Global Views

Weekly commentary on economic and financial market developments

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

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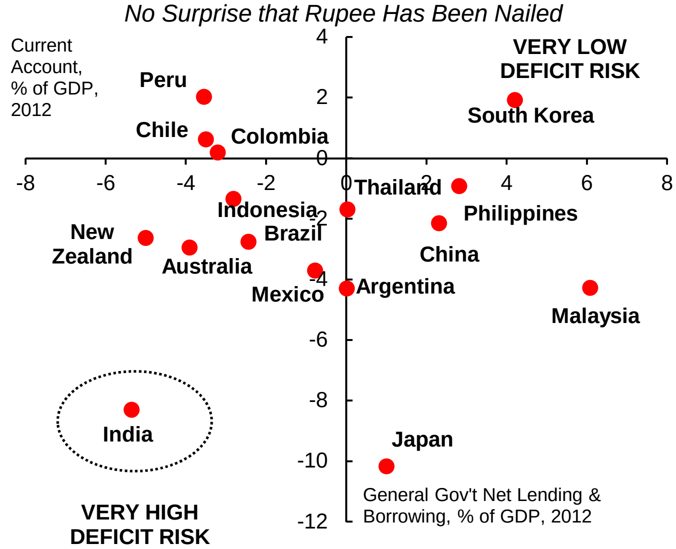
Bernanke And An Acclaimed 'Luddite' To Dominate Market Attention

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

Next week will be all about the Federal Reserve insofar as both **US** and global markets will be concerned. As we argue in an article in this week's *Global Views*, it isn't just about when to reduce asset purchases and by how much they should be tapered. Consensus thinks the FOMC will taper monthly purchases by a median amount of $10-15 billion. We think there is a solid case to be made for maintaining current stimulus and reducing purchases later. Regardless, the combinations and permutations of possible policy options are significant enough to suggest that the market tone in the aftermath of the 2pmET statement and the 2:30pmET press conference could hinge upon much more than just whether tapering is announced and by how much. As soon as the blackout period lifts, eager Fed speakers start lining up at the podium including Kansas City Fed President Esther George (voting, hawk), St. Louis Fed President James Bullard (voting, lately dovish) and Minneapolis Fed President Narayana Kocherlakota (nonvoting 2013, voting 2014). This is definitely a hallmark of the Bernanke era, but one might be stretching it to call for a return to the Greenspan era of simplicity in statements (like here and here at the start of the 1994 hiking cycle) followed by testimonial obfuscation. Data risk ahead of the FOMC announcement will probably not have a bearing upon the outcome at this stage, but includes industrial production figures Monday, CPI Tuesday, and housing starts Wednesday. Existing home sales land the day after the Fed, and so does the Philly Fed business diffusion index.

Is **Asia** hitting bottom on the risks facing the potential unwinding of US monetary stimulus? Perhaps, and certainly the past week's currency gains by most of the crosses might support this theory. The rupee, Thai baht, Malaysian ringitt, and Philippine peso were among the region's strong performers and each gained over 1% against the USD. This probably speaks more to broadly based softness in the USD — partly related to less safe-haven seeking on reduced risk of Syrian intervention — than anything specific to Asia, as the greenback fell almost universally against the major FX crosses over the past week. That said, this could change in a heartbeat next week if the Federal Reserve comes out swinging with tapered asset purchases and no other policy offsets. It could also change in light of a few key regional influences. Raghuram Rajan, the Governor of the Reserve Bank of India, may have won many accolades over time, but never has the challenge set before him been as great as it is at his current post. Among his accomplishments, he was the youngest ever Chief Economist at the IMF, a top economist under 40 as recipient of the Fischer Black prize, and his iconoclastic paper "Has Financial Development Made The World Riskier" set him as a cat among the pigeons on the occasion of Alan Greenspan's retirement celebration. As a sidenote, Larry Summers reportedly dismissed Rajan's warnings as a "slightly Luddite" premise alongside his other famous attacks on those who were warning of potential financial instability such as the CFTC's Brooksley Born. In fairness, however, Rajan did not predict the crisis — he noted the benefits to financial development but warned of small probability risks that could be very destabilizing (judge for yourself here). Such accolades aside, Rajan faces a nation under significant stress. The rupee has dropped by 18% against the USD since early May when the Federal Reserve began signaling a potential policy shift. The currency has strengthened

Current Account & Government Net Lending
No Surprise that Rupee Has Been Nailed



Source: IMF, Bloomberg, Scotiabank Economics.

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since early September, but the macroeconomic evidence of further economic adjustments is fairly clear, particularly in terms of its large twin deficits (see chart 1). The nation's reserves are being depleted (second chart) as it runs large and rising current account deficits that at the current pace could eradicate the nation's reserves within 2-3 years. At about two-thirds of the size of its economy, government debt is rising due to sizeable and growing deficits. Soaring private debt to over 50% of GDP over the course of the past decade has been significantly financed by gradually rising external debt. How to manage the consequences of such macroeconomic challenges to the country's balance of payments faces the competing effects of improved export competitiveness alongside inflation driven by costlier imports, particularly for energy in the face of the rupee's slide. It is therefore by no means clear that the country's current account deficit has peaked. Declining economic growth, rising inflationary pressures, a muddled combination of central bank policy goals that he is seeking to refocus upon inflation targeting, and seeking greater central bank independence all pose a career-defining challenge to the very capable Mr. Rajan. His early actions have included opening a swap window in favour of nonresident dollar flows. This has been among the factors stabilizing the rupee of late, but much more work remains to be done. Although the RBI does not have the Fed's clout in global markets, Rajan's multi-faceted challenges arguably eclipse the Fed's and hold the potential to be destabilizing across developing markets if not well executed. They are also quite possibly far more fascinating to watch than the stale to-taper-or-not-to-taper Fed debate.

Source: IMF, Scotiabank Economics.

By comparison, the rest of Asia will be relatively quiet. Australia releases minutes on Monday to the September 3rd RBA meeting that restrained expectations for further monetary easing. Bank of Japan Governor Kuroda speaks twice later in the week and markets will watch for further cues that he is willing to pursue more expansionary monetary policy should the government enact sales tax increases. China's property prices will be released into Wednesday's markets amid concerns that the crackdown on excess liquidity by the People's Bank of China earlier this Spring has worn off in its consequences amid persistent evidence of overheating real estate markets. Japan releases trade figures Wednesday night that should be positive to fans of Abenomics (though consumer data is an offset), and whether the RBNZ was on the mark in warning about interest rate hikes next year will be debated in the context of the country's Q2 GDP figure.

Canadian markets will play follow-the-leader south of the 49th next week as the outcome of the Federal Reserve meeting will dictate the tone of the Canadian market. Bank of Canada Governor Stephen Poloz seems to have developed an early liking for speaking ahead of widely watched Federal Reserve developments. He did it in July and will do so again on Wednesday at 10:40amET. A topic has not yet been disclosed at the time of writing but this usually precedes speeches by three days.

Canadian data risk will be modest. Markets never really trade off Canadian home sales figures (Monday) in part owing to the fact that the figures have only fairly recently become more transparent on newswires and because of relatively recent improvements to data quality. Regardless, after July's flat print (+0.2% m/m) that marked a slowdown from the 3%+ m/m seasonally adjusted gains in each of the prior two months, sales probably accelerated again in August based upon what we already know from the regional real estate boards and perhaps at around the same growth pace as during the Spring market. Is the rebound for real? The jury is out, but if the theory is correct that brought-forward sales occurred because of concern that previously

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granted rate commitments were about to expire and be reset at higher mortgage rates, then the recent pick-up could be a head fake with a sales correction set to resume toward year-end and into next year. Only data will tell but we retain a cautious bias for now. Manufacturing shipments (Tuesday) may also be a last minute influence upon Governor Poloz's speech the next day. After dropping in July, they could rebound partly on the prior month's higher new orders. That said, the trend is unfavourable. The volume of manufacturing shipments has generally been in protracted decline this year and was down about 5% y/y in June while dropping by 2% at an annualized year-to-date pace. Poloz will not, however, have Friday's CPI print in his pocket before speaking. The pace of inflation troughed in April at 0.4% y/y but has since picked up to 1.3%. Weak base effects from when inflation dipped late last year and early this year are likely to put year-ago inflation readings under upward pressure by year-end. That's largely expected by the BoC, but the question is the sustainability of pressures upon its 2% inflation target after stripping out base effect ebbs and flows. The BoC does not believe this will happen until mid-2015. Canada auctions 2s on Wednesday after Poloz speaks but before the CPI print.

Europe will have its sights set on the Fed, this Sunday's German state election in Bavaria, and on next Sunday's Federal elections in Germany. That latest INSA poll has Merkel's existing coaltion government consisting of her Christian Democratic Party (CDU), the Christian Social Union (CSU) and the Free Democrats (FDP) facing a bumpy ride. The CDU and CSU hold only 39% of decided voter opinion while the FDP is polling less than the 5% required minimum. That leaves the Social Democratic Party (SDP) at 28% and the Greens at 11% tied with the CDU/CSU for 39% and thus making either the Die Linke leftist party the coalition tie-breaker or requiring that one of the FDP or smaller parties retain or acquire party status (something that is not obvious in the polls for the FDP). This has pundits doing various combinations of coalition partners that may or may not involve Merkel's party or, even if so, may or may not involve Merkel herself! A large share of undecided voters combined with the poor track record of German pollsters all add to the drama that has the markets questioning what will happen to the solid backbone of the Eurozone and whether the region's political capacity to disappoint on the cusp of potential renewal is about to repeat. A Merkel defeat could be a very negative development in the face of mixed data that is calling a European recovery into renewed question after the slightly positive Q2 GDP print.

