Global Views

Weekly commentary on economic and financial market developments

June 7, 2013

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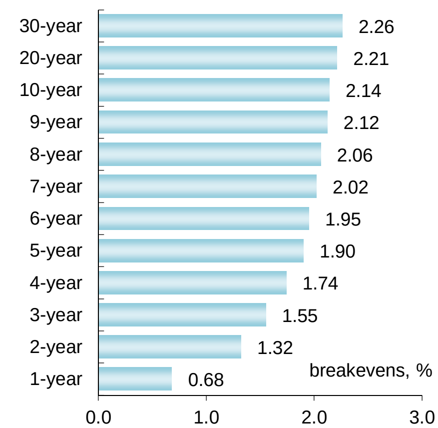
Fed Slips Into Blackout Period

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

US markets will continue to slip into an apprehensive state ahead of the June 19th FOMC statement. After St. Louis Fed President James Bullard (dove, voting) speaks on Monday, the Fed goes into its blackout period on communications in front of a Fed statement. Bullard will therefore get the last word, and has turned rather dovish of late, arguing that he won't support any tapering of asset purchases until inflation rises. At 1.1% y/y, headline CPI is seriously undershooting the Fed's target, while inflation breakevens are also falling. The two year inflation breakeven priced off the market for Treasury Inflation Protection Securities now stands at 1.3%, while the five year measure sits at 1.9% (see chart). Such low inflation expectations over a multi-year period represent a significant retrenchment from earlier this year, and the nearer-term measures suggest that the Fed's dual mandate must also consider failing to meet the price stability part of its mandate. Data to be filled in along the path toward the next FOMC meeting is unlikely to alter Fed policy, but includes next Thursday's retail sales figures that are expected to post modest growth in light of what we already know about slight gains in gasoline prices and auto sales, versus a decline in ICSC chain store sales during the month that could put the focus upon sales ex-autos and gas. Friday's industrial production figures are also expected to get a lift off a weak prior base effect, while UofM confidence is expected to come in flat with downside risk in our opinion next Friday. The following Tuesday's CPI print (June 18th) is likely to continue to track well beneath the Fed's target, such that this should trump the same day's housing starts as the only other notable release before the statement. Also note that the IMF releases its preliminary assessment of the US economy on Friday. The US auctions 3s, 10s and 30s next week.

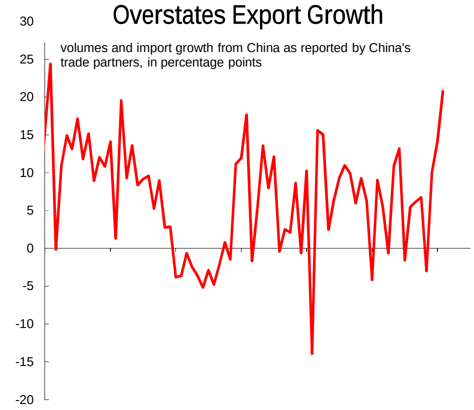
U.S. Breakevens



Source: Bloomberg, Scotiabank Economics.

In a way, the week ahead in **Asia** will be over before it begins. President Obama will be holding important policy meetings with Chinese Premier Li over the weekend and data on China's economy during May ranging from trade to industrial production to retail sales and CPI will be released over the weekend as well. While the leaders of the world's biggest economies discuss long-run policy issues, consensus is looking for a drop-off in trade figures perhaps as Chinese customs officials crack down on the practices that they blame for incongruities between China's export numbers and import numbers from China put out by major Chinese trading partners (see chart). The consensus is less pessimistic on the remainder of the Chinese figures, looking for fairly flat numbers on trade, retail sales, and CPI as well. In short, the weekend's Chinese economic numbers are not supposed to give markets much of a positive kick-start to the week. Numbers on aggregate financing out of China are also due out during the week, so a full update on China is in the offing — and consensus is not particularly optimistic.

China Persistently Overstates Export Growth



Note: Compares Chinese export data with import data from USA, Japan, Germany, Taiwan, Hong Kong, Korea and Malaysia
Source: Local Statistical Offices, Bloomberg, Scotiabank Economics.

Japan has been the other significant source of volatility out of Asia of late, with the JPY appreciating markedly during the past two weeks and Nikkei selling off aggressively (it's down in excess of 17% from its 2013 highs). A reminder of how much work Japan has to do in order for the Japanese economy to improve will be offered via an update for Japan's trade balance in April, which lands while the North American weekend is winding down on Sunday evening. Consensus is looking for the seasonally adjusted trade

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balance to improve marginally to ¥380bn (vs. ¥342bn in March), but note that even here, the Japanese trade balance will be close to its lowest level — ever.

Four Asian central banks (Bank Indonesia, the Bank of Korea, the RBNZ, and Bangko Sentral ng Pilipinas) are all set to make monetary policy decision on Thursday next week, and none are expected to adjust their benchmark rates. Asian central banks have probably moved from being concerned about the domestic ramifications of the BoJ's extraordinary monetary policy to bewilderment at what the BoJ's move will wind up accomplishing in Japan amidst the heightened volatility of the past two weeks. The BoJ is also due to make a monetary policy decision next week and will probably take the opportunity to try to calm local markets — and persuade them that the volatility which Japan has seen of late is all part of an elusive master plan. RBA watchers will get jobs numbers and figures on home loans to keep them guessing at the RBA's next move.

Canada won't face much by way of domestic influences next week. The home market focus will be upon housing starts, manufacturing sales, and house prices. Monday's starts figures are expected to come in largely flat in the 175k range. The risk is when and whether the sharp decline in new home sales in Toronto so far this year follows through to starts, particularly since it includes a steep drop in low-rise new home sales that typically motivate construction activity within weeks to months following the signing of a sales contract. Friday's manufacturing sales report is expected to post a small gain, but we have a heavy bracket around this assumption. That's because figures like new orders that have declined recently trade off against a mixed export picture during the month of April. Teranet house prices (Wednesday) are likely to be up slightly in the May report, but this is not seasonally adjusted such that gains in the key spring season are hardly surprising. This volatile measure typically turns south by late summer so be wary regarding the potential for headline swings. The Bank of Canada releases its Financial System Review, and Canada auctions 2s.

European markets will have just a few things to consider next week. Eurozone industrial production is expected to come in flat for April following a fairly large 1% rise the prior month, but the results are likely to be mixed across the individual countries. France, for instance, is expected to post a small rise following the prior month's slip. Italy, on the other hand, is expected to come in flat following an earlier nearly full percentage point drop. Outside of the Eurozone, the UK is also expected to come in flat after industrial output gained 0.7% in March. The overall results could therefore net out to one of renewed softness in industrial output across Europe. UK influences will also be felt in Thursday's monthly GDP estimate for May from the National Institute of Economic And Social Research. The figures from February through to April had been accelerating following contractions over the November through January period. The decision to hold off on additional stimulus at the Bank of England is therefore being vindicated thus far in the form of a considerably healthier economy into the Spring. Whether that shows up in labour markets will be updated on Wednesday.

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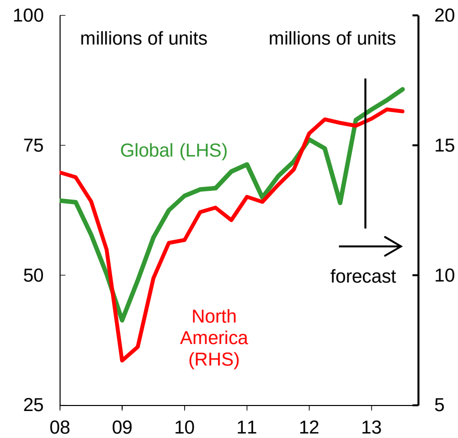
Global Vehicle Sales And Production Accelerate

- **The ramp-up of global vehicle production will boost economic activity.**

South America leads broad-based improvement. Global vehicle sales bounced back from a sluggish performance at the end of the first quarter, advancing 8% y/y in April. The improvement was broad based, but was led by more than a 30% year-over-year surge in South America. Purchases in Asia also posted a double-digit increase, while activity even edged up in Western Europe for the first time since September 2011.

The strength in global car sales combined with low inventories in many countries is prompting automakers to ramp up production across most of the world — a development that will support manufacturing and overall economic activity, at a time when some surveys point to some moderation on the factory floor. Brazil is leading the way, but assemblies rebounded sharply in most regions in April and will continue to gain momentum in coming months.

Record Global Vehicle Production



Source: Scotiabank Economics.

Vehicle production in Brazil surged 31% year-over-year in April. The resurgence in vehicle sales and production in South America's largest economy largely reflects government stimulus policies, especially the reduction of the industrial tax for vehicles produced in Brazil. The tax break is designed to support the Brazilian auto industry and was originally introduced last year, but was recently extended through the end of 2013. The auto sector revival will boost overall economic activity, as the auto sector accounts for nearly 4% of Brazil's GDP. In fact, rising vehicle production in April lifted overall industrial activity in Brazil 8.4% year-over-year — the best performance since August 2010.

Vehicle output in Asia also rebounded in April, led by a 20% y/y increase in Thailand and a solid rebound in Japan. A stronger-than-expected improvement in industrial activity in Japan during April was driven by a 16% month-to-month jump in vehicle production on the island nation. Aside from the outsized surge in vehicle assemblies, industrial activity in Japan was largely flat. In addition, with vehicle inventories in Japan 23% below a year earlier, further gains are scheduled for coming months. Rising assemblies will provide a further boost to industrial activity, as the sector accounts for 10% of overall industrial production in Japan.

Auto output has also started to rebound in South Korea, after a double-digit decline in the first quarter. The improvement reflects continued gains in global market share by Hyundai and Kia. Global sales by Hyundai-Kia Group have advanced 7% y/y through May, double the increase in global industry volumes. Continued gains in global share by Korean automakers point to accelerating industrial activity in South Korea. Two-thirds of all vehicles sold globally by the Hyundai-Kia Group are produced in South Korea.

Automakers also plan to boost North American production in coming months. Vehicle output is scheduled to jump to an annualized 16.4 million units in the second quarter — the highest level since 2006 and a further ramp-up from an already-elevated 16 million during the January to March period. In fact, several automakers are foregoing their two-week summer shutdown to continue cranking out new cars and light trucks to keep dealers flush with product. As a result, third-quarter assemblies (June-September) are scheduled to accelerate to 5% year-over-year, from a 2% increase through the end of June. Output will gain momentum throughout the quarter, with September assemblies scheduled to jump more than 8%.

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Mixed Performance In Global Real Estate Markets Persists

- **Global housing activity in early 2013 has been mixed, mirroring the uneven pace of global growth.**

Our quarterly round-up of international residential property markets points to relatively slow and steady global housing conditions and stable prices. However, in a number of countries, primarily in emerging Asia and Latin America but also in the United States, home prices are again accelerating, supported by relatively stronger domestic economic conditions. In others, namely the struggling nations of southern Europe, deep price declines are continuing.

Spain's property market remains the weakest in our survey, with average inflation-adjusted house prices down 11% y/y in Q1. Prices also are falling in **Italy** and **France**. Housing conditions are stabilizing in several other European nations, including **Ireland** where real house prices were down 4% y/y in Q1, the smallest annual decline since 2008. However, a massive foreclosure pipeline remains a significant concern. **U.K.** housing also is steadying, though conditions remain soft and uneven. Strong price gains in London, underpinned by foreign investment, mask moderate declines in much of the country. **Sweden** and **Switzerland** are experiencing moderate price growth.

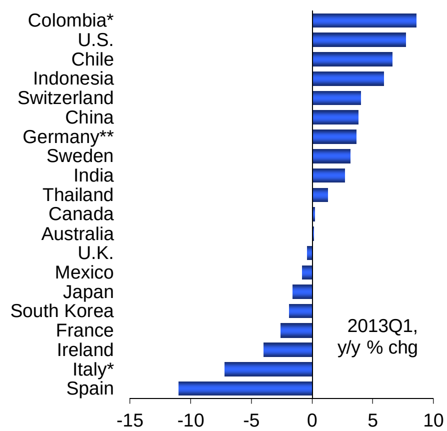
North American trends continue to diverge. Underpinned by near-record housing affordability, gradually improving employment conditions, strong investor purchases and low inventories, **U.S.** real home prices in Q1 increased at their fastest pace in over a decade (8% y/y). The fundamentals for a continuing recovery remain in place, though we expect more moderate investor demand and increased supply will slow the rate of price increase by the latter half of the year. In contrast, **Canadian** house prices have leveled out amid tougher mortgage financing rules and slowing employment and income growth. We see further downside risk to sales and prices as the market adjustment continues.

