FX Reserves (US$B)	66.6	66.1	66.1	(Jun)	FX Reserves (US$B)	52.6	51.4	51.4	(Jun)
Euro Zone					**United Kingdom**				
Refinancing Rate	0.75	0.50	0.50	0.50	Repo Rate	0.50	0.50	0.50	0.50
Overnight Rate	0.11	0.21	0.10	0.09	3-mo. T-bill	0.39	0.39	0.39	0.37
FX Reserves (US$B)	326.6	324.9	324.9	(Jun)	10-yr Gov't Bond	1.77	2.44	2.33	2.43
					FX Reserves (US$B)	88.4	90.2	90.2	(Jun)
Japan					**Australia**				
Discount Rate	0.30	0.30	0.30	0.30	Cash Rate	3.00	2.75	2.75	2.75
3-mo. Libor	0.10	0.09	0.09	0.09	10-yr Gov't Bond	3.41	3.76	3.78	3.79
10-yr Gov't Bond	0.55	0.85	0.79	0.82	FX Reserves (US$B)	46.7	45.0	45.0	(Jun)
FX Reserves (US$B)	1215.0	1209.4	1209.4	(Jun)					

Exchange Rates (end of period)

USDCAD	1.02	1.05	1.03	1.04	¥/US$	94.22	99.14	98.21	98.87
CADUSD	0.98	0.95	0.97	0.96	US¢/Australian$	1.04	0.91	0.93	0.89
GBPUSD	1.520	1.521	1.538	1.528	Chinese Yuan/US$	6.21	6.14	6.13	6.13
EURUSD	1.282	1.301	1.328	1.328	South Korean Won/US$	1111	1142	1111	1124
JPYEUR	0.83	0.78	0.77	0.76	Mexican Peso/US$	12.331	12.931	12.668	12.670
USDCHF	0.95	0.95	0.93	0.93	Brazilian Real/US$	2.022	2.232	2.256	2.284

Equity Markets (index, end of period)

United States (DJIA)	14579	14910	15559	15598	U.K. (FT100)	6412	6215	6555	6646
United States (S&P500)	1569	1606	1692	1704	Germany (Dax)	7795	7959	8245	8406
Canada (S&P/TSX)	12750	12129	12648	12614	France (CAC40)	3731	3739	3969	4048
Mexico (IPC)	44077	40623	41065	42193	Japan (Nikkei)	12398	13677	14130	14466
Brazil (Bovespa)	56352	47457	49422	49164	Hong Kong (Hang Seng)	22300	20803	21969	22191
Italy (BCI)	851	849	906	922	South Korea (Composite)	2005	1863	1911	1923

Commodity Prices (end of period)

Pulp (US$/tonne)	900	950	950	950	Copper (US$/lb)	3.44	3.06	3.13	3.18
Newsprint (US$/tonne)	610	605	605	605	Zinc (US$/lb)	0.85	0.83	0.83	0.83
Lumber (US$/mfbm)	408	292	323	323	Gold (US$/oz)	1598.25	1192.00	1331.00	1309.25
WTI Oil (US$/bbl)	97.23	96.56	104.70	106.76	Silver (US$/oz)	28.64	18.86	20.02	19.46
Natural Gas (US$/mmbtu)	4.02	3.57	3.56	3.36	CRB (index)	296.39	275.62	284.46	284.45

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

Emerging Markets Strategy

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Fixed Income Strategy (London)

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Fixed Income Strategy (Paris)

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Foreign Exchange Strategy

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Scotia Plaza 40 King Street West, 63rd Floor
Toronto, Ontario Canada M5H 1H1
Tel: (416) 866-6253 Fax: (416) 866-2829
Email: scotia.economics@scotiabank.com

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