European data risk will be generally subdued. Norges Bank issues a rate decision Thursday, Germany releases its ZEW investor expectations survey that has been trending around a top for months, and trade data arrives for the Eurozone. UK house prices will be in focus again with Rightmove's update after another measure produced by the Royal Institution of Chartered Surveyors reported that average house prices hit the highest level since November 2006. Soaring house prices and falling unemployment have the markets testing the BoE's forward guidance, and rightly so. A significant nearly three-quarters of a percentage point drop in the unemployment rate so far this year has markets questioning why the BoE thinks the rate will take more than three additional years to drop another 0.6% to its 7% threshold before contemplating rate hikes that markets are pricing to occur well before then. The issue is not in being too hasty to judge the BoE's adoption of forward guidance in August; the issue is why it chose to make its guidance for no rate hikes until late 2016 contingent upon such a small further improvement in the unemployment rate. In defence of the BoE, however, its forward rate language retained significant flexibility to depart from UR-based guidance if needed, and partly in the name of financial stability considerations. UK CPI, retail sales and minutes to the September 5th BoE meeting will round out the market influences next week and add further colour to whether the BoE's forward rate experiment will ultimately prove successful. Bond auctions will occur in France, Germany and the UK.

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Modest Firming In Global Housing Markets Through Mid-Year

- **Aggressive monetary policy easing, which has anchored short-term interest rates in many countries near historic lows, is helping to reinvigorate global property markets.**

Our latest survey of international house prices shows housing conditions continuing to firm in many national markets in the second quarter of 2013, notwithstanding the sluggish pace of global economic activity and elevated financial market volatility. The turnaround is notable in several advanced nations such as the U.S. and the U.K., but prices are re-accelerating in some emerging markets as well, including China. Higher longer-term borrowing costs could dampen the renewed momentum, but pent-up demand and improved affordability remain supportive.

The **United States** maintains its position near the top of our international ranking, with inflation-adjusted home prices rising 8% y/y in Q2. Demand is being bolstered by moderate job growth and near record housing affordability, while low inventories and fewer distressed sales are supporting prices. We expect rising mortgage rates will moderate, but not derail the recovery, which is still in its early stages from a cyclical standpoint. Household finances have improved, consumer confidence is rising and lending conditions are slowly easing. There is also considerable pent-up demand for housing following the multi-year downturn.

Canadian housing activity remains buoyant, though the underlying fundamentals for continued gains are becoming less favourable. Average inflation-adjusted home prices increased 2½% y/y in Q2 alongside strengthening sales volumes. Low borrowing costs and balanced market conditions continue to attract buyers, though slowing job growth and the recent uptick in fixed mortgage rates will likely cool activity later in the year and into 2014. Affordability also is challenged in some of Canada's largest urban centres, primarily for single-family homes.

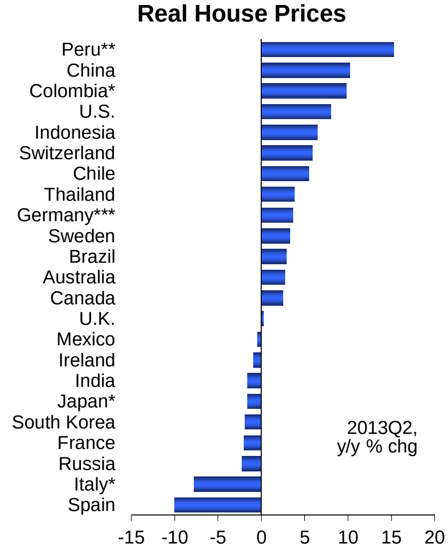
A number of European property markets are showing early signs of revival, mirroring the nascent pickup in economic activity and consumer confidence. The **U.K.** housing recovery is becoming more broad based, supported by 'Help to Buy' stimulus measures introduced in the 2013 budget. Real prices moved back above year-ago levels in Q2 for the first time in 2½ years. **Sweden** and **Switzerland** reported steady real price growth in the second quarter.

Conditions are weaker in the periphery. **Spain's** property market remains in a deep slump. While the rate of price decline is slowing, there is limited prospect of a near-term turnaround with the nation's jobless rate stuck at over 25%. **Irish** property prices appear to be bottoming as demand slowly picks up. However, record mortgage arrears topping 12% of outstanding loans are a significant hurdle to a sustainable housing recovery.

Asian property markets are for the most part holding up in the face of slowing regional growth. Despite official policy efforts in recent years to rein in credit demand, real house prices accelerated in the vast majority of major cities in **China** in Q2. **Australian**, **Indonesian** and **Thai** property markets also gained momentum in the April to June period, though conditions remain weak in **India** and **South Korea**, with prices contracting modestly last quarter.

Latin American markets are mixed, with strong price growth in **Chile**, **Peru** and **Colombia** underpinned by relatively solid domestic demand and labour markets. Real prices in **Mexico** are flat, with modest nominal price appreciation eroded by persistent inflation. Meanwhile, a weakening economy and high interest rates have led to a sharp cooling in **Brazil's** previously red-hot housing market.

Real House Prices



*2013Q1 **2012Q4 ***2012.
Source: Scotiabank Economics

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Tapernomics: Why Now, And What Else?

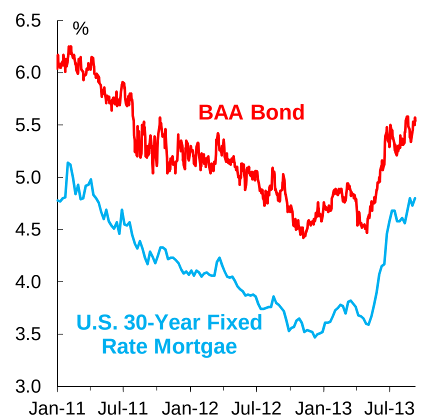
- **The Federal Reserve faces many options, but tapering should not be among them — yet.**

The debate over exactly if, when, and by how much the Federal Reserve will reduce asset purchases over-simplifies the richness of policy options facing the Federal Reserve. Understanding the Fed's options and their probabilities of enactment is important to managing the post-statement market trade when the statement lands at 2pmET next Wednesday followed by the press conference at 2:30pmET.

The range of consensus opinions on some of the key tapering variables is captured in the accompanying charts and drawn from the September Reuters survey of primary dealers. This still stands in contrast to far lower expectations for tapering manifest in the survey of National Association of Business Economists. While tapering now and strengthening forward guidance on the length of the pause period for short-term rates could be constructive to Wall Street's net interest income, it is not clear to us that this would benefit the main street economy. Indeed, we think there are six reasons why tapering at this juncture would be a policy misstep that would be reminiscent of Chairman Bernanke's past criticisms of the Bank of Japan.

One is that the evidence of frothy behaviour in financial markets has significantly abated since May when Chairman Bernanke first suggested that purchases could be lowered 'later in the year'. The adjacent chart provides two such measures. Tapering now would risk pushing US 10s well above 3% and dragging mortgage and corporate borrowing costs still higher to the detriment of housing markets and capital spending. To avoid lighting up market excesses all over again, however, the Fed would have to retain or expand conditional language behind eventually tapering if it chooses not to do so yet.

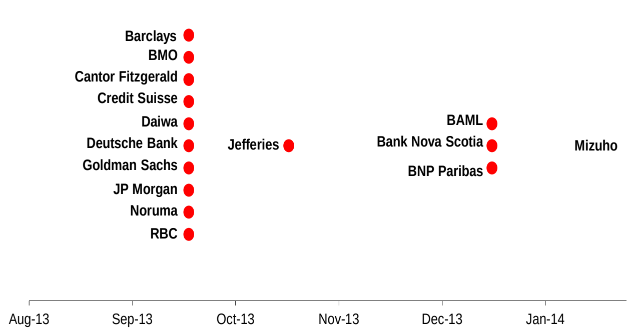
Fewer Reach-For-Yield Worries



Source: MBA, Moody's Investors Service.

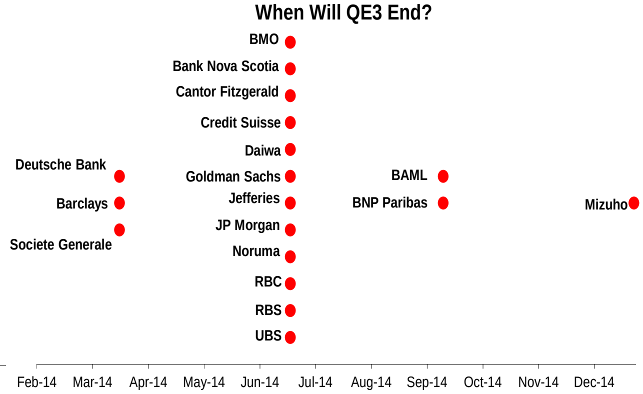
This would give the Federal Reserve some flexibility in light of our second reason which points to considerable uncertainty in the flow of recent data governing how the economy is responding to twin oil and interest rate shocks. This is particularly key for housing as the Fed should be extremely sensitive to the risk of snuffing out an encouraging but still nascent housing recovery. Indicators like mortgage purchase and refinancing applications, new home sales, core durable goods orders, still-soft inflation, perhaps total consumption data that started off weak in July as we await August data with potential revisions, and downward revisions to nonfarm payrolls are all pointing toward uncertainty regarding the sustainability of progress toward the Fed's full employment mandate. Removing stimulus at this juncture could further the damage. In contrast to the view that the Fed should taper now to reinforce expectations, we think it should use its powers to tamp down yields and spend more time evaluating how the economy

When To Taper?



Source: Reuters.

When Will QE3 End?



Source: Reuters.

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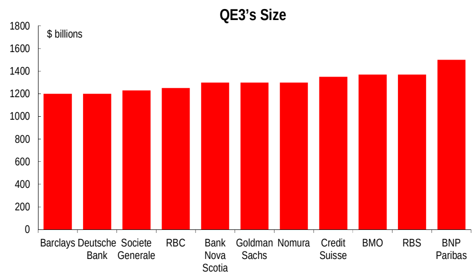

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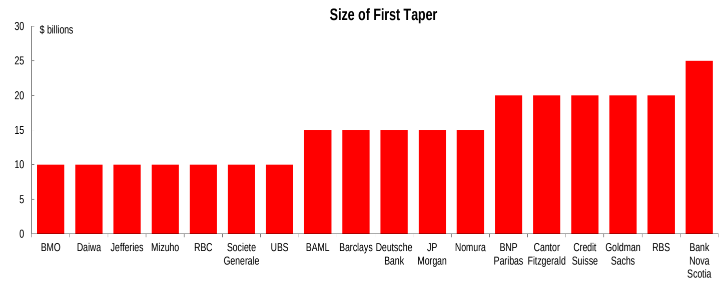

Source: Reuters.

performs particularly insofar as the key interest-sensitive sectors are concerned. Otherwise, with financial market pressures abating and the Fed likely to revise growth lower, tapering now would require some serious explanations.