In Asia, **China's** property market is heating up again. Real house prices accelerated y/y in most major cities in Q1, prompting another round of tightening measures, including increased downpayment requirements and stricter residency rules. Home prices are also accelerating in **Indonesia** and **India**, but remain moribund in **South Korea** and **Thailand**. **Australia's** housing market is steadying, supported by an improving labour market and consumer confidence, as well as repeated central bank interest rate cuts.

Property markets in Latin America, despite some moderation in economic activity, are bolstered by relatively strong domestic demand and accommodative monetary policy. **Chilean** real house prices accelerated 7% y/y in Q1, while **Colombia** posted strong real price growth of 9% y/y through the end of 2012. **Mexico's** housing market has lagged, with average real prices marginally lower than a year earlier in Q1.

Highly stimulative monetary policy conditions, reinforced by additional easing measures internationally through the spring, should provide support to the interest-sensitive housing sector. However, a faster and more synchronized improvement is contingent on a strengthening in global economic activity, labour markets and consumer confidence. Even then, high unemployment and tight credit conditions in many countries will restrain the pace of recovery.

Real House Prices



*2012Q4 **2012. Source: Scotiabank Economics

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New Tools And Mitigating Factors Could Accompany Fed Tapering

Attempting to time the potential for tapered asset purchases by the Federal Reserve to the exact policy meeting entirely misses a far more important but absent discussion on how the Fed could use a variety of potential communication tools to assuage investor fears that the Fed will not run and hide in the face of potential concomitant market turmoil. Indeed, tapered asset purchases do not have to be the end of the world for Treasuries and MBS or financial markets in general. We know that the Fed must eventually taper purchases before owning inordinately high shares of the targeted markets. There are, however, ways in which the Fed can use communication tools to address market fears and we make a few such suggestions. This note is therefore intended to be a reminder that an entire FOMC special subcommittee is at work on communications strategies at the Fed, and the work of this committee is at least partly oriented toward ensuring that Fed actions strike a balance between risks to continued stimulus versus greater risk associated with premature policy exits that would short-circuit a still fragile recovery. Differences of opinion on timing the tapering of purchases that deviate only a few months from one another potentially miss the far more important evolution of the next wave of stimulus measures that could be employed by the Federal Reserve. We also provide comments on mitigating influences that may co-exist with tapered asset purchases that are nevertheless not under the Federal Reserve's direct control and influence.

1. Potential Additional Tools

We start by reviewing the Fed's options in terms of potential new policy tools that may be introduced alongside policy tapering.

a. Slower, But Longer — Most Likely

The Fed could hint at program duration and/or magnitude in addition to lowering monthly purchase volumes. A lengthened signal on the period of buying could mitigate risks associated with tapering such that markets could develop more informed opinions on the ultimate size of the QE3 program. The Fed has tended to emphasize that the stock effects associated with purchase activity are more important than the flow effects. It would entail including language to the effect that the Fed sees progress but is not yet satisfied with the pace of improvement in the economy such that it will continue to add reduced stimulus for a significant period of time.

b. Yield Comfort Zone — Also Plausible

Another option that could accompany reduced purchases would entail defining a comfort zone for Treasury yields. This could be done subtly by stating that the Fed will support the Treasury and MBS market as needed in support of a continued economic recovery. Or, the Fed could state that it is mindful of risks facing markets in response to a slower pace of purchases and will monitor financial conditions carefully while acting accordingly to offset or ease potential dislocation in financial markets. There is an army of very bright people involved in communication strategies at the Fed who are far better able to convey such sentiments, but I would not be the least bit surprised to see such a development accompany tapered asset purchases.

c. Yield Caps — Unlikely

A more extreme form of such action would be to instead announce an explicit yield cap. Language could signal an unwillingness to allow US Treasuries to rise above a specific yield threshold, or a specific range.

Options (b) and (c) would both be a Fed twist on ECB President Mario Draghi's conditional bond buying. Just as Draghi's conditional bond buying program eliminated the Eurozone break-up premium in bunds and collapsed spreads across more challenged European sovereigns, the threat of bond buying could work powerfully at the Fed. A risk is our view that Draghi has cemented moral hazard into the European market by reducing incentives for politicians to remain committed to structural and fiscal reforms.

This risk may be lower in the US than Europe given the path toward US deficit repair from 10.4% of GDP at the peak to under 5% likely next year and in part due to the checks and balances that exist in the division of powers within the US executive and dual chambers of Congress. This also shows up in our expectations for Treasury issuance that we'll return to in a moment. Whether by accident or design, the US is gradually achieving improved deficits, albeit at a slower pace than may be desired. If Bernanke takes this tack, then it is likely to be accompanied by continued warnings to Congress to put in place a credible path toward deficit repair.

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Yield caps are dicey, however, as they connote an artificially precise magic number that is more likely to be tested than a more subtly nuanced range. The Fed has also had an at best mixed experience with yield caps long ago. The effort toward containing yields is better conveyed through more subtle language that connotes greater policy flexibility as circumstances evolve. The Fed could actually have its cake and eat it too in that it could taper, and thereby reduce concern in some corners that heavy buying will box them in by way of inordinately high shares of the stock of debt, but still control yields via the threat of action if vigilantes start smelling blood.

d. Nominal GDP Targeting — Least Likely

I don't expect the Fed to go down this avenue by stating that it will maintain a stimulative stance until the economy is restored to a targeted nominal GDP trend line, but it could be one communications experiment in addressing tapering risks that would be even more extreme.

I believe this to be the worst possible option in that it is fraught with risk. That's because I don't think central banks should signal total indifference over achieving higher nominal output entirely through higher volumes, or entirely through higher inflation, or any combination of the two. Also, setting the starting point for an NGDP trend line, and at what rate to grow it over time are entirely arbitrary exercises. For instance, some speculate that the BoE may come to entertain NGDP targeting under Governor-designate Carney (a view we don't share). If the BoE were to adopt NGDP targeting, then starting the trend line in, say, 2000 would still have the UK economy actually above a reasonable NGDP trend line because policy was arguably too loose for years before the crisis. Being above trend would imply the need for abrupt policy tightening now. Starting such a trend line in 2008, however, would still characterize the economy to be well below such a trend line. There are enough vagaries to the conduct of monetary policy without embracing such an arbitrary experiment.

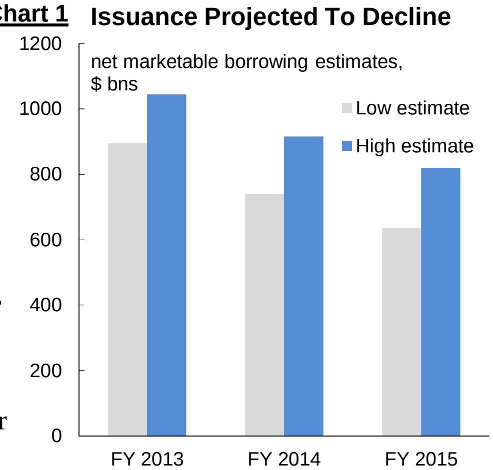
2. Potential Mitigating Factors

There are at least two forces beyond the Fed's influences that may also mitigate the impact of tapered asset purchases. The Fed could, however, draw reference to such influences in its communications.

a. Tapered Supply

One mitigating factor is that as the US government's deficit improves from a peak of 10.4% of GDP to under 5% next year, reduced Treasury issuance will result. As the Fed tapers demand, the supply side could simultaneously move lower. This could be a powerful supply side influence. As the accompanying chart demonstrates, Scotiabank Economics projects that net marketable borrowing by the US government in 2014 could decline by $130-155 billion from 2013 borrowing estimates and then another roughly $100 billion by 2015. This translates into an average monthly decline in net marketable borrowing of around $12 billion in 2014 from 2013 borrowing estimates, and another $8 billion in 2015. Compared to the current pace of $45 billion in monthly Treasury purchases by the Federal Reserve, only a portion of the reduced buying could be offset by reduced supply pressure, but it would help. For instance, the Federal Reserve could taper purchases to, say, $30-35 billion per month into 2014 and this would be significantly offset by reduced supply pressures. The implications for duration vary significantly, however, according to how issuance buckets evolve in relation to the flow of buying across these same maturities.

Chart 1 **Issuance Projected To Decline**



Source: Scotiabank Economics.

b. Easier Credit

A second market force that could accompany somewhat higher rate risk concerns credit availability. To an extent, today's mortgage rates represent an untouchable temptation. Credit is simply not available to many American mortgage borrowers. This is, changing, however, and in favour of a slight move toward easing

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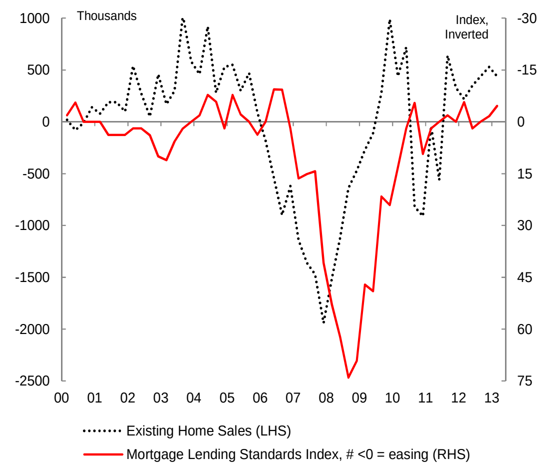
mortgage credit conditions. It is entirely possible that this move continues in favour of further easing and hence improved mortgage credit availability into 2014 and beyond. If so, then somewhat higher mortgage rates that nonetheless remain low could be offset by a higher probability of securing credit. Simply put, a mortgage at, say, 50-100 bps higher rates than today's is better than no mortgage at all. This would hardly be the first time that coming out of a period of economic weakness results in both rising rates and easier credit.

Chart 2 **Mortgage Availability Slowly Improving**



Source: Fed, NAR, Scotiabank Economics

3. Conclusion — The Fed Is Still Filling In Behind Broad Money Destruction

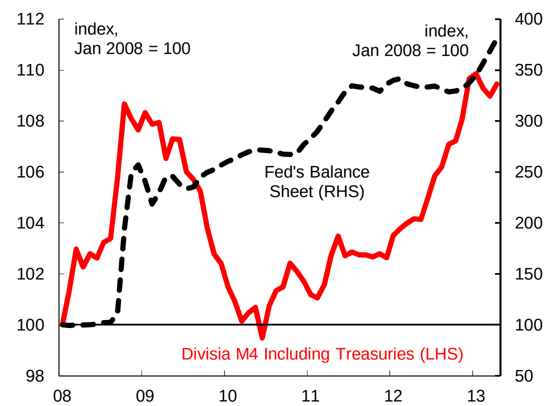
In summation, if the Fed reduces purchases and leaves everything else intact, then markets will be in a state of upheaval. This, in my opinion, would be a policy error and it would repeat the Fed's tendency to follow an erratic commitment to stimulus that risks Chairman Bernanke's past criticisms of the Bank of Japan reverting back upon the Fed itself.

The Fed could alternatively taper and accompany this with soothing guidance to markets by essentially employing new stimulus tools but doing so within reason (i.e., not NGDP). Such a framework would be tested by markets, and so there are no guarantees of success, but this also emphasizes the importance of improved clarity of communication by all FOMC officials during the exit phase. I expect tapering to be accompanied by other tools and mitigating factors that we have attempted to describe, but not yet. Summertime tapering remains unlikely in my opinion, versus more toward the end of the year after summertime uncertainty regarding 1. the manufacturing outlook, 2. the sustainability of the way in which US consumers funded Q1 consumption growth, and 3. the sequester's effects have all been evaluated in the context of ongoing uncertainty over the impact of US budget and debt ceiling negotiations. I also expect no asset sales for years, such that a reduction in the Fed's balance sheet will only occur through run-off of maturing securities that will carry duration implications going forward.

At issue remains the need to fill in behind the broad money destruction that the crisis brought on. The fact that very broad money remains flat five years into the crisis in contrast to the explosive growth in the Fed's balance sheet over this same period is why inflation fears are overblown in my opinion, and why talk of asset bubbles is exaggerated. Chart 3 makes this point by showing the Fed's balance sheet on the right hand axis, versus a largely flat but much broader definition of money on the left hand axis. For more on the definition of this broad money aggregate that attempts to track the Federal Reserve's former broad money aggregate named 'L' go here.

Chart 3

Fed's Balance Sheet Only Filling In Behind Broad Money Destruction



Source: Federal Reserve, The Center For Financial Stability, Scotiabank Economics.