Third among our reasons is the high degree of potentially destabilizing event risk including uncertainty regarding Syria, the expiration of the Continuing Resolution and the risk of a temporary government shutdown, and hitting a binding debt ceiling somewhere between about mid-October and early November. Add to this that we do not know who will be the next Chairman of the Federal Reserve, nor how markets will react to his/her nomination. There is also enough global risk lurking in the background to merit treading carefully, ranging from Europe's uncertain recovery to Chancellor Merkel's shaky position in German election polls to potentially destabilizing emerging market influences.

Fourth, and most important, the Federal Reserve remains a long way from achieving its price stability and full employment goals. In the context of all of these arguments, we frankly do not understand what is the rush to reduce asset purchases at this precise juncture. We'll get to that point when net marketable debt issuance by the US Treasury materially tapers later next year, and when the many clustered forms of near-term uncertainty abate, but now is not the time in our opinion without jeopardizing the very essence of a still-fragile recovery.

Finally, we reject the assertion that QE policies are doing nothing to promote the economy. That's far too harsh an assessment. Indeed, we're going through the needed out-of-sample experiment to remind us of this. The Fed's attempt at engaging in an open dialogue with markets about tapering purchases has been met by an abrupt rates sell-off since May and evidence that data covering key portions of the economy is rolling over in response. Further evidence is needed, but that requires more time.

Many of the options for next week that we now list below are not necessarily mutually exclusive.

1. Just Delay Tapering

This option would repeat the July statement and guidance that the Fed is not yet ready to taper, but with a more cautious take on housing instead of repeating that "...the housing sector has been strengthening..." This would acknowledge the steep declines in mortgage purchase and refi activity, a plethora of announcements of layoffs in the mortgage industry, the drop in new home sales, and uncertainty over when resales will react to higher borrowing costs and weaker mortgage activity given that resales lag behind other housing data due to rate holds and closing periods.

2. Spell Out Data-Dependent Guidance On Tapering

In keeping with its new preference for 'state-based' monetary policy, the FOMC could offer data-dependent criteria for tapering but avoid tapering at this juncture. Currently, the guidance on asset purchases calls for bond buying to continue "until the outlook for the labor market has improved substantially in a context of price stability". This could be replaced by more concrete or detailed guidance, signalling eventual tapering without actually undertaking it.

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3. Hint More Strongly At Tapering With Calendar Guidance
This option would be stronger than the two previous because the Fed could, for instance, tighten up 'later in the year' language by making it clearer that it intends to reduce purchases in October or December while resisting such a move this month. This would be tantamount to providing calendar-based guidance.

4. Taper, With Further Reductions Being Data Dependent
The Fed could reduce purchases next week, but make it clear to markets that it is not on an unambiguously straight line toward cutting purchases to zero by the middle of next year.

5. Taper, And Hint At A Pause
Central banks have often used the tool of changing their policy rates and then hinting at a pause before contemplating further action. It would therefore not be all that unusual if the Federal Reserve were to do so with unconventional policies by reducing purchases next week but providing calendar guidance that it won't keep reducing purchases at each and every meeting over the duration of the year. This would assist the Fed in taking its time to evaluate the consequences and could be taken constructively by markets.

6. Taper, And Hint At More To Come
This would be the strongest form of tapering whereby the Federal Reserve could cut purchases next week and make it clear that it intends to cut more at future meetings in October and December. It would do so by using language conditioned around the calendar as opposed to economic and financial market variables.

7. Size of First Taper
How big might the first taper be? The range of expectations among primary dealers starts at a miniscule US$10bn and gets as big as US$20bn (for the record, we're at US$20bn, but not until December by our current guesstimate). It's interesting that consensus has backed away from expecting a large first taper now (say, US$40bn) due to the massive sell-off in rates. Thus, while consensus has tightened the timing of its call, it shows less conviction that it is the right thing to do by way of reducing expectations regarding the size.

8. Reduce MBS More Than Treasuries, Or Vice Versa
The Fed not only has options with respect to <u>when</u> it tapers and <u>how much</u> it tapers, but also <u>what</u> it tapers — after all, it is currently buying US$45bn/month of Treasuries and US$40bn/month of MBS. The rapid increase in mortgage rates and MBS yields since May has us anticipating that the Fed will undertake a fairly balanced reduction in purchases, reducing MBS and Treasury buying by an even US$10bn each (but not until December) so as not to rock the mortgage boat even more than it already has.

9. Revise Growth Projections Lower
In its central tendency projections last released with the June statement, FOMC participants expected growth of 2.3-2.6% this year compared to the current Bloomberg consensus call for 1.6% growth. The Fed will therefore have to repeat its multi-year tendency to revise growth numbers significantly lower. It may well have to do so for next year as well. The June central tendency growth projection for 2014 had FOMC participants expecting 3-3.5% versus the current Bloomberg consensus call for 2.7% real GDP growth next year. We realize we are in the minority, but we cannot fathom how the Fed will square the circle in revising all of its growth projections lower at the same time as it reduces the flow of incremental stimulus to the US economy.

10. Lengthen QE Program Reference Period
One option is to signal that the Fed is prepared to purchase Treasuries and MBS for a period longer than until the middle of next year. A revised potential longevity of the program could offset reduced near-term purchases by way of market effects.

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11. Strengthen Forward Rate Guidance: Lower The Unemployment Rate Threshold

The FOMC has been justifiably concerned regarding the uptick in shorter-term interest rates during the taper period — after all, the Fed hasn't implied that it will increase short-term rates, merely that it will reduce the downward pressure that it is placing on long-term yields. Currently, the Fed guides that the current "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." As the unemployment rate has fallen to 7.3% (80bps in the past year), and we think the Fed seems as though it would like to imply that rates will remain low through mid-2015 (its former target date), the Fed might elect to publish a lower unemployment rate 'threshold'. Other options include adding caveats that further clarify the Fed's view that the unemployment guidance is "a threshold and not a target". Or, emphasize the importance of how a lower unemployment rate is reached, whether through job growth and/or labour force participation in light of the lowest participation rate since 1978.

12. Other Forward Guidance Measures?

Tying the forward interest rate guidance to the unemployment rate (which can improve even as the labour market doesn't — e.g. if the participation rate continues to fall) is somewhat problematic. Perhaps the Fed will instead lower future growth forecasts and hence signal the expectation that it will take longer to achieve full employment and price stability. This could be the backdrop for pushing out the central tendency forecast for when to hike the Fed Funds target rate. This option poses a challenge on efficacy in our opinion, since delayed front-end moves and reduced buying up the curve implies a potentially steeper curve. Given that the US housing market is significantly dependent upon what happens to 30-year fixed mortgage rates that are priced off US 10s and swapped out, it's not clear to us that a steeper curve would fit a goal of feeding a continued housing rebound. A further challenge concerns whether markets would believe such guidance in the first place, particularly given a) the Bank of England's challenges thus far, and b) uncertainty over the future leadership regime at the Fed that relates to appointing a new Fed chairman, as well as replacing two retiring Governors and filling a pending vacancy at the Federal Reserve Bank of Cleveland which gets a vote in the rotation next year.

13. Signal A Comfort Zone For Rates

Cognizant of the rates selloff since May, the FOMC statement and/or the press conference could reveal that the Fed is mindful of the risks to the economy of an abrupt rise in borrowing costs. It could do so by signaling a rough comfort zone on yields. This isn't talk of yield caps that are too extreme for consideration at this juncture and that pose numerous problems such that we don't support explicit caps, but it could alternatively take the form of language that the Fed stands willing to act should it believe that financial market pressures jeopardize the recovery more significantly than at present.

14. Taper, Meet The Flare

Instead of lowering purchases, the Federal Reserve could increase asset purchases. We think this is a very remote prospect, but it is an option that the Federal Reserve retained in its July statement when it said it could "increase or reduce" the flow of purchases. Of course, the exact opposite is also true — the Fed could remove reference to increasing purchases entirely especially if it tapers by a significant amount.

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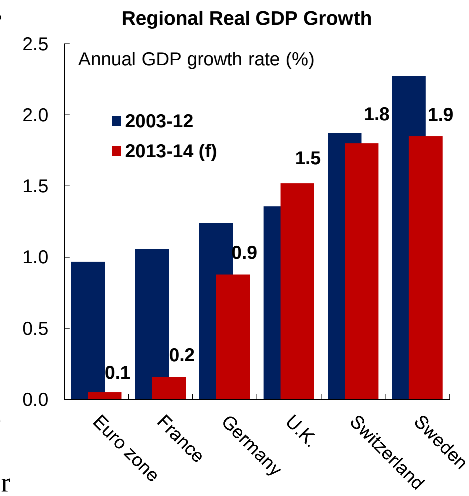
Core Europe Regional Outlook

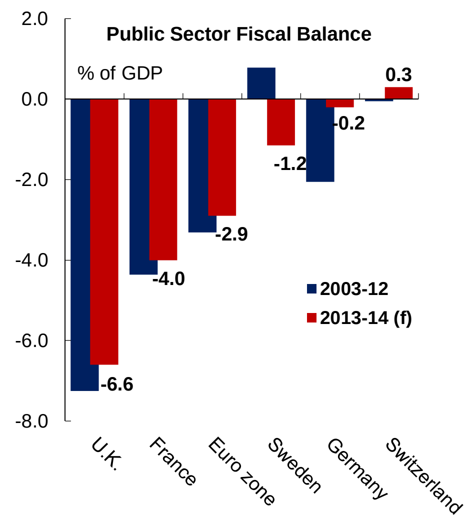
Increasing Evidence of Cyclical Recovery, Downside Risks Remain

The core economies of Europe — Germany, the United Kingdom (UK), France, Sweden and Switzerland, which together account for slightly more than 50% of total European output — are showing signs of a nascent economic recovery following a sharp slowdown in 2012. The second quarter saw solid GDP gains across the region averaging above 2.0% q/q annualized, with the exception of Sweden. The manufacturing purchasing managers' indices have recovered into expansionary territory (or very close to, in the case of France), with those for the UK and the aggregate euro area now at multi-year highs. Surveys of consumer and business confidence have also improved materially from depressed levels early this year, but real economic data (e.g., industrial production, retail sales, exports) are still fluctuating between expansion and contraction. Persistent high unemployment throughout much of Europe remains a growth-constraining structural issue. In general, those economies outside of the euro area (the UK, Sweden and Switzerland) will outperform those within the currency union (Germany, France) over the medium term.



Challenging Debt Sustainability: Ongoing Fiscal & Structural Adjustments

Fiscal consolidation efforts underway are weighing on the growth trajectory in the UK and France, while the public finance situations in Germany, Sweden and Switzerland are far less deleterious, allowing for more accommodative budget policy. Each of Germany, Sweden and Switzerland continue to enjoy top investment-grade (triple-A) status on their sovereign credit ratings, while France and the UK have been subject to multiple downgrades by the major rating agencies. Progress on structural reforms related to labour and product markets, financial stability and tax and pension systems has been mixed. Negotiations on the formation of a European banking union — including a single supervisor and resolution mechanism — are ongoing; however, the discussions have been slow and heavy-going, and future developments may lead to sporadic waves of financial market volatility.



Prolonged Monetary Accommodation Amidst Divergent Growth & Inflation Prospects

Inflationary trends are uneven across the core European economies. In the UK, for instance, the central bank has tolerated an inflation rate in excess of the official 2% target since 2009, while elsewhere — namely, Switzerland and Sweden — monetary authorities are battling persistent deflationary risks. The outlook for price stability is relatively positive in Germany and France, where the upside risk from a renewed surge in commodity prices is balanced by the downside risk of subdued economic activity. The region's central banks, particularly the Bank of England (BoE) and European Central Bank (ECB), are trying to decouple from the US Federal Reserve's direction, where policymakers have begun to discuss the withdrawal of vast monetary stimulus. The ECB remains committed to keeping short-term interest rates at record-low levels for an extended period of time, with officials highlighting that the nascent recovery in the euro area is still 'too green' to exclude discussions of additional policy easing. The new leadership at the BoE has stressed continuity of the low-rate environment, conditional on the unemployment rate amidst an acute spike in government bond yields.

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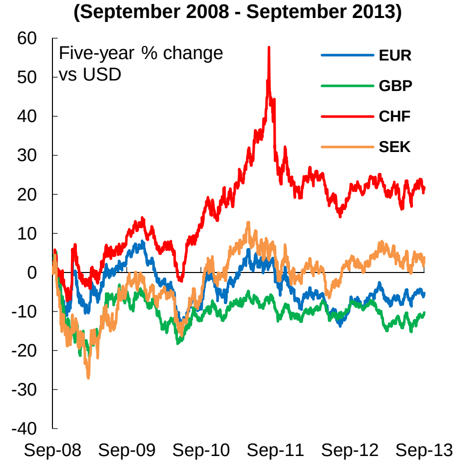
Elevated Financial Market Volatility & FX Realignment

Relative global growth dynamics, interest rate differentials, credit risk re-pricing and asset allocation shifts in favour of developed securities markets remain key drivers of capital flows. Heightened financial volatility has resurfaced on the back of US monetary policy changes, intensified geo-political tensions in the Middle East and rebalancing growth patterns in emerging-market economies. Europe remains vulnerable with very fragile signs of a sustainable economic recovery. Nevertheless, the sharp moves in currency and fixed income markets have not been accompanied by evidence of systemic stress in the global financial sector.

The euro, which benefitted from increasing flows into European equity markets since the beginning of the year, should consolidate and weaken in the near term to reflect relatively slow growth prospects and lingering financial and debt sustainability vulnerabilities. Moreover, an improved US economic outlook together with increasing long-term interest rates will likely redirect capital flows towards US dollar-denominated assets within the high-income economies. The British pound is poised to weaken, influenced by mounting uncertainties regarding central bank policy shifts, recovery dynamics in the European continent and persistent weakness in the UK banking sector. Finally, we expect the Swiss central bank to continue to defend its target exchange rate as the franc remains a safe-haven asset in times of rising geopolitical stress.

Currency Market Performance vs USD (September 2008 - September 2013)



Renewed Geo-Political Uncertainties & Persistent Financial Sector Vulnerabilities

Financial system rehabilitation remains a chief objective of national and regional authorities. Most of the systemically relevant banks in the core economies have achieved adequate capital and liquidity ratios ahead of regulatory deadlines under Basel III. Nevertheless, significant vulnerabilities remain. Much of the banking sector in Germany and the UK remains under state control. French and Swedish banks continue to be highly dependent on wholesale funding, whereas rising household indebtedness has increased asset quality risks in Sweden and Switzerland, where household debt to disposable income ratios are in the 150-200% range (versus around 100% in the euro area).

Market sensitivity surrounds the German general elections as the composition of the winning coalition is unclear, yet Chancellor Angela Merkel is set to retain the leadership of the government. The largest European economies will not be immune to negative spillover effects from socio-political tensions in the Middle East. If prolonged, the steady increase in crude oil and gold prices may adversely impact the energy-importing and inflation-sensitive countries.

For further analysis on the economic outlook of the Core Europe region, please refer to the *Core Europe Regional Outlook* report, published on September 10th, 2013, at www.scotiabank.com/economics.

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More Investment Funds For Pemex

The following article was published on September 11, 2013.

The energy reforms discussed in Mexico over the summer had broadly two goals. First, they aimed to improve Pemex's technical and administrative ability to exploit the country's natural resources. Second, they sought new sources of financing to fund the required long-term investments. The key portion of the PRI's proposal, the one designed to encourage foreign participation in the industry, was a good step forward relative to the status quo but fell short of some expectations, which had been inflated by a year's worth of discussions. Still, hopes for achieving the second goal lay with the expected fiscal reform which the government elaborated earlier this week.

The good news is that the fiscal reform intends to decrease the tax burden on Pemex, allowing the company to reinvest more of its profits. Few details were included in the 23-page press release but comments in the press shed some light on what the government is thinking. Some of the changes affect merely the form in which royalties and taxes are paid. For example, royalties would be paid monthly rather than daily, and the tax structure would be simplified such that the company would pay fewer types of taxes, with less need to deduct some taxes as credits against others, perhaps simplifying the evaluation and administration of projects. Substantive changes are also envisioned, however, namely a slow decrease of the royalty rate from 71.5% to 60%. We estimate such a tax decrease could eventually mean $11bn USD in additional annual profits available for investment. Such a tax decrease would likely pass Congress because even the PRD, which proposed the weakest energy reform of the three parties, has endorsed in its platform a tax decrease of almost the same magnitude.

That amount of new investment could mean significant improvements in Pemex's outlook, considering that total budgeted Capex for Pemex Exploration and Production for 2013 was $20bn, of which only $2.6bn was purely exploration. This budget was sufficient to maintain a reserve replacement rate of over 100% in recent years. The resulting increase in production in the long-term would have a large impact on the bottom line, alleviating cash flow concerns stemming perhaps from the large long-term pension liabilities that have troubled some investors.

Pemex's margins from oil exploration are extremely high. Pemex reports a production cost of $7 per barrel of oil equivalent, the lowest among ten large oil producers, and an additional exploration and development cost of $14 per barrel, the second lowest. Thus, marginal costs of $21 per barrel are low when compared to the current $100 price of the Mexican oil mix. Of course, a few caveats are in order here. First, these costs represent a mix of new and old oil assets, and some of the older assets had very low costs. Since all of the oil that is easy to obtain will eventually be depleted, average costs should increase as the company moves towards deeper wells and more disperse fields. Second, investments must be made now to extract oil many years from now, and in the case of deep-water explorations, the time horizon could be long indeed. For that reason, one might want to discount the $100 price (or perhaps even the lower price expected in the oil futures curve) by Pemex's cost of financing before comparing with the relevant exploration cost. Third, these figures may not include certain administrative and overhead costs for which Pemex is sometimes criticized. Nevertheless, consider that Ebitda margins, which include overhead, were 70% in 2012. Thus, it seems to us that margins are large enough to allow healthy profits from increased production even after accounting for future increases in unit costs.

<u>Recent articles about Pemex:</u>
"PRD Pemex proposal – commentary," August 19, 2013
"Government's Pemex Proposal – commentary," August 12, 2013.
"PAN's Pemex proposal – is too much?" August, 1, 2013
"Pemex 2Q13 commentary – expectations of reform," July 26, 2013
"Do Pemex investors care about fundamentals," July 12, 2013

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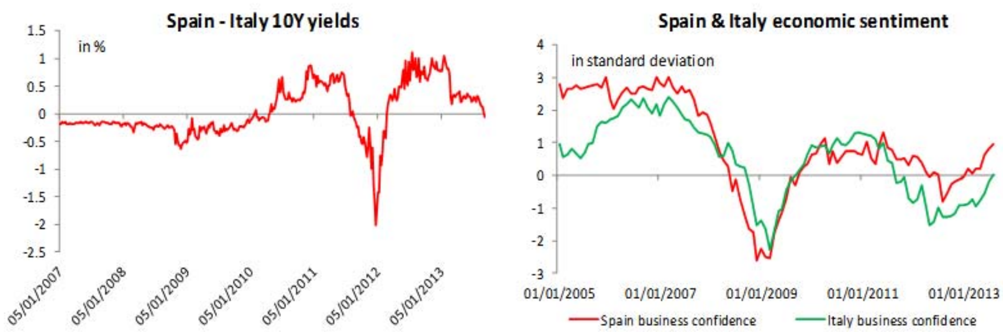
Spanish/Italian Yields: Cycle Vs. Debt Sustainability

The past week has been marked with 10Y Spanish yields dropping below 10Y Italian yields for the first time in two years. Does it make sense for Spanish government bonds to trade on top of Italy's? While short-term dynamics favor a convergence of Spanish and Italian yields, medium term, we think that Spain's problematic economic fundamentals continue to argue for Spain to offer investors a higher risk premium than Italy.