Nevertheless, economics is hardly such a precise field that economists can justify expending much effort toward nailing the precise meeting at which such tapering decisions are taken. Deep conviction over the timing issue is amusing, not substantive. What is of far bigger consequence to markets is not this precise timing, but how it is communicated to markets. On that, a fair assumption may well be that the Fed will not do anything so foolish as to reduce purchases without spending a great deal of effort upon improved communication and other tools to accompany such an eventual decision.

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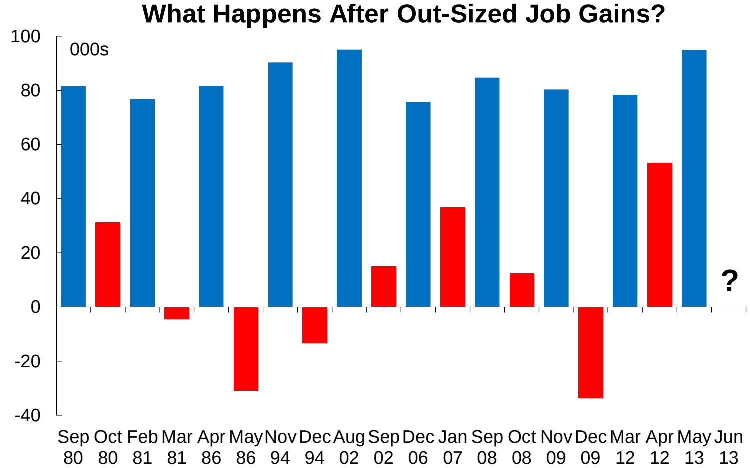
Bank Of Canada's Poloz Adopts A Somewhat More Dovish Stance

- **An out-sized job report after Poloz's testimony doesn't really change much.**

Does The May Jobs Report Change The Meaning Of Poloz's Testimony

Before addressing what Governor Poloz stated in his testimony before the House of Commons Standing Committee on Finance on June 6th, we need to address whether today's barn-burner of a jobs report for the month of May changes the picture provided in our initial assessment of his comments. The 95,000 jobs gained in May over April were the strongest in over a decade, and the details were generally very solid. That said, we remind our readers that another jobs report lands again on July 5th, or two weeks before Poloz's first rate statement and Monetary Policy Report. As the accompanying chart demonstrates, what happens in months following large jobs gains of 75,000 or more is uncertain. There have been nine other times since September 1980 when the monthly job gain was 75,000 or more (to somewhat arbitrarily pick a high number but one that doesn't eliminate most of the sample). In four of those cases, jobs fell the following month. In two of them, jobs grew marginally. In the other three, there was a fairly significant follow-up gain. Therefore, whether the May jobs report matters or not is partly contingent upon what happens in the next one before the July 17th rate statement. If the gains reverse in July, then it will restore the volatile trend that has been in place so far this year. If not, then we would soften our take on the July meeting, leaving intact much of our interpretation of the rest of Poloz's testimony that follows below.

What Happens After Out-Sized Job Gains?



Source: Statistics Canada, Scotiabank Economics.

Our Assessment Of Governor Poloz's First Testimony

There were several points to note in BoC Governor Stephen Poloz's testimony and opening comments that we took to be indicative of a more dovish bias than Carney left off with. On balance they suggest that the rate bias may well be entirely removed or at least materially softened perhaps as soon as in the next statement on July 17th, but it is premature to speculate on an interest rate cut at this juncture while maintaining our belief that there is a very high bar against such a move at the BoC. This was a speech all about the BoC building confidence, playing a role in "nurturing" the process of growth rebalancing, and inflation undershooting the BoC's target that puts the past BoC policy bias to cool housing and household debt growth well behind us now. **I would be surprised if the BoC were to maintain a somewhat hawkish bias in the wake of such emphasis and the chosen language.**

1. The most important part of the testimony concerned the fact that Poloz went out of his way to note that the inflation target is symmetrical and that it is "sacrosanct". "We care just as much about inflation falling below as we do about it rising above the target." With headline CPI inflation at 0.4% y/y and core at 1.1% y/y compared to the BoC's 2% headline target that relies upon core as a less volatile operational guide, this is a dovish nod. He went on to note that "The Bank raises or lowers its policy rate interest rate, as appropriate, in order to achieve the target typically within a horizon of six to eight quarters."

2. The take-back could be that Poloz noted that interest rates will rise "at some point." We are not certain what this means, however, in that it does not make it fully clear whether 1. rates will rise absent an intervening cut (if so there is no reference whatsoever to timing), or 2. whether the target rate will rise eventually after a cut, or 3. rise long after the rate hike bias is softened further.

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3. Poloz was optimistic about growth rebalancing toward exports as foreign demand recovers. "This sequence may already be underway." That suggests he may not seriously alter the composition of the BoC's growth forecasts for the Canadian economy going forward. I'm somewhat skeptical regarding this view since so much of the gain in GDP and exports has come through what may be the temporary influence of the mining, oil and gas extraction sector at rates of growth since last September that are unlikely to be sustained in future following various disruptions up to that point.

4. This last point notwithstanding, note the first paragraph of the conclusion to Poloz's opening remarks. It is absolutely key in our view. **"The Bank has a role to play in nurturing that process, to the extent possible within the confines of our inflation-targeting framework. There is no conflict between nurturing this and our need to get inflation up to the 2 per cent target."** In other words, a more accommodative stance is being signalled as possibly necessary in order to reinforce and accommodate this growth rotation process.

5. On inflation expectations, he said "Nonetheless, the inflation expectations of Canadians remain well anchored, proving that our framework is secure and working. But it also informs us that **we need to validate those expectations to maintain our credibility**." This last sentence is also key. It sounds like Poloz is concerned about disappointing expectations should inflation continue to undershoot, and here too the BoC may have a role to play in nurturing such expectations.

6. On the currency, Poloz said "While the exchange rate is influenced by such variables as commodity prices, relative inflation rates, and relative interest rates, its value is determined in currency markets." This confirms the BoC's bias that it cannot control CAD, but in flagging the obvious by way of some role played by relative inflation and interest rates, he's not portraying the BoC as powerless in influencing CAD. That said, he also went on to state that there are only "marginal benefits" to exporters from a weaker currency. **This suggests that while he is not fully dismissive of concerns regarding the level of the Canadian dollar particularly against the USD, the currency is not his prime focus, and it largely negates expectations that his export background might make him more worried about the level of the currency.**

7. There was very little on housing and the household sector and that was interesting in itself. All that Poloz said was: "In the immediate aftermath of the crisis, stimulative monetary and fiscal policies proved highly effective in supporting robust growth in domestic demand, particularly household expenditures, which grew to record levels. Yet, as effective as it has been, with domestic demand now slowing, the limits of this growth model are clear." Our take is that by flagging such limits and speaking very little about housing, he's less concerned about cooling the housing markets through various tightening tools as the evidence points to an abrupt cooling.

On balance, we take Poloz's comments to be a somewhat more dovish turn. Poloz is optimistic that growth will rebalance toward other drivers, but he is flagging the downside tail to inflation and inflation expectations that Carney tended to look past by maintaining a tightening bias. Poloz's emphasis is about the need to reinforce inflation expectations in the context of a serious undershooting of the BoC's inflation target. A speech that is all about "nurturing" and the BoC's role in building confidence throughout this process suggests a policy leaning toward at least a less hawkish BoC than under the last months of Carney's tenure.

The next scheduled communications include a June 19th speech by Governor Poloz, and the July 17th policy statement and Monetary Policy Report that will fully update all of the BoC's forecasts.

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Investment Key To India's Economic Outlook

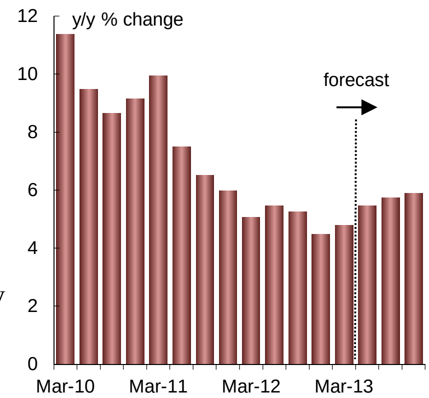
- **India's administration aims to revitalize subdued economic growth by monetary easing and economic reforms, though progress on the latter is limited by political instability.**

India's economic conditions are challenging with growth remaining subdued. Real GDP expanded by 4.8% y/y in the first quarter of 2013 compared with a 4.7% gain in the October-December period. We expect India's output to advance by 5½% this year as a whole, followed by a modest pick-up to 6% in 2014, though gains will continue to fall short of the 8% annual average recorded over the past 10 years.

Investment, which expanded by a muted 3.4% y/y in the first quarter compared with the average growth of 8.7% since 2006, will play a vital role in improving India's growth profile. Nevertheless, it is restrained by a high cost of financing and structural limitations, such as poor infrastructure, power generation issues, and a complex regulatory environment. According to the World Bank's *Doing Business 2013* report, India ranks 132nd out of 185 countries in terms of the ease of doing business, comparing particularly poorly in the "paying taxes", "starting a business", "dealing with construction permits", and "enforcing contracts" categories (the corresponding rankings are: 152, 173, 182, and 184, respectively, out of 185 countries). Meanwhile, such categories as "getting credit" (23/185) and "protecting investors" (49/185) display India more favourably. The country's administration has recently created the Cabinet Committee on Investment to speed up the approval of large projects and is trying to push through the Land Acquisition Bill that attempts to address industry groups' challenges regarding acquisition of land. We expect that implementation of economic reforms combined with ongoing monetary policy easing should improve business sentiment by year-end and lift India's growth trajectory. Nevertheless, the fragility of the governing coalition will adversely impact the progress on reforms.

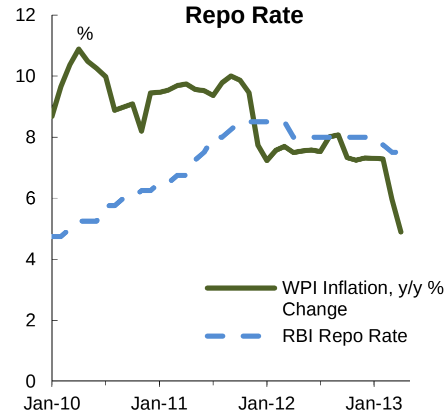
The Reserve Bank of India continues to provide monetary stimulus, although at a cautious pace, in order to stimulate the sluggish economy; we expect policymakers to lower the benchmark repo rate by 25 basis points (bps) to 7.0% following the next policy meeting on June 17th, taking the cumulative reduction to 100 bps since the beginning of the easing cycle in January. In May, the authorities identified two key factors behind the decision to cut the policy rate: a steep deceleration in economic growth, and an easing in inflation — measured by the wholesale price index (WPI) — closer to the central bank's tolerance threshold. WPI inflation decelerated to 4.9% y/y in April from 8.1% in September, while consumer price inflation remained high at 9.4% y/y. On the fiscal side, the government is also aiming to provide support to the economy with elevated government spending measures. The relatively pro-growth central government budget for fiscal year 2013-14 (April-March) targets a deficit of 4.8% of GDP, roughly in line with an estimated 4.9% in the previous fiscal year.

Real GDP Growth



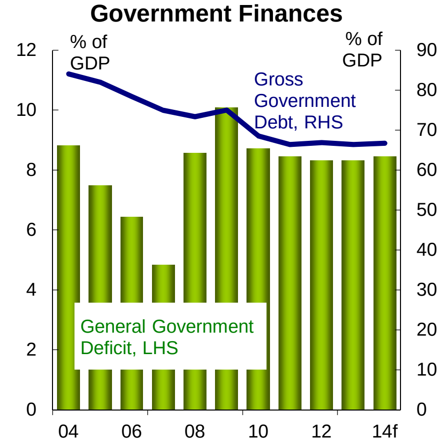
Source: Bloomberg, Scotiabank Economics.

WPI Inflation & Central Bank Repo Rate



Source: Bloomberg.

Government Finances



Source: IMF, Scotiabank Economics.

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Puerto Rico: New Administration, Same Challenges

- **Fiscal consolidation under the proposed budget remains of concern for short- and long-term prospects.**

Puerto Rico's weak economic activity coupled with growing government liabilities and possible credit rating downgrades remain as the main challenges for the newly elected government.

Fitch and Standard & Poor's recently downgraded the general obligation (GO) bonds' rating to "BBB-", leaving a "negative" outlook in place. Nonetheless, recent pension fund reform and the government's willingness to push through other fiscal reforms have been taken as positive signs by the rating agencies. The 10-year municipal bond yield has increased by around 35 basis points to 4.1% in the last 12-months, and although it remains significantly above other municipal bonds with better ratings, it continues to trade below its four-year average. We do not rule out further downgrades, which could jeopardize the territory's access to the municipal bond market in the US, particularly if the "investment grade" status is lost.