Cyclical dynamic playing in favour of Spain…

- The tightening in Spanish/Italian yields has taken place against a background of renewed political uncertainty in Italy as well as a better cyclical dynamic in Spain vs. Italy. The most obviously favorable developments for Spain were: a) the release of Q2 real GDP numbers which showed Spanish growth down only -0.1% q/q vs. -0.3% q/q for Italy, and b) improvements in the Spanish jobs market, where the number of job seekers has declined for six months in a row. Forward- looking indicators are also a positive for Spain: While economic sentiment has recovered in both Spain and Italy, the magnitude has been more impressive in the case of Spain.

Chart 1: Cyclical factors played in favour of tighter Spanish yields vs. Italy

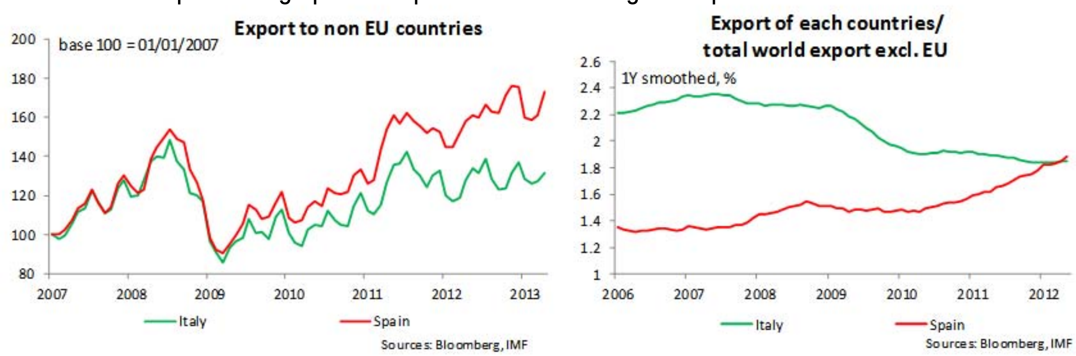


… as competiveness has improved

- This better dynamic appears to reflect the diffusing impact of strengthening Spanish competiveness. Indeed, over the past year, domestic demand in both countries contributed negatively to GDP growth by roughly the same amount, around -3.5%. However, the big difference came from the traction on the export side in Spain, where exports contributed positively to GDP, +3% of vs. 0% for Italy.

- The rising competitiveness of the Spanish economy has a lot to do with the 20% drop in unit labour costs since mid-2009. Spain's falling unit labour costs compare favourably with a less than 10% drop for Italy over the same period. The lower unit labour costs help the Spanish economy regain market share at the global level. The share of Spanish exports to non-EU countries now represents around 2% of the total world exports to non-EU countries and is about to outpace Italy's level. As we already mentioned in a previous article in this review, because structural reforms started earlier in Spain, it is able to enjoy the benefits of adjustment earlier too.

Chart 2: Outperforming Spanish export illustrates stronger competitiveness



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- However, it is worth noting that part of this massive improvement in Spanish competitiveness reflects massive layoffs — which are detrimental in terms of domestic economic growth performance, and not sustainable in the long term. Further improvement may require additional reforms at a time when the pace of layoffs is fortunately abating.

Starting points are worth looking to address the cyclical pickup

- Furthermore, while the immediate upward momentum is more favourable for Spain, it is worth bearing in mind where Spain is coming from. Even accounting for some recovery next year, the OECD estimates that the Spanish output gap will be around -9.5% of GDP next year vs. -5.0% for Italy. So, the deflationary consequence of this situation and its sustainable negative impact on the economy remains a much higher burden for Spain vs. Italy. As a result, a stronger growth rebound in Spain vs. Italy is needed.

- In particular, Spain still has to handle a deep recession in the construction sector and the on-going drop in housing prices. This weigh negatively on household wealth and combined with the still high unemployment rate, the outlook for consumer demand is exceedingly soft.

Spanish budget and debt situations still in distress

- As a result, OECD’s estimate for potential growth at around 0% for both Spain and Italy for the coming two years. With such low level of expected growth, debt sustainability requires an on-going improvement in the budget balance via higher taxes and spending austerity.

- Cosmetically, short term momentum in the budget situation looks more favourable for Spain than Italy. In the first seven months of the year, the Spanish federal budget deficit was around €45 bn, €1.5 bn lower than last year over the same period. For Italy on the other hand, figures up to August showed a worsening situation with a budget deficit at €60 bn vs. €18 bn one year earlier. Higher tax revenue at the end of the year through the implementation of a VAT rate hike in October should have further positive impact for Italy in the final months of the year. While some slippage compared to initial targets is not excluded, it is worth noticing that the Italian budget deficit is expected to be around -3.0% of GDP this year vs. a target at -6.5% for Spain.

- Moreover, digging into the details of this year’s Spanish budget improvements is not particularly flattering for Spain. Total Spanish tax revenues are flat year-on-year (but only due to VAT revenue increases - personal income tax revenues and corporate tax revs are both down). Government expenditures are higher (+5.7% y/y). The economy has contracted in the nominal euro terms that matter with respect to the tax base. The only reason that the Spanish federal deficit is falling (-4.4% of GDP through July 2013 vs. -4.5% of GDP through July 2012) seems to come from ‘other revenues’ and adjustments. Yes, the ESM is there to bail out Spain's banks and that's the most important factor with respect to Spain’s fiscal sustainability, but in terms of basic fiscal performance, 2013 doesn’t looks that much better than 2012 after scratching beneath the surface.

- Furthermore, the primary budget surplus (budget deficit exc., interest payment), which is key for the sustainability of the debt at a time when growth potential is weak, is expected to be close to +3% of GDP in the case of Italy vs. still -3.3% for Spain.

- As a consequence, assuming a stabilisation in the primary budget situation in both countries, 6 year nominal yields (representative of the duration of the debt) at around current levels of 3.5% and potential growth at 0%, Spain’s debt to GDP ratio would still be climbing and could be higher than Italy’s by the end of this decade. It means that, at a time of reform fatigue in most EMU countries, there is a stronger need for the Spanish economy to undergo further fiscal adjustment — and to achieve higher growth (not an easy combination).

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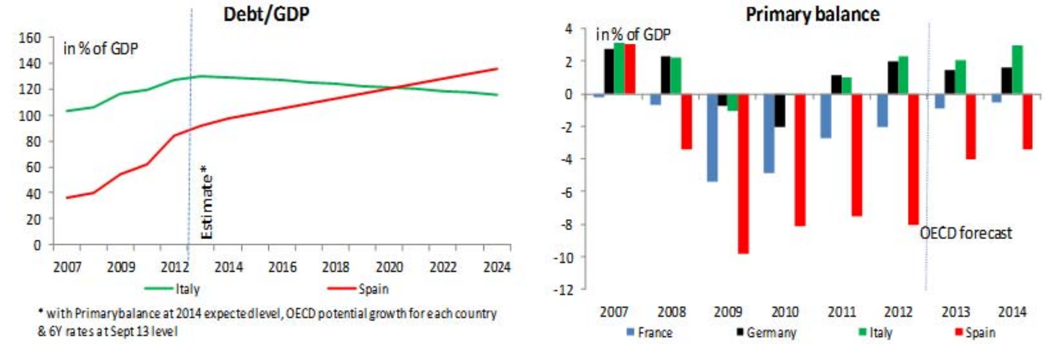
Chart 3: Spanish debt sustainability remains a key question mark!



Banking sector faces alarming loans contraction

- Finally, while the EU Commission expressed satisfaction with Spain's progress on banking recapitalisation in early July, it is worth noting that the contraction in lending growth remains alarming and makes the situation of the Spanish banking sector all the more difficult in terms of profitability. As of June, banks loans to non-financial corporates contracted by more than 20% in Spain vs. -5% for Italy or the EMU as a whole.

- As the ECB is about to embark on a new banking stress-test next year before taking on its role as a supervisor, further recapitalisation and support for the Spanish banking sector is not out of the question. Over the past year, this support has come through the assistance of the ESM. However, up until now (and quite plausibly for the foreseeable future), the ESM aid is directed to the Spanish government and linked to conditionality. The first €100 bn bank bailout package brought strong tensions inside the government regarding this conditionality. In the case that further assistance is required, it is not certain that the government will be in a position to agree to further international control in view of its low popularity.

To conclude, improving competiveness in Spain contributes to providing upward momentum with respect to Spain's economic performance compared to Italy. This stronger cyclical improvement in Spain justifies some normalization in the yield spread between Spain and Italy. If we go back to the traditional relationship between cyclical data and yield spreads which was in place during the 2009/2011 period, we could envisage a further outperformance of Spanish yields vs. Italy; indeed, regression analysis suggests levels up to -60/-80 bps on the 10Y. Moves of this magnitude could be encouraged in the coming weeks by the likely upward revision of Spanish GDP growth following the stronger Q2 number and the on-going positive momentum seen in business surveys.

However, last year also teaches us that fundamentals and debt sustainability also matter. While easing risk aversion has contributed to reducing concerns in the short run, systemic risks could be back in the front seat in short order. In this regard, with Spanish debt expected to be close to 100% of GDP in the coming three to four years while Italy stabilises in a 125%/130% area, some rewidening could be in the pipe. Indeed, past relationship shows that the dynamic of the debt matters as strongly as the levels for fixed income markets.

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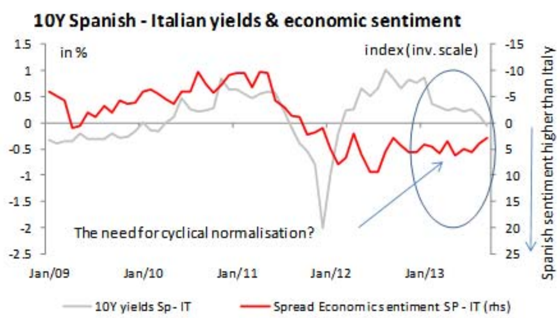
Chart 4: Cyclical…



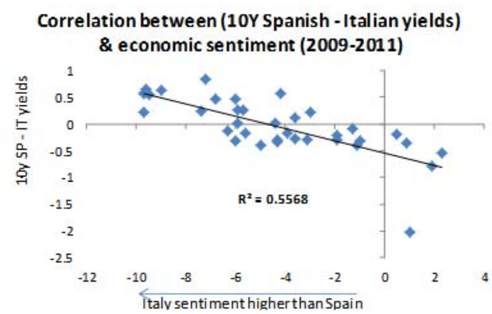
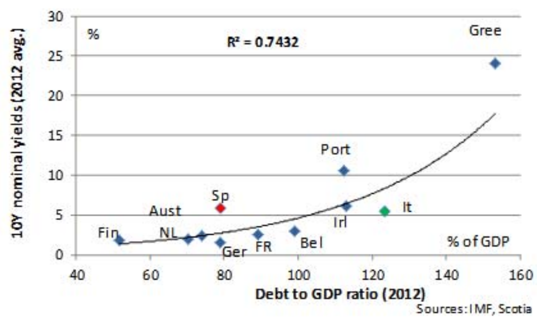
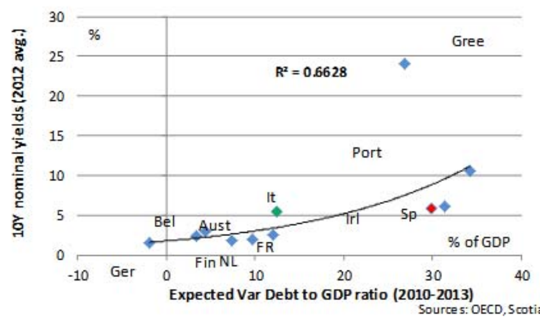


Chart 5: … vs. debt fundamentals





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Latin America Week Ahead: For The Week Of September 16 - 20

We feel that a lot of interesting / important US data may get overlooked this week, as markets could enter "Fed tunnel vision mode", leaving data such as industrial production, the Empire manufacturing index, current account and CPI somewhat overlooked. Our sense is that consensus looks for the Fed to announce the start of tapering, with a decline in UST purchases somewhere in the US$10bn-US$15bn range. Besides the Fed, it is also worth highlighting there is a relatively large amount of LATAM bank holidays scheduled for next week, which could affect liquidity. With Mexico on holiday on Monday, and the Fed in the pipeline, market players could start "flattening their MXN books today". In Chile, with the second half of the week being a holiday, liquidity will also likely be reduced.

Week-ahead views:

Brazil: Details on how the government plans to accelerate its infrastructure program continue to emerge, as local media suggest the government is planning to establish a fund that would provide insurance for private players who win concessions for projects (the fund would reportedly provide coverage for construction and policy risks). The fund's target size is reportedly planned at US$11bn, but the government plans to leverage the fund 4X, so that US$44bn in projects can be insured. In addition, the government is also reportedly looking at the possibility of setting up a consortium of private and public banks to help fund projects. There are indications that these efforts could finally help get the agenda off-the-ground, which we see as the most likely way in which the government can get growth moving in the right direction, while S&P has flagged the infrastructure plans as one of the key items that can help avoid a credit rating downgrade. In our view, these plans are positive, and could help reverse the country's slide. However, it will be important for the government to be transparent about the risks it is assuming with the guarantees, as public finances are already a concern of both rating agencies and the market. Overall, we see the infrastructure plans as positive. In terms of data, this week will be important on both the employment and jobs data sides, both of which are important indicators to monitor. Our bias is to be long USD/BRL on dips towards 2.25.

Chile: Last night (Sept. 12) the BCCh left the policy rate unchanged at 5%, highlighting a more stable global environment on the growth side (US slowly recovering + China's slowdown subsiding), contrasting with lingering uncertainty in financial markets and frailty in some EMs. On the commodity price front, the BCCh said it does not see a clear trend, which could have contributed to a "wait and see decision". The take on the domestic economy front appears quite neutral. Regarding its bias, the central bank highlighted that an adjustment to policy settings could be necessary if the scenario outlined in the Monetary Policy Report were to be confirmed. Overall, our sense is that the BCCh's policy bias remains explicitly on the easing side, but the statement suggested a very moderately less dovish stance. This looks set to be a very quiet week for CLP, with Wednesday — Friday being local holidays, while the domestic data pipeline looks quite barren. As we get closer to November, we expect politics to increasingly become a topic of market interest.

Colombia: The minutes of September 13th will likely be closely watched for signs on what direction policy will take in the future on both the rates and FX side. Our sense is that with USD/COP trading mostly in a 1900-1950 range since mid-August, the government is much more comfortable on the currency front. On the rates side, this week's Q2 GDP release will be important to watch, as will be the retail sales and industrial production data. Our sense is that the industrial production numbers are a particularly important release for the government, as the manufacturing sector has been one of the major losers during the "commodity price boom", as manufacturing's share of exports has dropped from over 35% in 2007, to under 20% by the end of last year.

Mexico: With Monday being an important local holiday (Independence Day), we expect liquidity to be poor, despite the latest BIS Triennial Central Bank Survey on foreign exchange suggesting that 4/5 of daily FX turnover takes place fully offshore. In our view, the politics of structural reforms will be a key driver at least until November 15th, when the economic package's approval process is expected to be finalized. Our sense is that an important part of the current administration's success on the structural reform front stems from its ability to take "partial victories" (as opposed to taking an "all or nothing stance"), and prioritizing what is most relevant (i.e., being more ambitious on the tougher "constitutional changes", and in exchange softening on the

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secondary legislation — which we believe would be easier to amend later on). In our view, the fiscal reform has arguably become their most difficult challenge as, under certain circumstances, it could end up alienating the natural supporters of the energy reform. Although the fiscal reform clearly fell short of expectations, and fails to address key issues, it does make important progress on eliminating some of the more relevant gaps in the tax code outside of the VAT, particularly on income tax loopholes. The risk appears to be that many are taking the view that "all or nothing" should be pursued… which we fear could lead to "nothing" (deviating from the "partial victory approach" that we believe has been the main differentiator / reason for the success of this administration over recent ones — This is one of the more balanced analyses of the reform we have read so far). Banamex's survey will be an interesting piece of the monetary policy puzzle, showing what portion of the "analyst community" has shifted its views towards expecting further rate cuts following Banxico's surprise cut last week, while the minutes will shed important light over the tone/focus of the board's debate. Our bias is to be long USD/MXN on dips towards 13.08, with a stop at 12.96.

Peru: Today, BCRP Research Director Armas is scheduled to discuss the central bank's decision to leave the reference rate unchanged last night, which could help provide some further guidance regarding the likelihood that the central bank will deliver rate cuts down the line. From a tactical standpoint, our local FX desk sees room for USD/PEN to drop towards 2.750. We agree with the view on a tactical standpoint, but remain biased to be long USD on a strategic basis, as our view is that over coming months, the overwhelming factors suggest the USD is set to experience a rebound (which for PEN we see as a double negative, as it hurts the sol on a direct way, but also indirectly through the denominator effect that a stronger USD would have on commodity prices). In terms of data, this is a relatively active week for Peru, where we expect the publication of unemployment and the monthly economic activity index, while the BCRP is also expected to release its Quarterly Inflation Report.

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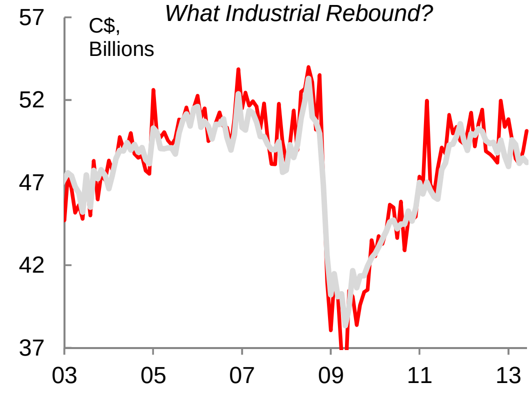
Key Data Preview

CANADA

Manufacturing sales numbers for July (September 17) could well pick up after new orders data over the preceding number of months strengthened fairly notably (see chart). It's not all good news for new orders, which have been going sideways for a number of years, or for manufacturing sales generally (also flat dating back to 2011). Nonetheless, between decent shipments of refined energy products and automotive products, as well as the uptick in orders, there is some hope for cyclical relief in what looks like a secularly challenged manufacturing sector. Our model points to a 0.4% m/m gain.

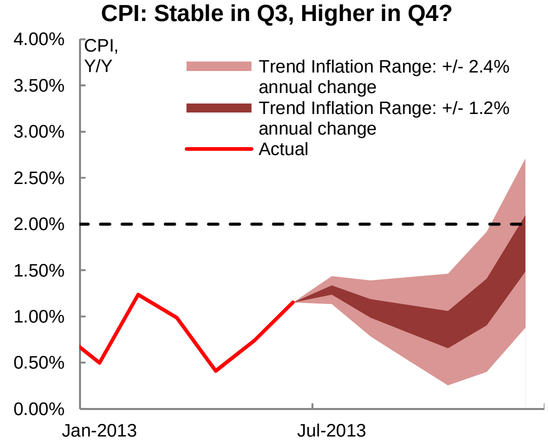
We're looking for a flattish outcome on **Canadian CPI** for August (September 20), which we expect to come in at 0.1% m/m and 1.2% y/y. Gasoline prices were flat at the pump, commodity foodstuff prices didn't change too much, and seasonality isn't a major factor in August. One factor to watch for is rising homeowner costs as mortgage interest rates climb. The Bank of Canada's posted 5-year mortgage rate climbed by 3.9% m/m from July to August, and we can see changes in this metric continuing to impact CPI moving forward. While we expect CPI to remain sluggish through the year (and in any event, CPI normally only increases at half the pace during the second half of the year as it does during the first half of the year) even 1% annualized trend growth over the remaining months of 2013 will get CPI close to the 2% target (see chart).