On the economic front, activity remains subdued with few signs of recovery. The economic activity index, calculated by the Global Development Bank of Puerto Rico, resumed its negative trend last December after reaching its strongest level in 3 years (in November). The territory's activity contracted by 3.5% y/y in April, the fifth consecutive monthly decline, while for the 2013 fiscal year so far (July-April) output has contracted by a mild 0.2% y/y. With the unemployment rate around 14.5%, local consumption and import growth remain constrained. External demand, particularly coming from the US, will continue to improve in the 2013-14 period, helping Puerto Rican tourism and export growth to accelerate. We expect the economy to contract by 0.4% in the 2012/13 fiscal year (July-June), and to expand modestly by 0.4% in FY2013/14.

Public sector finances remain weak; however, the new government has recently unveiled a new budget plan for the FY2013/14 fiscal year that includes raising taxes, broadening the tax base, eliminating some tax exemptions and lowering the deficit. It will have to be approved by the local Congress, probably with some modifications by the end of June. The authorities have also stated that they expect to close the budget gap in two to three years. The new budget estimates a US$200 million deficit and $500 million in bond refinancing.

Puerto Rico's officials have also anticipated that the loan portfolio of the Government Development Bank, the main lender to local authorities, will decrease by around one third in 2014. The 2013 fiscal year real structural deficit is expected to increase to US$2.2 billion, 50% above the previous administration's estimate. The announced program, if achieved, will improve Puerto Rico's creditworthiness; however, growth dynamics could be affected by higher costs, lower household consumption and less government spending.

The recently elected governor Alejandro García Padilla from the Partido Popular Democrático (PPD) faces important challenges, particularly regarding the depressed economy, low job creation and security. Mr. García took office at the beginning of the year for a four-year term, with the PPD accounting for the majority of the local Congress, setting a positive tone to the governor's agenda. The recently announced budget has brought discontent among businesses and the public in general, which we expect to affect the government's popularity. Additionally, security, crime, and drug-trafficking, together with the job creation program announced by the government, will attract attention.

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Downside Risks To UK Inflation?

UK: The BRC SPI Highlights Downside Risks to the RPI

- The latest BRC shop price index was surprisingly low. The headline inflation measure fell into negative territory for the first time since Q3 2009.
- While the BRC measure has its faults, the relationship between the SPI and the CPI (or indeed the RPIX) is striking. For the purpose of the chart we use the RPIX instead of the RPI because of the distortion from the mortgage rates component during 2008-09 when the BoE was slashing rates.
- If these relationships hold it would suggest significant downside risks to the CPI and RPI in the coming months. The key question therefore is whether or not the relationships will hold.

Chart 1: BRC SPI vs RPIX (% y/y)

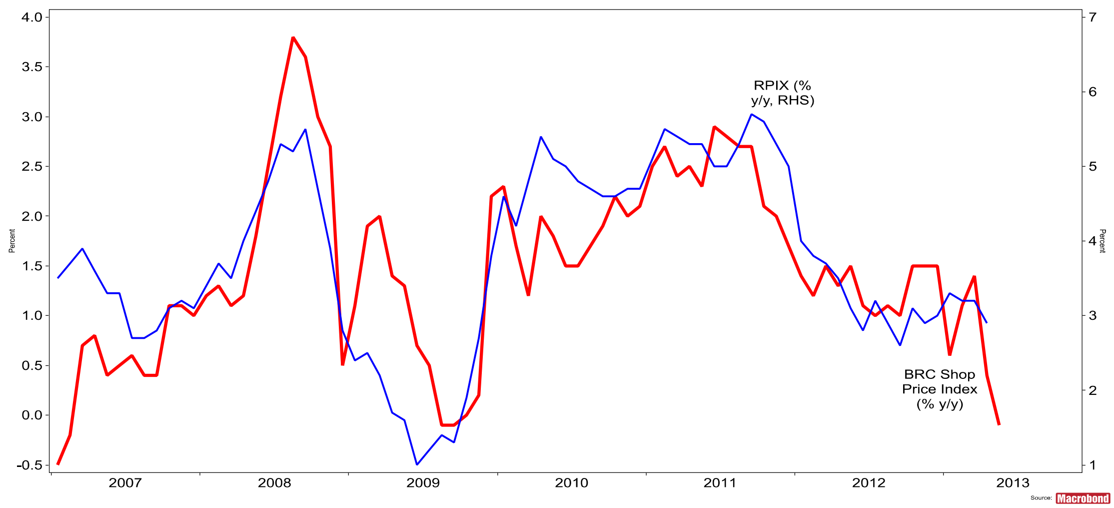
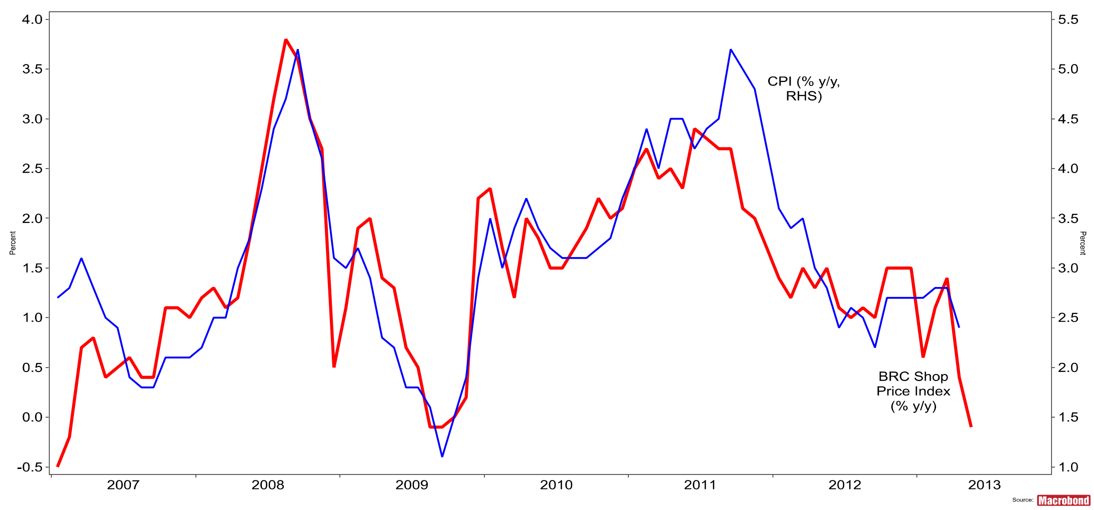


Chart 2: BRC SPI vs CPI (% y/y)



Then versus now

In order to gauge whether the downside risks highlighted by the SPI are genuine, it is worth looking at what drove % y/y inflation down during 2009 and whether that could be repeated now. Chart 3 shows the % y/y inflation rates for the 14 key sub-components of the RPI gauge of inflation at the time of the September-09 trough compared to the situation now.

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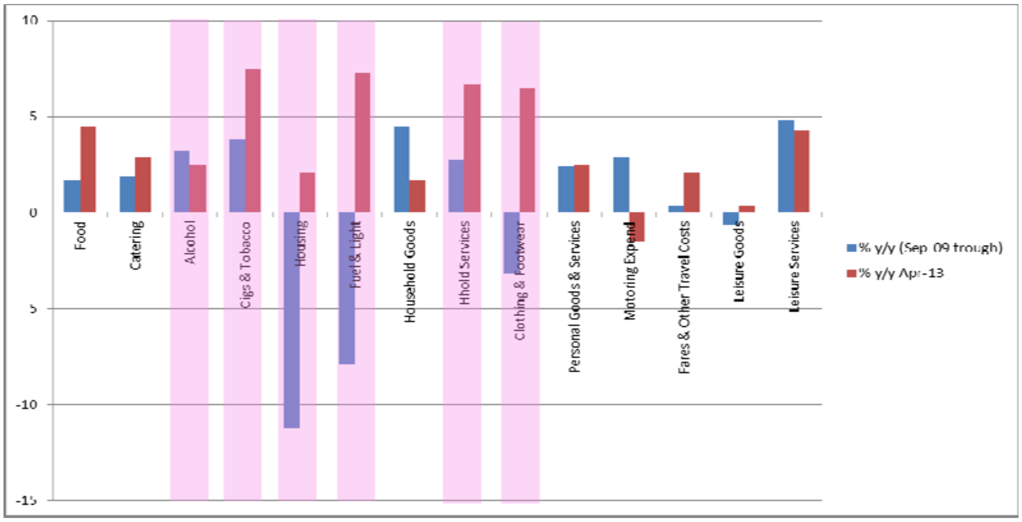
The shaded areas represent components where a one-off was at work during 2009, or where we have a pre-programmed price hike now.

Chart 3: RPI Components (% y/y) Sep-09 vs Now



More specifically:

- Housing
  - MIPS (Mortgage interest payments):
    - 2009: dived by 45% y/y — clearly a one-off
    - 2013: currently rising by 4.4% y/y, risks in both directions.
  - House price inflation:
    - 2009: dived by 10% y/y — again a one-off
    - 2013: house price inflation is around 2% y/y and rising
- Fuel & Light
    - 2009: sharp drops in wholesale gas prices provoked near-10% utility bill cuts.
    - 2013: currently rising by 7.5% y/y, no imminent price moves announced. While anything is possible, we are more likely to see rising bills than falling bills given the costs of investment in renewables and abandoning of coal fired power stations.
- Household Services
    - 2009: rising by 2.8% y/y — no major change in university tuition fees at that time
    - 2013: currently rising by 6.7% y/y — university tuition fee hikes mean this component should stay elevated.
- Clothing & Footwear
    - 2009: falling by 3.2% y/y — prior to change in collection methodology that provoked the CPAC debate.
    - 2013: currently rising by 6.5% y/y. Given CPAC ruling, this elevated pace is likely to be maintained. It is not impossible for this component to slow, but it would be very hard indeed to fall to the 2009 low-point.
- Alcohol & Tobacco
    - 2009: rising by 3.2% y/y and 3.8% y/y respectively — partly buoyed by tax increases, partly by GBP weakness
    - 2013: rising by 2.5% y/y and 7.5% y/y respectively. Tax hikes of RPI+2 are contributing to elevated prices. However, 7.5% y/y for tobacco could prove toppy.

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Taken together, these six components that are almost guaranteed to stay elevated and should continue to contribute around 2 percentage points to headline inflation. That is even before considering the contribution from the other eight components of the basket. The key point here is that the chart showing the relationship between the CPI and RPIX exaggerates the extent of the downside risks to the latter. That is not to say that we should ignore the signal from the BRC index. Rather, that signal should be kept in context. A good way to gauge this is via some scenario analysis.

Scenarios

The scenarios below take account of the components that we have a lot of information about (e.g. university tuition fees, utility bills etc) and then augment this with some potential outcomes for the remainder of the RPI basket that we know less about.

- Scenario 1 — Moderate Downside: *RPI slows to 2.7% y /y from 2.9% y/y currently*
    - The contributions to the RPI from the pre-programmed components remain stable at around 2%.
    - The contributions from the remaining components of the basket fall by a quarter.
- Scenario 2 — Big Downside: *RPI slows to 2.3% y /y from 2.9% y/y currently*
    - With the exception of tobacco, the contributions to the RPI from the pre-programmed components remain stable at around 2%.
    - The contribution from the tobacco component halves (because it is rather elevated currently).
    - The contributions of the remaining components of the basket halve.
- Scenario 3 — Upside: *RPI reaccelerates to 3.6% y /y from 2.9% y/y currently*
    - The contributions to the RPI from the pre-programmed components remain stable at around 2%;
    - Food price inflation continues to accelerate;
    - Airfares and leisure prices rebound following the temporary Easter distortion;
    - Housing accelerates helped by the Help to Buy Scheme;
    - Clothing stable;
    - Petrol prices rebound; and
    - Contribution from other components is stable

Conclusion

We are not the world's biggest fans of the BRC shop price index. That measure overlooks several components that are captured by the RPI — not least housing, airfares, petrol, and university tuition fees. It can also be misleading on a month to month basis.

Nonetheless, there is a growing feeling among investors that UK inflation is starting to lose steam and that feeling will have been supported by the BRC shop price data. While we do not expect the RPI (or CPI) measure of inflation to slow anywhere near as much as indicated by the charts above, we cannot ignore the downside risks that these relationships highlight. The drop in the overall BRC measure was underpinned by the majority of the sub-components of that index.

Our forecast for next month's RPI is 3.1% y/y up from 2.9% y/y in April. We suspect that our forecast will be below the consensus. That would mean that the headline rate of inflation recovers only half of last month's fall. There is a very good reason to aim below the pre-Easter peak. More specifically, petrol prices fell by 2.4% m/m during April and given the weekly data is likely to show a further 3% m/m fall this month. That represents a 0.2 percentage point subtraction from headline RPI inflation. Unless other components make up for that subtraction it should be hard for RPI inflation to rebound back to the pre-Easter pace during May. The bottom line is that, by all means the temporary Easter impact should reverse this month, but last month's fall was more than just an Easter effect.

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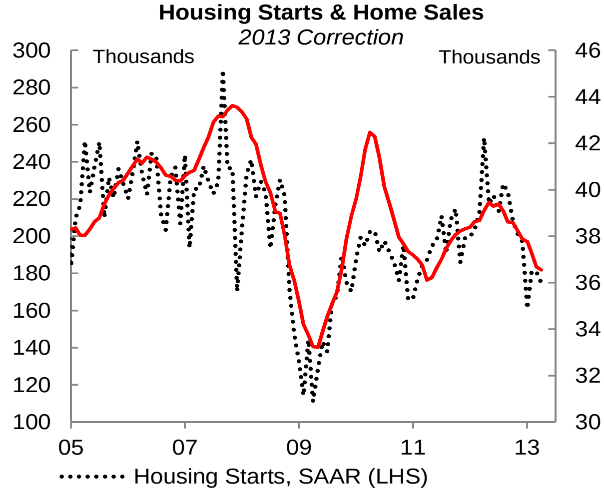
Key Data Preview

CANADA

Housing starts data for May (June 10) will help answer the question 'to what extent has residential construction been hit by the fall-off in volumes in Canadian housing sales'? Through April, existing home sales were down by 10.1% year to date compared to April 2012. That drop-off in sales is sure to transfer over into construction, and indeed, housing starts were down by 19.7% YTD through April as well. Will the weakness continue through the summer? We think that it will and we're forecasting a 170k housing starts number for May. With new home sales in Toronto dipping by a much more substantial 37.8% YTD through April (and new home sales of low-rise developments falling by a downright ugly 42.7% YTD), we see added downside risk to housing starts as softness in new home sales in a key market like Toronto is likely to be sending a bearish signal to developers. While building permits were strong in April, the strength was concentrated in multis — which have very long lead-times.

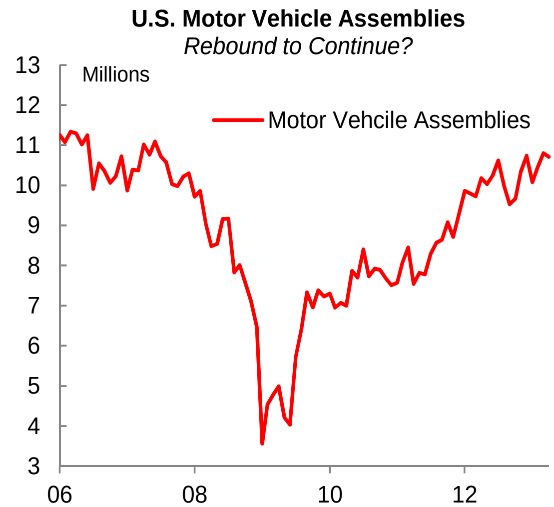


Source: CMHC, CREA, Scotiabank Economics

The outlook for **manufacturing sales** for April (June 14) is likewise fairly subdued. New orders (our preferred leading indicator for manufacturing sales) have been quite soft in recent months, with orders having fallen by a sharp 2.2% m/m in March. The trade picture was not particularly positive in April either, with exports of key industrial goods such as machinery (-5% m/m) and aircraft (-2.7% m/m) having fallen, while motor vehicle exports (+0.5% m/m) were a plus. Also, note that U.S. industrial production was quite weak at -0.5% m/m in April. The net has us anticipating a fairly soft manufacturing sales number of 0.1% m/m mainly on the expectation that there will be a subdued recuperation from March's -0.3% m/m contraction.

UNITED STATES

We're expecting a fairly moderate rebound in U.S. **industrial production** in May (June 14) after a 0.5% m/m pull-back in April. Our expectation is for a 0.2% m/m number as new orders in the U.S. were fairly soft in March (although there was a decent rebound in April — which still left overall orders trending down in Q2). The key here will be to watch the vehicle assembly figures, which accelerated very strongly in March and April on strength in the 'light trucks' category. The rebound in autos has been a key theme since early 2012 and it has become one of the private sector pillars on which the U.S. is increasingly leaning during the sequester period.



Source: Fed, Scotiabank Economics

U.S. **retail sales** numbers (June 13) have also been somewhat of a surprise year-to-date: retail sales have been unspectacular but still solid through April — in spite of headwinds from falling disposable incomes due to tax hikes. Thus far through 2013, nominal retail sales are up by close to 1% over the four months through April. We're expecting a moderate uptick in nominal retail sales in May, with higher gasoline prices and automotive sales expected to boost overall retail turnover by 0.4% during the month. One risk here is that the ICSC chain store sales index turned south during the month, leading us to expect 'core' sales that strip out autos to underperform headline.

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EUROPE

With anti-government protests still on-going around the country, the first-quarter GDP estimates for Turkey will be reported next week on June 11th. The pace of growth decelerated considerably in the latter half of 2012, limiting the overall expansion to just 2.3% for the year (down from 8.8% in 2011). Domestic demand led the slowdown, with both consumer spending and investment contracting in yearly terms. Unlike in many of its emerging market and European peers, the start of 2013 brought an improvement in economic conditions in Turkey. Industrial production picked up in January-February (outweighing the disappointing print in March), while renewed strength in private sector credit flows and lower inflation have supported household spending. Consumer and industrial confidence indicators have also turned upward in recent months. The external story has been less positive, with sluggish global demand weighing on exports and the current account deficit (the improvement of which has stalled since late last year). We anticipate a modest real GDP gain of around 2.0% y/y in the first quarter (up from 1.4% in October-December), followed by a more appreciable acceleration in the second half of the year supported by monetary easing and recuperating global momentum. Worth noting, however, is the risk that recent (increasingly violent) social unrest, if persistent, could adversely affect foreign investor sentiment, leading to a reversal of capital flows, foreign exchange volatility, higher inflation and lower growth.

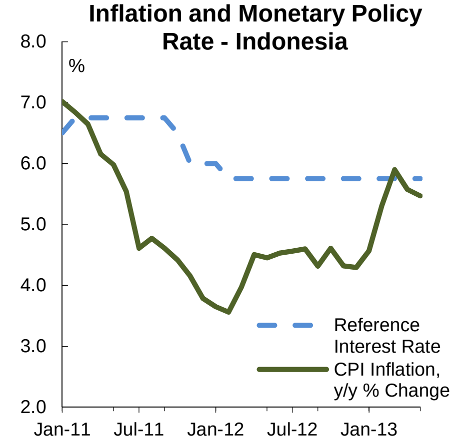
LATIN AMERICA

After a weak first-quarter real GDP report in Mexico and the strong slump in industrial activity in March, industrial production (IP) for April will regain attention among investors. In the first three months of the year, IP contracted by 1.5% y/y, posting in March the biggest monthly contraction since the last quarter of 2009. Fewer working days as a result of Easter holidays have weighed on IP; however, not all of the negative effect is explained by calendar factors. Construction (closely related to the change in government) and the manufacturing sector plummeted 5.2% y/y and 5.8%, respectively. Additionally the automotive sector has slowed; nonetheless, the significant investment in this area will boost production in the medium and long term. We foresee that this economic moderation will prove to be temporary and activity will resume its upward trend in the second half of the year.

Source: Thomson Reuters.

ASIA

Indonesian policymakers will meet on June 13th. Weak global growth conditions have allowed Bank Indonesia, the central bank, to maintain a loose monetary policy stance, keeping the reference interest rate at a record low level of 5.75% since February 2012. While we expect no changes to monetary conditions next week, we assess that a cautious monetary tightening phase will commence in the final months of the year, reflecting persistent weakening pressures on the Indonesian rupiah (IDR) and accelerating inflation. Large current account financing needs continue to keep the IDR under pressure; we expect the currency to close the year at 10,100 per US dollar, representing a 3% depreciation since the end of 2012. Inflation will likely trend higher in the coming months from the May level of 5.5% y/y; we expect the annual inflation rate to reach 6.3% by the end of the year, continuing to exceed the central bank's 3½-5½% target range. At the same time, any increases in subsidized energy prices would significantly add to price pressures.



Source: Bloomberg.

Key Indicators for the week of June 10 - 14

North America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
MX	06/10	09:00	Trade Balance (US$ mn)	Apr F	--	--	-1225.0
MX	06/11	09:00	Industrial Production (m/m)	Apr	--	0.5	-0.3
MX	06/11	09:00	Industrial Production (y/y)	Apr	1.8	3.8	-4.9
US	06/11	10:00	Wholesale Inventories (m/m)	Apr	--	0.2	0.4
US	06/12	07:00	MBA Mortgage Applications (w/w)	JUN 7	--	--	-11.5
CA	06/12	08:15	Housing Starts (000s a.r.)	May	170.0	178.1	174.9
CA	06/12	09:00	Teranet - National Bank HPI (y/y)	May	--	--	2.0
US	06/12	14:00	Treasury Budget (US$ bn)	May	--	-110.0	112.9
CA	06/13	08:30	Capacity Utilization (%)	1Q	--	81.6	80.7
CA	06/13	08:30	New Housing Price Index (m/m)	Apr	--	0.1	0.1
US	06/13	08:30	Continuing Claims (000s)	JUN 1	2945	2992	2952
US	06/13	08:30	Initial Jobless Claims (000s)	JUN 8	350	345	346
US	06/13	08:30	Export Prices (m/m)	May	--	0.0	-0.5
US	06/13	08:30	Import Prices (m/m)	May	--	0.0	-0.5
US	06/13	08:30	Retail Sales (m/m)	May	0.4	0.4	0.1
US	06/13	08:30	Retail Sales ex. Autos (m/m)	May	0.2	0.3	-0.2
US	06/13	10:00	Business Inventories (m/m)	Apr	--	0.3	0.0
CA	06/14	08:30	Manufacturing Shipments (m/m)	Apr	0.1	0.3	-0.3
US	06/14	08:30	Current Account (US$ bn)	1Q	--	-111.3	-110.4
US	06/14	08:30	PPI (m/m)	May	--	0.1	-0.7
US	06/14	08:30	PPI ex. Food & Energy (m/m)	May	--	0.1	0.1
US	06/14	09:15	Capacity Utilization (%)	May	--	77.9	77.8
US	06/14	09:15	Industrial Production (m/m)	May	0.2	0.2	-0.5
US	06/14	09:55	U. of Michigan Consumer Sentiment	Jun P	84.5	84.5	84.5

Europe

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
FR	06/10	02:45	Industrial Production (m/m)	Apr	0.0	0.3	-0.9
FR	06/10	02:45	Industrial Production (y/y)	Apr	-4.3	-4.0	-2.5
FR	06/10	02:45	Manufacturing Production (m/m)	Apr	0.0	0.5	-1.0
IT	06/10	04:00	Industrial Production (y/y)	Apr	-4.0	-3.6	-5.2
EC	06/10	04:30	Sentix Investor Confidence	Jun	-10.0	-11.3	-15.6
IT	06/10	05:00	Real GDP (q/q)	1Q F	-0.5	-0.5	-0.5
RU	06/10	07:59	**Russia Refinancing Rate (%)**	**Jun 10**	**8.25**	**8.25**	**8.25**
TU	06/11	03:00	Real GDP (y/y)	1Q	2.0	2.3	1.4
UK	06/11	04:30	Industrial Production (m/m)	Apr	-0.3	0.0	0.7
UK	06/11	04:30	Manufacturing Production (m/m)	Apr	-0.3	-0.2	1.1
FR	06/12	01:30	Non-Farm Payrolls (q/q)	1Q F	--	-0.1	-0.1
GE	06/12	02:00	CPI (y/y)	May F	1.5	1.5	1.5
GE	06/12	02:00	CPI - EU Harmonized (y/y)	May F	1.7	1.7	1.7
FR	06/12	02:45	CPI (y/y)	May	0.1	0.9	0.7
FR	06/12	02:45	CPI - EU Harmonized (m/m)	May	0.8	0.1	-0.1
FR	06/12	02:45	CPI - EU Harmonized (y/y)	May	0.1	0.9	0.8
FR	06/12	02:45	Current Account (€ bn)	May	0.9	--	-2.9
SP	06/12	03:00	CPI (y/y)	May F	1.7	1.7	1.7
SP	06/12	03:00	CPI - EU Harmonized (y/y)	May F	1.8	1.8	1.8
IT	06/12	04:00	CPI - EU Harmonized (y/y)	May F	1.3	1.3	1.3