Canada New Orders
What Industrial Rebound?



Source: Statistics Canada, Scotiabank Economics

CPI: Stable in Q3, Higher in Q4?



Source: Scotiabank Economics, Statistics Canada

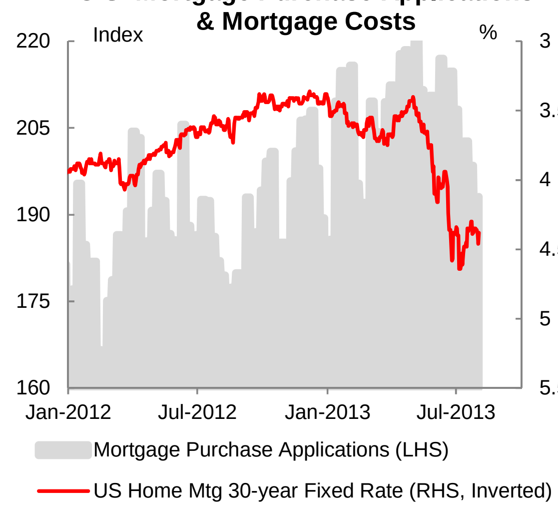
UNITED STATES

Housing starts for August (September 18) will reflect whether or not the rising interest rate environment is having an impact on developers. The building permits numbers don't point to very much wariness on that end, though consumer behaviour as measured by mortgage purchase applications tell a different story entirely (see chart).

U.S. **inflation** should slow down moderately in August, with a 0.3% seasonally adjusted monthly print resulting in CPI falling to 1.8% y/y (vs. 2% in July). Much as in Canada, flat gasoline prices should leave CPI essentially alone, although a tendency towards higher seasonal adjustment in August has us expecting the monthly figures to rise a bit more sharply in the U.S.

Industrial production looks pretty good in August, with our internal models pointing to a solid increase in U.S. automotive output (perhaps as much as a 5% monthly increase) on the basis of a) inventory restocking putting demands on manufacturers, and b) a stronger-than-normal seasonal bounce-back from the normal summer retooling (which in any event was less dramatic than usual). How the August weather impacted utilities output is anyone's guess. We're forecasting a 0.4% m/m industrial production increase on the autos story.

U.S. Mortgage Purchase Applications & Mortgage Costs



Source: Bloomberg, Scotiabank Economics

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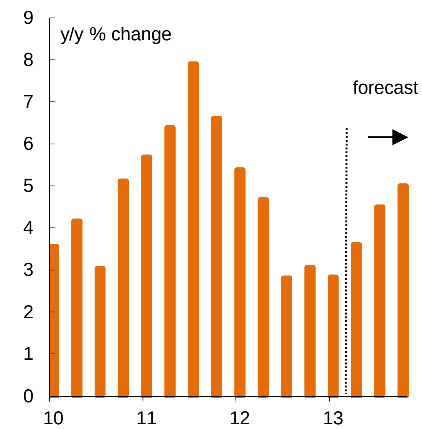
EUROPE

The German ZEW indicators for September will be released on Tuesday, September 17th. Survey data in the euro zone have been improving for a number of months now, while real economic data continue to fluctuate between expansion and contraction. The ZEW survey showed large gains last month, in both the ‘current conditions’ (up 7.7 points) and ‘expectations’ components (up 5.7 points). We expect the upward trend to continue with this month’s release; however, the rise is likely to be much milder, particularly in the ‘current conditions’ index. This past month saw some disappointing data out of Germany, including factory orders (down 2.7% m/m in July), industrial production (-1.7%), exports (-1.1%), and retail sales (-1.4%), and this will likely play into the mood among the financial market analysts/investors who respond to the ZEW survey. We anticipate a 0.5-point rise in the ‘current conditions’ component to 18.8, while the ‘expectations’ index should see a larger pick-up of around 2 points to 44. The Ifo survey, which follows the ZEW in the data cycle and gauges sentiment among actual businesses, usually follows the same general trends as the ZEW though month-to-month movements tend to be less chunky. We will thus look for comparatively smaller gains in the Ifo in the coming weeks.

LATIN AMERICA

Colombian second-quarter GDP growth will be reported next week (September 19th). We estimate that the economy expanded by 3.6% y/y in the April-June period, accelerating slightly from the 2.8% y/y pace registered in the first quarter. Nonetheless, the economy remains subdued, growing at a rate below the average of the previous three years. The government implemented a significant economic stimulus plan in the first quarter of the year with measures that are expected to support specific sectors of the economy, particularly construction. Additionally, monetary authorities decided to cut the reference rate to support economic growth as inflation remained below the mid-point of the official range. High-frequency data in recent months suggest that the economy is already recovering with household consumption improving somewhat and the construction sector picking up gradually. We expect the economy to gain more strength through the second half of the year, bringing the annual growth rate to around 4%.

Colombian GDP

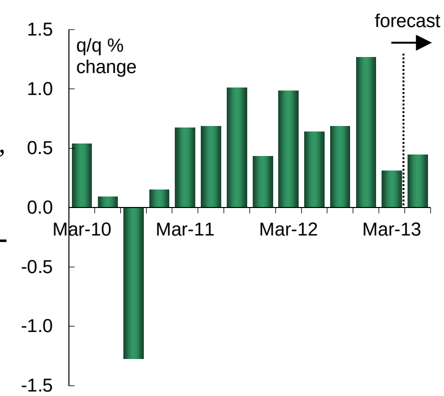


Source: Bloomberg, Scotiabank Economics.

ASIA/PACIFIC

New Zealand will release second-quarter real GDP data on September 18th; we estimate that output increased by 0.4% q/q following a 0.3% gain in the January-March period. The economy will likely grow by around 2¾% in 2013 overall. The performance of the small commodity-producing economy (particularly dairy, meat, and wood products) will greatly depend on the global growth and trade cycles. For the time being, subdued external conditions will continue to weigh on the overall economic outlook as the country’s exporters battle with still-weak (though improving) global demand and a strong currency. Domestic demand continues to be the main economic motor, driven by earthquake-related reconstruction investment, while government spending will be constrained by fiscal consolidation efforts. Real estate momentum will continue to underpin consumer sentiment and spending. Nevertheless, rapid house price gains have prompted discomfort among monetary authorities, and the Reserve Bank of New Zealand assesses that house prices are currently overvalued. Accordingly, the central bank will implement lending restrictions to banks (as of October 1st) in order to promote financial stability and allow monetary policy to remain growth-supportive in the coming months.

Real GDP Growth - New Zealand



Source: Bloomberg, Scotiabank Economics.

Key Indicators for the week of September 16 - 20

North America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	09/16	08:30	International Securities Transactions (C$ bn)	Jul	--	8.0	-15.4
US	09/16	08:30	Empire State Manufacturing Index	Sep	--	9.0	8.2
CA	09/16	09:00	Existing Home Sales (m/m)	Aug	2.0	--	0.2
US	09/16	09:15	Capacity Utilization (%)	Aug	--	77.9	77.6
US	09/16	09:15	Industrial Production (m/m)	Aug	0.4	0.4	0.0
CA	09/17	08:30	Manufacturing Shipments (m/m)	Jul	0.4	0.5	-0.5
US	09/17	08:30	CPI (m/m)	Aug	0.3	0.2	0.2
US	09/17	08:30	CPI (y/y)	Aug	1.8	1.6	2.0
US	09/17	08:30	CPI ex. Food & Energy (m/m)	Aug	0.2	0.2	0.2
US	09/17	08:30	CPI ex. Food & Energy (y/y)	Aug	1.9	1.8	1.7
US	09/17	09:00	Total Net TIC Flows (US$ bn)	Jul	--	--	-19.0
US	09/17	09:00	Net Long-term TIC Flows (US$ bn)	Jul	--	5.0	-66.9
US	09/17	10:00	NAHB Housing Market Index	Sep	--	59.0	59.0
US	09/18	07:00	MBA Mortgage Applications (w/w)	SEP 13	--	--	-13.5
US	09/18	08:30	Building Permits (000s a.r.)	Aug	--	950	954
US	09/18	08:30	Housing Starts (000s a.r.)	Aug	925	921	896
US	09/18	08:30	Housing Starts (m/m)	Aug	3.2	2.7	5.9
US	09/18	14:00	**FOMC Interest Rate Meeting (%)**	**Sep 18**	**0.25**	**0.25**	**0.25**
CA	09/19	08:30	Wholesale Trade (m/m)	Jul	1.0	1.4	-2.8
US	09/19	08:30	Continuing Claims (000s)	SEP 7	330	2913	2871
US	09/19	08:30	Initial Jobless Claims (000s)	SEP 14	2925	330	292
US	09/19	08:30	Current Account (US$ bn)	2Q	--	-97.6	-106.1
US	09/19	10:00	Existing Home Sales (mn a.r.)	Aug	5.2	5.3	5.4
US	09/19	10:00	Existing Home Sales (m/m)	Aug	-3.5	-2.6	6.5
US	09/19	10:00	Leading Indicators (m/m)	Aug	--	0.6	0.6
US	09/19	10:00	Philadelphia Fed Index	Sep	12.0	10.0	9.3
CA	09/20	08:30	Core X8 CPI (m/m)	Aug	0.0	0.2	0.0
CA	09/20	08:30	Core X8 CPI (y/y)	Aug	1.1	1.3	1.4
CA	09/20	08:30	CPI, All items (m/m)	Aug	0.1	0.1	0.1
CA	09/20	08:30	CPI, All items (y/y)	Aug	1.2	1.1	1.3
CA	09/20	08:30	CPI SA, All items (m/m)	Aug	--	--	0.2
CA	09/20	08:30	Core CPI SA, All items (m/m)	Aug	--	--	0.1
MX	09/20	09:00	Unemployment Rate (%)	Aug	--	5.3	5.1