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

Key Indicators for the week of June 10 - 14

Europe *(continued from previous page)*

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
UK	06/12	04:30	Average Weekly Earnings (3-month, y/y)	Apr	-0.1	0.2	0.4
UK	06/12	04:30	Employment Change (3M/3M, 000s)	Apr	-24.0	-10.0	-43.0
UK	06/12	04:30	Jobless Claims Change (000s)	May	-10.0	-5.5	-7.3
UK	06/12	04:30	ILO Unemployment Rate (%)	Apr	7.8	7.8	7.8
EC	06/12	05:00	Industrial Production (m/m)	Apr	-0.2	0.0	1.0
EC	06/12	05:00	Industrial Production (y/y)	Apr	-1.3	-1.1	-1.7
EC	06/14	05:00	CPI (m/m)	May	0.1	0.1	0.1
EC	06/14	05:00	CPI (y/y)	May F	1.4	1.4	1.2
EC	06/14	05:00	CPI - Core (y/y)	May F	1.2	1.2	1.2

Asia Pacific

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CH	06/08	06:59	Exports (y/y)	May	--	7.4	14.7
CH	06/08	06:59	Imports (y/y)	May	--	6.6	16.8
CH	06/08	06:59	Trade Balance (USD bn)	May	--	20.0	18.2
CH	06/08	21:30	CPI (y/y)	May	2.5	2.5	2.4
CH	06/08	21:30	PPI (y/y)	May	--	-2.5	-2.6
CH	06/09	01:30	Fixed Asset Investment YTD (y/y)	May	--	20.5	20.6
CH	06/09	01:30	Industrial Production (y/y)	May	--	9.4	9.3
CH	06/09	01:30	Retail Sales (y/y)	May	--	12.9	12.8
NZ	06/09	18:45	Manufacturing Activity	1Q	--	--	0.0
JN	06/09	19:50	Bank Lending (y/y)	May	--	1.8	1.7
JN	06/09	19:50	Current Account (¥ bn)	Apr	--	350.0	1251.2
JN	06/09	19:50	GDP (q/q)	1Q F	0.9	0.9	0.9
JN	06/09	19:50	GDP Deflator (y/y)	1Q F	-1.2	-1.2	-1.2
JN	06/09	19:50	Trade Balance - BOP Basis (¥ bn)	Apr	--	-729.9	-219.9
NZ	06/09	20:00	QV House Prices (y/y)	May	--	--	7.1
JN	06/10	01:00	Consumer Confidence	May	--	44.7	44.5
JN	06/10	02:00	Eco Watchers Survey (current)	May	--	56.1	56.5
JN	06/10	02:00	Eco Watchers Survey (outlook)	May	--	57.1	57.8
CH	06/10	06:59	Aggregate Financing (CNY bn)	May	--	1600.0	1747.0
CH	06/10	06:59	New Yuan Loans (bn)	May	--	815.0	792.9
IN	06/10	06:59	Exports (y/y)	May	--	--	1.7
IN	06/10	06:59	Imports (y/y)	May	--	--	11.0
NZ	06/10	06:59	REINZ House Sales (y/y)	May	--	--	25.2
NZ	06/10	06:59	REINZ Housing Price Index (m/m)	May	--	--	0.8
JN	06/10	19:50	Japan Money Stock M2 (y/y)	May	--	3.5	3.3
JN	06/10	19:50	Japan Money Stock M3 (y/y)	May	--	2.8	2.6
PH	06/10	21:00	Exports (y/y)	Apr	--	-4.0	0.1
PH	06/10	21:00	Unemployment Rate (%)	Apr	--	--	7.1
AU	06/10	21:30	Home Loans (%)	Apr	--	2.0	5.2
AU	06/10	21:30	Investment Lending (% change)	Apr	--	--	2.1
MA	06/11	00:01	Industrial Production (y/y)	Apr	--	1.5	-0.2
JN	06/11	02:00	Machine Tool Orders (y/y)	May P	--	--	-23.6
JN	06/11	07:59	**BoJ Target Rate (%)**	**Jun 11**	**0.10**	**--**	**0.10**
SK	06/11	19:00	Unemployment Rate (%)	May	3.1	3.1	3.1
JN	06/11	19:50	Machine Orders (m/m)	Apr	--	-8.2	14.2
IN	06/12	01:30	Industrial Production (y/y)	Apr	--	2.3	2.5
IN	06/12	06:59	CPI (y/y)	May	--	9.0	9.4

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

Key Indicators for the week of June 10 - 14

Asia Pacific *(continued from previous page)*

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
NZ	06/12	17:00	**RBNZ Official Cash Rate (%)**	**Jun 13**	**2.50**	**2.50**	**2.50**
AU	06/12	21:00	Consumer Inflation Expectation (%)	Jun	--	--	2.3
SK	06/12	21:00	**BoK Base Rate (%)**	**Jun 13**	**2.50**	**2.50**	**2.50**
AU	06/12	21:30	Employment (000s)	May	--	-10.0	50.1
AU	06/12	21:30	Unemployment Rate (%)	May	5.5	5.6	5.5
PH	06/13	04:00	**Overnight Borrowing Rate (%)**	**Jun 13**	**3.50**	**3.50**	**3.50**
ID	06/13	06:59	**BI Reference Interest Rate (%)**	**Jun 13**	**5.75**	**5.75**	**5.75**
NZ	06/13	18:30	Business NZ PMI	May	--	--	54.5
SI	06/13	22:00	Unemployment Rate (%)	1Q F	1.9	--	1.9
SI	06/14	01:00	Retail Sales (m/m)	Apr	--	--	-5.4
SI	06/14	01:00	Retail Sales (y/y)	Apr	--	-3.9	-7.4
IN	06/14	02:30	Monthly Wholesale Prices (y/y)	May	5.0	4.9	4.9
HK	06/14	04:30	Industrial Production (y/y)	1Q	--	--	1.3
CH	06/14	06:59	Actual FDI (y/y)	May	--	--	0.4
HK	06/14	06:59	**Composite Interest Rate (%)**	May	--	--	0.3

Latin America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
PE	06/11	06:59	Trade Balance (PEN mn)	Apr	--	--	302.0
BZ	06/13	08:00	Retail Sales (m/m)	Apr	--	1.8	-0.1
BZ	06/13	08:00	Retail Sales (y/y)	Apr	--	3.7	4.5
CL	06/13	18:00	**Nominal Overnight Rate Target (%)**	**Jun 13**	**5.00**	**5.00**	**5.00**
PE	06/13	19:00	**Reference Rate (%)**	**Jun**	**4.25**	**4.25**	**4.25**
PE	06/14	06:59	Economic Activity Index NSA (y/y)	Apr	--	--	3.0
BZ	06/14	07:59	Economic Activity Index SA (m/m)	Apr	--	--	0.7
BZ	06/14	07:59	Economic Activity Index NSA (y/y)	Apr	--	--	1.2

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

Global Auctions for the week of June 10 - 14

North America

Country	Date	Time	Event
US	06/10	11:00	U.S. Fed to Purchase USD1.00-1.50 Bln Notes
US	06/10	11:30	U.S. to Sell USD30 Bln 3-Month Bills
US	06/10	11:30	U.S. to Sell USD25 Bln 6-Month Bills
US	06/11	11:00	U.S. Fed to Purchase USD1.25-1.75 Bln Notes
US	06/11	11:30	U.S. to Sell 4-Week Bills
US	06/11	13:00	U.S. to Sell USD32 Bln 3-Year Notes
US	06/12	11:00	U.S. Fed to Purchase USD0.75-1.00 Bln Notes
CA	06/12	12:00	Canada to Sell 2 Year Notes
US	06/12	13:00	U.S. to Sell USD21 Bln 10-Year Notes Reopening
US	06/13	11:00	U.S. Fed to Purchase USD2.75-3.50 Bln Notes
US	06/13	13:00	U.S. to Sell USD13 Bln 30-Year Bonds Reopening
US	06/14	11:00	U.S. Fed to Purchase USD1.25-1.75 Bln Notes

Europe

Country	Date	Time	Event
GE	06/10	05:00	Germany to Sell EUR4 Bln 182-Day Bills
FR	06/10	08:50	France to Sell Bills
NE	06/11	04:00	Netherlands to Sell Up to EUR3.5 Bln 0% 2016 Bonds
SZ	06/11	05:30	Switzerland to Sell 3-Month Bills
UK	06/11	05:30	U.K. to Sell GBP3.75 Bln 2.25% 2023 Bonds
NO	06/11	06:00	Norway to Sell NOK3 Bln 4.25% 2017 Bonds
IT	06/12	05:00	Italy to Sell 3-Month and 12-Month Bills
SW	06/12	05:03	Sweden to Sell SEK3.5 Bln 1.5% 2023 Bonds
SZ	06/12	05:30	Switzerland to Sell Bonds
GE	06/12	05:30	Germany to Sell EUR5 Bln 0% 2015 Bonds
IT	06/13	05:00	Italy to Sell 3-Year Bonds
UK	06/13	05:30	U.K. to Sell Bonds
BE	06/14	06:00	Belgium to Sell Bonds
UK	06/14	06:10	U.K. to Sell Bills

Asia Pacific

Country	Date	Time	Event
CH	06/09	23:00	China to Sell 3-Year Savings Bonds
CH	06/09	23:00	China to Sell 5-Year Savings Bonds
JN	06/11	23:35	Japan to Sell 2-Month Bill
JN	06/12	04:00	Japan Auction for Enhanced-Liquidity
JN	06/12	23:35	Japan to Sell 3-Month Bill
CH	06/09	23:00	China to Sell CNY15Bln 273-Day Bills
JN	06/13	23:45	Japan to Sell 5-Year Bonds

Source: Bloomberg, Scotiabank Economics.

Events for the week of June 10 - 14

North America

Country	Date	Time	Event
US	07-08 JUN		U.S. President Obama Meets with Chinese President Xi
US	09-12 JUN		ABA Regulatory Compliance Conference
US	06/10	09:50	St. Louis Fed's Bullard to Speak in Montreal
US	06/10	14:00	Fed's Southeast New Mexico Economy Free Conference
CA	10-13 JUN		International Economic Forum Conference of Montreal
CA	06/11	12:00	Opposition Leader Mulcair Speaks at Canadian Club
CA	06/13	10:30	Bank of Canada Releases Financial System Review
CA	06/13	11:30	U.S. Ambassador to Canada Jacobson Speaks at Canadian Club
US	06/14		S&P Dow Jones Index Quarterly Review Final Announcement

Europe

Country	Date	Time	Event
FR	06-08 JUN		French President Francois Hollande visits Japan
SP	06/08	05:00	Prime Minister Rajoy Speaks in Castellon
GE	06/08	08:30	Merkel Gives Speech at CDU-CSU Women's Meeting in Munich
IT	06/08		Italian PM Letta Speaks in Florence
EC	06/10	03:00	EU's Van Rompuy Speaks at Conference in Brussels
EC	06/10	04:00	ECB's Coeure Speaks in Vienna
FR	06/10	05:45	France's Hollande Hosts Finland's Katainen in Paris
GE	06/10	07:30	Deutsche Bank's Fitschen on Parliamentary Podium: Berlin
EC	06/10	13:00	Luxembourg's Juncker Speaks in Athens
SZ	06/10	15:00	Swiss National Bank Vice President Danthine Speaks in Montreal
RU	06/10		**Russia Refinancing Rate**
AS	10-11 JUN		ECB's Nowotny, Couere, Austria's Fekter at Vienna Conference
FI	06/11	03:00	ECB's Liikanen Speaks at Bank of Finland Briefing in Helsinki
EC	06/11	12:30	ECB's Praet Speaks in Frankfurt
UK	06/12	04:30	BOE FPC Members Questioned by Lawmakers
UK	06/12	04:30	FPC's Donald Kohn Speaks at U.K. Treasury Committee
UK	06/12	05:00	BOE's Haldane Speaks at U.K. Treasury Committee
EC	06/12	07:30	ECB's Coeure Speaks in Berlin
UK	06/12	11:30	FTSE Index Quarterly Rebalance
PO	06/12		Bank of Portugal Releases Data on Banks
EC	06/13	03:10	ECB's Asmussen Speaks in Dubrovnik, Croatia
EC	06/13	04:00	ECB Publishes Monthly Bulletin
GE	06/13	06:30	SPD Chancellor Candidate Steinbrueck Briefs Foreign Reporters
EC	06/13	11:30	ECB's Coeure Speaks in Berlin
SP	13-15 JUN		World Cities Summit Mayors Forum
SP	06/14	02:00	Spain Economy Minister Meets Counterparts in Rome
EC	06/14	03:00	EU Trade Ministers Meet in Brussels
SP	06/14	04:00	Bank of Spain Releases Public Debt Data (1Q)
IT	06/14	04:30	Bank of Italy Releases Apr. Public Finance Supplement
PO	06/14	05:00	Portuguese Prime Minister Attends Debate in Parliament
EC	06/14	06:00	ECB Announces 3-Year LTRO Repayment
GE	06/14	07:00	DIW President Fratzscher Briefs on German Role in EU: Berlin

Source: Bloomberg, Scotiabank Economics.

Events for the week of June 10 - 14

Asia Pacific

Country	Date	Time	Event
CH	05-08 JUN		JPMorgan's Dimon, ANZ's Smith Speak at Fortune Forum in China
FR	06-08 JUN		French President Francois Hollande visits Japan
IN	05-08 JUN		Bharatiya Janata Party National Convention
MA	05-08 JUN		Global Summit of Women Hosted in Malaysia
US	07-08 JUN		U.S. President Obama Meets with Chinese President Xi
CH	07-11 JUN		China International Consumer Goods Fair
TH	09-11 JUN		Thailand Delegation Meets with Cambodian Delegation
CA	06/10	16:30	Indian Advisor to the Prime Minister Speaks at U of Toronto
JN	10-11 JUN		World Economic Forum Meeting on Japan
JN	10-11 JUN		**BOJ Target Rate**
JN	10-11 JUN		BOJ 2014 Monetary Base Target
AU	06/11	20:00	Australian Bureau of Agriculture Releases Crop Report
JN	06/12	01:00	Bank of Japan's Monthly Economic Report for June (Table)
NZ	06/12	17:00	**RBNZ Official Cash Rate**
NZ	06/12	17:00	RBNZ Monetary Policy Statement
NZ	06/12	17:05	RBNZ Governor News Conference
SK	06/12	21:00	**South Korea 7-Day Repo Rate**
ID	12-13 JUN		**Bank Indonesia Reference Rate**
JN	12-13 JUN		BoJ Board Member Shirai Speaks With Business Leaders
PH	06/13	04:00	**Overnight Borrowing Rate**
JN	06/13	19:50	Bank of Japan May 21-22 meeting minutes
SP	13-15 JUN		World Cities Summit Mayors Forum
HK	13-18 JUN		**Composite Interest Rate**
IA	06/14		Iranian Presidential Election

Latin America

Country	Date	Time	Event
PE	06/11		Peruvian President Humala Visits the White House
CL	06/13	18:00	**Nominal Overnight Rate Target**
PE	06/13	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	July 17, 2013	1.00	--
Federal Reserve – Federal Funds Target Rate	0.25	June 19, 2013	0.25	0.25
Banco de México – Overnight Rate	4.00	July 12, 2013	4.00	--

BoC: New BoC Governor Poloz's initial policy discussion strongly emphasized the fact that CPI is 'undershooting' the BoC's target and that monetary policy has a role to play in ameliorating conditions for the export sector. Expectations for dovish rhetoric at the BoC's July meeting were somewhat weakened by May's strong jobs report (+95k). We continue to see the BoC on hold through 2014. Fed: a soft non-farm payrolls number for May (+175k) brought the 3-month average payroll gain to an anemic 155k. We think that this is too soft to cause the Fed to taper asset purchases at its June meeting.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	0.50	July 4, 2013	0.50	--
Bank of England – Bank Rate	0.50	July 4, 2013	0.50	0.50
Swiss National Bank – Libor Target Rate	0.00	June 20, 2013	0.00	--
Central Bank of Russia – Refinancing Rate	8.25	June 10, 2013	8.25	8.25
Hungarian National Bank – Base Rate	4.50	June 25, 2013	4.50	4.25
Central Bank of the Republic of Turkey – 1 Wk Repo Rate	4.50	June 18, 2013	4.50	--
Sweden Riksbank – Repo Rate	1.00	July 3, 2013	1.00	--
Norges Bank – Deposit Rate	1.50	June 20, 2013	1.50	--

The Russian central bank will likely leave the reference rate unchanged at 8.25% once again next week. Inflation ticked up again in May from 7.2% y/y to 7.4%, its highest since August 2011, on the back of food cost pressures and regulated prices. The central bank's projections show inflation returning to the target range in the second half of the year, in the absence of any food-related shocks. Economic conditions remain subdued; real GDP growth decelerated to just 1.6% y/y in the first quarter, although this was slightly better than initial government estimates, and there is a risk for further slowing in the second quarter in light of lackluster global demand. If this scenario does materialize (falling inflation and continued economic sluggishness), monetary authorities may opt for lower rates by year-end.

Asia Pacific

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Japan – Target Rate	0.10	June 11, 2013	0.10	--
Reserve Bank of Australia – Cash Target Rate	2.75	July 2, 2013	2.75	2.75
Reserve Bank of New Zealand – Cash Rate	2.50	June 12, 2013	2.50	2.50
People's Bank of China – Lending Rate	6.00	TBA	--	--
Reserve Bank of India – Repo Rate	7.25	June 17, 2013	7.00	7.25
Bank of Korea – Bank Rate	2.50	June 12, 2013	2.50	2.50
Bank of Thailand – Repo Rate	2.50	July 10, 2013	2.50	--
Bank Indonesia – Reference Interest Rate	5.75	June 13, 2013	5.75	5.75

The monetary authorities of Japan, South Korea, New Zealand, and Indonesia will meet next week. Given recent stimulus measures in Japan and South Korea, we do not expect further monetary easing initiatives in the near term as the countries' authorities will allow previous actions to filter through the economy. The Cash Rate of the Reserve Bank of New Zealand will likely remain unchanged as well. Following the most recent policy meeting in April, the country's monetary authorities stated that the benchmark rate will likely be maintained at a record low of 2.5% through the end of the year. For insights regarding our view on Bank Indonesia, please refer to Key Data Preview on Asia on page A2.

Latin America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	8.00	July 10, 2013	8.50	--
Banco Central de Chile – Overnight Rate	5.00	June 13, 2013	5.00	5.00
Banco de la República de Colombia – Lending Rate	3.25	June 28, 2013	3.25	--
Banco Central de Reserva del Perú – Reference Rate	4.25	June 13, 2013	4.25	4.25

Although inflation remains below the Chilean central bank's target and economic activity has slowed more than initially expected, we do not anticipate any changes to the reference rate – currently at 5.0%. However, we expect a more dovish statement to be released after the meeting. Similarly, we do not foresee any monetary adjustment in Peru, where the reference rate remains at 4.25% since mid-2011.

Africa

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
South African Reserve Bank – Repo Rate	5.00	July 18, 2013	5.00	--

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

Forecasts as at May 30, 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	3.1	3.1	3.7				
Canada	2.2	1.7	1.7	2.3	2.1	1.5	1.1	1.8
United States	1.8	2.2	2.1	2.7	2.5	2.1	1.6	2.0
Mexico	2.2	3.9	3.0	4.2	4.8	3.6	4.2	4.1
United Kingdom	1.9	0.3	0.6	1.1	2.3	2.7	2.5	2.4
Euro Zone	1.4	-0.5	-0.7	0.7	2.1	2.2	1.4	1.6
Japan	0.8	2.0	1.4	1.5	-0.3	-0.1	0.7	1.2
Australia	3.0	3.6	2.6	3.0	3.1	2.2	2.5	3.0
China	9.4	7.8	7.9	8.0	2.4	2.5	3.3	3.9
India	7.4	5.0	5.4	5.9	6.6	7.3	5.6	6.5
South Korea	4.5	2.0	2.5	3.5	3.2	1.4	2.2	2.9
Thailand	4.0	6.5	4.5	4.2	2.6	3.6	2.5	3.2
Brazil	3.6	0.9	3.0	3.5	6.6	5.8	5.8	6.0
Chile	4.4	5.6	4.9	5.0	3.4	1.5	2.6	3.3
Peru	5.6	6.3	5.9	6.1	2.6	2.6	2.9	3.0

Central Bank Rates (%, end of period)	12Q4	13Q1	13Q2f	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	2.75	2.75	3.00	3.00	3.25
Exchange Rates (end of period)								
Canadian Dollar (USDCAD)	0.99	1.02	1.05	1.03	1.02	1.02	1.01	1.00
Canadian Dollar (CADUSD)	1.01	0.98	0.95	0.97	0.98	0.98	0.99	1.00
Euro (EURUSD)	1.32	1.28	1.27	1.26	1.25	1.25	1.24	1.24
Sterling (GBPUSD)	1.63	1.52	1.49	1.47	1.45	1.45	1.45	1.44
Yen (USDJPY)	87	94	102	104	105	106	107	109
Australian Dollar (AUDUSD)	1.04	1.04	0.96	0.98	1.02	1.04	1.06	1.08
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	12.1	12.1	12.2	12.3	12.2	12.2
Brazilian Real (USDBRL)	2.05	2.02	2.01	2.01	2.00	2.01	2.02	2.04

Commodities (annual average)	2000-11	2012	2013f	2014f
WTI Oil (US$/bbl)	57	94	94	96
Brent Oil (US$/bbl)	58	112	108	110
Nymex Natural Gas (US$/mmbtu)	5.67	2.83	4.00	4.50
Copper (US$/lb)	2.10	3.61	3.40	3.20
Zinc (US$/lb)	0.77	0.88	0.92	1.10
Nickel (US$/lb)	7.62	7.95	7.25	8.15
Gold, London PM Fix (US$/oz)	668	1,670	1,450	1,350
Pulp (US$/tonne)	718	872	907	870
Newsprint (US$/tonne)	581	640	620	660
Lumber (US$/mfbm)	272	299	375	400

[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	12Q3	12Q4	Latest	
Real GDP (annual rates)	1.7	0.8	0.9	2.5	(Q1)
Current Acc. Bal. (C$B, ar)	-62.2	-68.8	-58.5		
Merch. Trade Bal. (C$B, ar)	-12.0	-20.6	-8.6	-6.8	(Apr)
Industrial Production	0.9	-0.2	-0.6	2.1	(Mar)
Housing Starts (000s)	215	222	202	175	(Apr)
Employment	1.2	1.0	1.6	1.4	(May)
Unemployment Rate (%)	7.3	7.3	7.2	7.1	(May)
Retail Sales	2.5	2.5	1.0	1.1	(Mar)
Auto Sales (000s)	1674	1660	1666	1665	(Mar)
CPI	1.5	1.2	0.9	0.4	(Apr)
IPPI	0.6	0.0	-0.1	0.0	(Apr)
Pre-tax Corp. Profits	-4.9	-8.5	-12.9		

United States	2012	12Q3	12Q4	Latest	
Real GDP (annual rates)	2.2	3.1	0.4	2.5	(Q1-S)
Current Acc. Bal. (US$B, ar)	-475	-450	-442		
Merch. Trade Bal. (US$B, ar)	-741	-716	-730	-703	(Apr)
Industrial Production	3.6	3.4	2.8	2.5	(Apr)
Housing Starts (millions)	0.78	0.78	0.90	0.85	(Apr)
Employment	1.7	1.7	1.6	1.6	(May)
Unemployment Rate (%)	8.1	8.0	7.8	7.6	(May)
Retail Sales	5.1	4.9	4.5	3.7	(Apr)
Auto Sales (millions)	14.4	14.5	15.0	15.2	(May)
CPI	2.1	1.7	1.9	1.1	(Apr)
PPI	1.9	1.5	1.7	0.6	(Apr)
Pre-tax Corp. Profits	16.6	19.3	14.7		

Mexico					
Real GDP	3.9	3.2	3.2		
Current Acc. Bal. (US$B, ar)	-11.4	-4.6	-28.1		
Merch. Trade Bal. (US$B, ar)	0.0	-4.7	-7.7	-14.7	(Apr)
Industrial Production	3.6	3.6	1.8	-4.9	(Mar)
CPI	4.1	4.6	4.1	4.6	(May)

Europe

Euro Zone	2012	12Q3	12Q4	Latest	
Real GDP	-0.6	-0.7	-1.0		
Current Acc. Bal. (US$B, ar)	149	204	309	385	(Mar)
Merch. Trade Bal. (US$B, ar)	129.3	151.6	196.6	372.2	(Mar)
Industrial Production	-2.3	-2.4	-3.1	-1.6	(Mar)
Unemployment Rate (%)	11.3	11.5	11.8	12.1	(Apr)
CPI	2.5	2.5	2.3	1.2	(Apr)

Germany	2012	12Q3	12Q4	Latest	
Real GDP	0.9	0.9	0.3		
Current Acc. Bal. (US$B, ar)	238.6	225.0	278.0	275.1	(Apr)
Merch. Trade Bal. (US$B, ar)	243.2	253.3	243.3	276.8	(Apr)
Industrial Production	-0.4	-0.7	-2.4	1.0	(Apr)
Unemployment Rate (%)	6.8	6.8	6.9	6.9	(May)
CPI	2.0	2.0	2.0	3.4	(May)

France					
Real GDP	0.0	0.0	-0.3		
Current Acc. Bal. (US$B, ar)	-60.2	-41.4	-58.0	-67.2	(Mar)
Merch. Trade Bal. (US$B, ar)	-52.1	-49.7	-47.7	-41.6	(Apr)
Industrial Production	-2.3	-1.6	-3.3	-2.5	(Mar)
Unemployment Rate (%)	10.2	10.3	10.5	11.0	(Apr)
CPI	2.0	2.0	1.5	0.7	(Apr)

United Kingdom					
Real GDP	0.3	0.4	0.2		
Current Acc. Bal. (US$B, ar)	-91.4	-111.9	-76.0		
Merch. Trade Bal. (US$B, ar)	-168.6	-164.5	-174.3	-151.0	(Apr)
Industrial Production	-2.4	-1.7	-2.6	-1.3	(Mar)
Unemployment Rate (%)	8.0	7.8	7.8	7.8	(Feb)
CPI	2.8	2.4	2.7	2.4	(Apr)

Italy					
Real GDP	-2.4	-2.6	-2.8		
Current Acc. Bal. (US$B, ar)	-11.3	3.2	25.2	29.8	(Mar)
Merch. Trade Bal. (US$B, ar)	13.8	23.0	35.7	50.4	(Mar)
Industrial Production	-6.3	-6.0	-6.6	-5.0	(Mar)
CPI	3.1	3.2	2.5	1.1	(Apr)

Russia					
Real GDP	3.4	3.0	2.1		
Current Acc. Bal. (US$B, ar)	74.8	6.3	12.8		
Merch. Trade Bal. (US$B, ar)	16.1	12.8	15.5	16.1	(Mar)
Industrial Production	-5.3	2.5	1.7	2.3	(Apr)
CPI	5.1	6.0	6.5	7.4	(May)

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

Source: Bloomberg, Global Insight, Scotiabank Economics.

Asia Pacific

Australia	2012	12Q3	12Q4	Latest
Real GDP	3.6	3.3	3.2	
Current Acc. Bal. (US$B, ar)	-56.4	-67.8	-67.6	
Merch. Trade Bal. (US$B, ar)	6.1	1.7	-6.4	26.9 (Apr)
Industrial Production	3.8	4.3	3.7	
Unemployment Rate (%)	5.2	5.3	5.4	5.5 (Apr)
CPI	1.8	2.0	2.2	

Japan	2012	12Q3	12Q4	Latest
Real GDP	2.0	0.4	0.4	
Current Acc. Bal. (US$B, ar)	60.4	82.4	1.4	158.5 (Mar)
Merch. Trade Bal. (US$B, ar)	-85.7	-96.7	-105.9	-93.9 (Apr)
Industrial Production	-1.0	-4.6	-6.7	-3.7 (Apr)
Unemployment Rate (%)	4.4	4.3	4.2	4.1 (Apr)
CPI	0.0	-0.4	-0.2	-0.7 (Apr)

South Korea	2012	12Q3	12Q4	Latest
Real GDP	2.0	1.6	1.5	
Current Acc. Bal. (US$B, ar)	43.1	58.2	59.3	47.7 (Apr)
Merch. Trade Bal. (US$B, ar)	28.3	29.9	39.8	72.3 (May)
Industrial Production	1.2	-1.6	1.9	-1.1 (Apr)
CPI	2.2	1.6	1.7	3.4 (May)

China	2012	12Q3	12Q4	Latest
Real GDP	10.4	7.4	7.9	
Current Acc. Bal. (US$B, ar)	290.0			
Merch. Trade Bal. (US$B, ar)	230.7	316.5	332.0	217.9 (Apr)
Industrial Production	10.3	9.2	10.3	9.3 (Apr)
CPI	2.5	1.9	2.5	2.4 (Apr)

Thailand	2012	12Q3	12Q4	Latest
Real GDP	6.5	3.1	19.1	
Current Acc. Bal. (US$B, ar)	2.7	2.7	0.9	
Merch. Trade Bal. (US$B, ar)	0.7	1.7	0.3	-1.6 (Apr)
Industrial Production	2.3	-10.0	42.8	-4.8 (Apr)
CPI	3.0	2.9	3.2	2.3 (May)

India	2012	12Q3	12Q4	Latest
Real GDP	5.1	5.2	4.7	
Current Acc. Bal. (US$B, ar)	-93.3	-22.6	-32.6	
Merch. Trade Bal. (US$B, ar)	-16.3	-16.7	-19.4	-17.8 (Apr)
Industrial Production	0.7	0.4	2.1	2.5 (Mar)
WPI	7.5	7.9	7.3	4.9 (Apr)

Indonesia	2012	12Q3	12Q4	Latest
Real GDP	6.2	6.2	6.1	
Current Acc. Bal. (US$B, ar)	-24.1	-5.3	-7.6	
Merch. Trade Bal. (US$B, ar)	-0.1	0.2	-0.9	-1.6 (Apr)
Industrial Production	4.1	-0.4	11.0	10.4 (Mar)
CPI	4.3	4.5	4.4	5.5 (May)

Latin America

Brazil	2012	12Q3	12Q4	Latest
Real GDP	0.8	0.8	1.1	
Current Acc. Bal. (US$B, ar)	-54.2	-35.6	-80.4	
Merch. Trade Bal. (US$B, ar)	19.5	34.6	14.9	9.1 (May)
Industrial Production	-2.7	-2.2	-0.5	3.5 (Apr)
CPI	5.4	5.2	5.6	11.7 (May)

Chile	2012	12Q3	12Q4	Latest
Real GDP	5.6	5.8	5.7	
Current Acc. Bal. (US$B, ar)	0.5	-19.6	-11.5	
Merch. Trade Bal. (US$B, ar)	12.4	-7.3	3.8	16.5 (May)
Industrial Production	2.9	3.5	1.4	1.5 (Apr)
CPI	3.0	2.6	2.2	0.9 (May)

Peru	2012	12Q3	12Q4	Latest
Real GDP	9.2	6.8	5.9	
Current Acc. Bal. (US$B, ar)	-7.1	-2.6	-1.9	
Merch. Trade Bal. (US$B, ar)	0.5	0.4	0.5	0.3 (Mar)
Unemployment Rate (%)	7.0	6.5	5.9	5.6 (Apr)
CPI	3.7	3.5	2.8	2.3 (Apr)

Colombia	2012	12Q3	12Q4	Latest
Real GDP	4.0	2.7	3.1	
Current Acc. Bal. (US$B, ar)	-11.4	-3.5	-3.6	
Merch. Trade Bal. (US$B, ar)	0.4	0.1	0.4	0.3 (Mar)
Industrial Production	0.0	-0.3	-1.9	-11.5 (Mar)
CPI	3.2	3.1	2.8	2.0 (May)

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

Source: Bloomberg, Global Insight, Scotiabank Economics.

Interest Rates (%, end of period)

Canada	12Q4	13Q1	May/31	Jun/07*
BoC Overnight Rate	1.00	1.00	1.00	1.00
3-mo. T-bill	0.93	0.98	1.01	1.02
10-yr Gov't Bond	1.80	1.87	2.06	2.11
30-yr Gov't Bond	2.37	2.50	2.63	2.68
Prime	3.00	3.00	3.00	3.00
FX Reserves (US$B)	68.4	70.0	71.5	(Apr)

Germany	12Q4	13Q1	May/31	Jun/07*
3-mo. Interbank	0.10	0.11	0.13	0.10
10-yr Gov't Bond	1.32	1.29	1.51	1.55
FX Reserves (US$B)	67.4	66.6	66.8	(Apr)

Euro Zone	12Q4	13Q1	May/31	Jun/07*
Refinancing Rate	0.75	0.75	0.50	0.50
Overnight Rate	0.13	0.11	0.11	0.08
FX Reserves (US$B)	332.5	326.7	327.1	(Apr)

Japan	12Q4	13Q1	May/31	Jun/07*
Discount Rate	0.30	0.30	0.30	0.30
3-mo. Libor	0.11	0.10	0.09	0.09
10-yr Gov't Bond	0.79	0.55	0.86	0.86
FX Reserves (US$B)	1227.2	1215.0	1221.8	(Apr)

United States	12Q4	13Q1	May/31	Jun/07*
Fed Funds Target Rate	0.25	0.25	0.25	0.25
3-mo. T-bill	0.04	0.07	0.03	0.04
10-yr Gov't Bond	1.76	1.85	2.13	2.14
30-yr Gov't Bond	2.95	3.10	3.28	3.31
Prime	3.25	3.25	3.25	3.25
FX Reserves (US$B)	139.1	135.2	135.8	(Apr)

France	12Q4	13Q1	May/31	Jun/07*
3-mo. T-bill	-0.01	0.01	0.01	0.02
10-yr Gov't Bond	2.00	2.03	2.07	2.13
FX Reserves (US$B)	54.2	52.6	52.3	(Apr)

United Kingdom	12Q4	13Q1	May/31	Jun/07*
Repo Rate	0.50	0.50	0.50	0.50
3-mo. T-bill	0.36	0.39	0.39	0.38
10-yr Gov't Bond	1.83	1.77	2.00	2.07
FX Reserves (US$B)	88.6	88.4	89.5	(Apr)

Australia	12Q4	13Q1	May/31	Jun/07*
Cash Rate	3.00	3.00	2.75	2.75
10-yr Gov't Bond	3.27	3.41	3.36	3.26
FX Reserves (US$B)	44.9		40.9	(Feb)

Exchange Rates (end of period)

	12Q4	13Q1	May/31	Jun/07*
USDCAD	0.99	1.02	1.04	1.02
CADUSD	1.01	0.98	0.96	0.98
GBPUSD	1.626	1.520	1.520	1.554
EURUSD	1.319	1.282	1.300	1.322
JPYEUR	0.87	0.83	0.77	0.78
USDCHF	0.92	0.95	0.96	0.94
¥/US$	86.75	94.22	100.45	97.32
US¢/Australian$	1.04	1.04	0.96	0.95
Chinese Yuan/US$	6.23	6.21	6.13	6.13
South Korean Won/US$	1064	1111	1130	1117
Mexican Peso/US$	12.853	12.331	12.809	12.734
Brazilian Real/US$	2.052	2.022	2.141	2.131

Equity Markets (index, end of period)

	12Q4	13Q1	May/31	Jun/07*
United States (DJIA)	13104	14579	15116	15221
United States (S&P500)	1426	1569	1631	1641
Canada (S&P/TSX)	12434	12750	12650	12405
Mexico (IPC)	43706	44077	41588	41303
Brazil (Bovespa)	60952	56352	53506	52552
Italy (BCI)	873	851	937	915
U.K. (FT100)	5898	6412	6583	6413
Germany (Dax)	7612	7795	8349	8261
France (CAC40)	3641	3731	3949	3876
Japan (Nikkei)	10395	12398	13775	12878
Hong Kong (Hang Seng)	22657	22300	22392	21575
South Korea (Composite)	1997	2005	2001	1924

Commodity Prices (end of period)

	12Q4	13Q1	May/31	Jun/07*
Pulp (US$/tonne)	870	900	930	930
Newsprint (US$/tonne)	640	610	610	610
Lumber (US$/mfbm)	388	408	298	307
WTI Oil (US$/bbl)	91.82	97.23	91.97	95.75
Natural Gas (US$/mmbtu)	3.35	4.02	3.98	3.84
Copper (US$/lb)	3.59	3.44	3.28	3.30
Zinc (US$/lb)	0.92	0.85	0.85	0.86
Gold (US$/oz)	1657.50	1598.25	1394.50	1386.00
Silver (US$/oz)	29.95	28.64	22.57	22.60
CRB (index)	295.01	296.39	281.85	287.35

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

Fixed Income Strategy (London)

www.gbm.scotiabank.com

Fixed Income Strategy (Paris)

Scotiabank Economics

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