Europe

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
EC	09/16	05:00	CPI (m/m)	Aug	0.1	0.1	0.1
EC	09/16	05:00	CPI (y/y)	Aug F	1.3	1.3	1.3
EC	09/16	05:00	Labour Costs (y/y)	2Q	--	--	1.6
IT	09/16	05:00	Current Account (€ mn)	Jul	--	--	3270.0
EC	09/17	04:00	Current Account (€ bn)	Jul	--	--	16.9
UK	09/17	04:30	CPI (m/m)	Aug	0.5	0.5	0.0
UK	09/17	04:30	CPI (y/y)	Aug	2.7	2.7	2.8
UK	09/17	04:30	DCLG House Prices (y/y)	Jul	--	3.4	3.1
UK	09/17	04:30	PPI Input (m/m)	Aug	--	0.2	1.1
UK	09/17	04:30	PPI Output (m/m)	Aug	--	0.2	0.2
UK	09/17	04:30	RPI (m/m)	Aug	--	0.4	0.0
UK	09/17	04:30	RPI (y/y)	Aug	--	3.2	3.1
EC	09/17	05:00	Trade Balance (€ mn)	Jul	--	--	17315.6
EC	09/17	05:00	ZEW Survey (Economic Sentiment)	Sep	--	--	44.0
GE	09/17	05:00	ZEW Survey (Current Situation)	Sep	18.8	20.0	18.3
GE	09/17	05:00	ZEW Survey (Economic Sentiment)	Sep	44.0	45.0	42.0
TU	09/17	07:00	**Benchmark Repo Rate (%)**	**Sep 17**	**4.50**	**4.50**	**4.50**

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

Key Indicators for the week of September 16 - 20

Europe *(continued from previous page)*

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
SZ	09/19	03:30	**SNB Libor Target Rate (%)**	**Sep 19**	**0.00**	**0.00**	**0.00**
NO	09/19	04:00	**Norwegian Deposit Rates (%)**	**Sep 19**	**1.50**	**1.50**	**1.50**
UK	09/19	04:30	Retail Sales ex. Auto Fuel (m/m)	Aug	--	0.0	1.1
UK	09/19	04:30	Retail Sales with Auto Fuel (m/m)	Aug	--	0.4	1.1
UK	09/20	04:30	PSNB ex. Interventions (£ bn)	Aug	--	13.3	0.1
EC	09/20	10:00	Consumer Confidence	Sep A	--	-14.5	-15.6

Asia Pacific

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CH	09/14	06:59	Actual FDI (y/y)	Aug	--	12.5	24.1
IN	09/16	02:30	Monthly Wholesale Prices (y/y)	Aug	5.7	5.7	5.8
NZ	09/16	06:59	REINZ House Sales (y/y)	Aug	--	--	14.7
PH	09/16	07:59	Overseas Remittances (y/y)	Jul	--	5.4	5.8
SK	09/16	17:00	PPI (y/y)	Aug	--	--	-0.9
SI	09/16	20:30	Exports (y/y)	Aug	--	2.2	-0.7
AU	09/16	21:30	New Motor Vehicle Sales (m/m)	Aug	--	--	-3.5
HK	09/17	04:30	Unemployment Rate (%)	Aug	3.3	3.3	3.3
AU	09/17	20:00	Conference Board Leading Index (%)	Jul	--	--	-0.2
MA	09/18	05:00	CPI (y/y)	Aug	2.1	2.0	2.0
NZ	09/18	18:45	GDP (q/q)	2Q	0.4	0.2	0.3
JN	09/18	19:50	Merchandise Trade Balance (¥ bn)	Aug	--	-1113.8	-1024.0
JN	09/18	19:50	Adjusted Merchandise Trade Balance (¥ bn)	Aug	--	-824.5	-944.0
JN	09/18	19:50	Merchandise Trade Exports (y/y)	Aug	--	14.8	12.2
JN	09/18	19:50	Merchandise Trade Imports (y/y)	Aug	--	18.7	19.6
JN	09/19	00:30	All Industry Activity Index (m/m)	Jul	--	0.3	-0.6
JN	09/19	01:00	Coincident Index CI	Jul F	106.4	--	106.4
JN	09/19	01:00	Leading Index CI	Jul F	107.8	--	107.8
PH	09/19	06:59	Balance of Payments (US$ mn)	Aug	--	--	1099.0
HK	09/19	07:59	**Composite Interest Rate (%)**	**Aug**	**--**	**--**	**0.32**
JN	09/19	07:59	Nationwide Department Store Sales (y/y)	Aug	--	--	-2.5
IN	09/20	01:30	**Repo Rate (%)**	**Sep 20**	**7.25**	**--**	**7.25**
IN	09/20	01:30	Reverse Repo Rate (%)	Sep 20	6.25	--	6.25
IN	09/20	01:30	Cash Reserve Ratio (%)	Sep 20	4.00	--	4.00

Latin America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
PE	09/16	06:59	Economic Activity Index NSA (y/y)	Jul	--	4.8	4.4
PE	09/16	06:59	Unemployment Rate (%)	Aug	--	--	6.0
BZ	16-21 SEP		Formal Job Creation (jobs, total)	Aug	--	--	41463
CO	09/19	12:00	GDP (y/y)	2Q	3.6	3.5	2.8
CO	09/20	17:00	Industrial Production (y/y)	Jul	--	-4.0	-5.5
CO	09/20	17:00	Retail Sales (y/y)	Jul	--	5.5	4.1

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

Global Auctions for the week of September 16 - 20

North America

Country	Date	Time	Event
US	09/16	11:00	U.S. Fed to Purchase USD0.75-1.00 Bln Notes
US	09/16	11:30	U.S. to Sell 3-Month Bills
US	09/16	11:30	U.S. to Sell 6-Month Bills
US	09/17	11:00	U.S. Fed to Purchase USD1.25-1.75 Bln Notes
US	09/17	11:30	U.S. to Sell 52-Week Bills
US	09/17	11:30	U.S. to Sell 4-Week Bills
MX	09/17	12:30	10Y Fixed Yield
CA	09/18	12:00	Canada to Sell 2 Year Notes
US	09/19	11:00	U.S. Fed to Purchase USD2.75-3.50 Bln Notes
US	09/20	11:00	U.S. Fed to Purchase USD1.25-1.75 Bln Notes

Europe

Country	Date	Time	Event
NE	09/16	04:00	Netherlands to Sell Up to EUR2 Bln 103-Day Bills
NE	09/16	04:00	Netherlands to Sell Up to EUR2 Bln 194-Day Bills
FR	09/16	08:50	France to Sell Bills (BTF)
SP	09/17	04:30	Spain to Sell 6-Month and 12-Month Bills
DE	09/17	04:30	Denmark to Sell Bonds Due 2023
SZ	09/17	05:30	Switzerland to Sell 91-Day Bills
SW	09/18	05:03	Sweden to Sell SEK3.5 Bln 4.25% 2019 Bonds
GE	09/18	05:30	Germany to Sell EUR5 Bln 0.25% 2015 Bonds
PO	09/18	05:30	Portugal to Sell 91 Days Bills
PO	09/18	05:30	Portugal to Sell 546 Days Bills
SP	09/19	04:30	Spain to Sell Bonds
FR	09/19	04:50	France to Sell I/L Bonds / Notes
UK	09/19	05:30	U.K. to Sell GBP4.75 Bln 1.25% 2018 Bonds
IC	09/20	06:00	Iceland to Sell Bonds
UK	09/20	06:10	UK to Sell Bills

Asia Pacific

Country	Date	Time	Event
CH	09/15	23:00	Guangdong Muni to Sell CNY6.05 Bln 5-Year Bonds
CH	09/15	23:00	Guangdong Muni to Sell CNY6.05 Bln 7-Year Bonds
CH	09/15	23:00	Agricul Dev Bank of China to Sell CNY8 Bln 7-Year Bonds
JN	09/17	23:35	Japan to Sell 1-Year Bill
JN	09/17	23:45	Japan to Sell 20-Year Bonds
NZ	09/18	22:05	New Zealand Plans to Sell NZ$300m Nominal Bonds
JN	09/18	23:35	Japan to Sell 3-Month Bill
JN	09/19	23:35	Japan to Sell 2-Month Bill

Source: Bloomberg, Scotiabank Economics.

Events for the week of September 16 - 20

North America

Country	Date	Time	Event
CA	16-20 SEP		Union of BC Municipalities Convention
US	09/17		The United Nations 68th General Assembly Session Opens
US	17-18 SEP		Federal Reserve FOMC Meeting
CA	17-19 SEP		Canada LNG Export Forum
US	09/18	10:00	Hearing on Money Market Mutual Funds Regulations
CA	09/18	10:40	Bank of Canada Governor Poloz Speaks at Board of Trade
US	09/18	14:00	**FOMC Rate Decision**
US	09/18	14:00	Fed Releases Summary of Economic Projections
US	09/18	14:30	Fed's Bernanke Holds Press Conference in Washington
CA	09/20	10:00	PEI Finance Minister Sheridan Speaks at APEC AGM Luncheon
US	09/20	12:30	Fed's George Speaks on the Economy in New York
US	09/20	12:55	Fed's Bullard Speaks on Economy and Monetary Policy in NY
US	09/20	13:45	Fed's Kocherlakota Speaks in New York
US	09/20		S&P Index Quarterly Review Become Effective

Europe

Country	Date	Time	Event
EC	13-14 SEP		Euro-Area Finance Ministers Meet in Vilnius. Lithuania
EC	09/14	03:00	EU Finance Ministers Meet in Vilnius, Lithuania
GE	09/14	05:00	Merkel Holds Campaign Rally in Heilbronn
EC	09/14	05:30	ECB's Weidmann, Germany's Schaeuble Press Event in Vilnius
GE	09/14	08:00	Merkel Holds Campaign Rally in Mainz
GE	09/14	09:00	Steinbrück campaign event in Saarbrücken
UK	09/14	13:30	Clegg Speaks at U.K. Liberal Democrat Rally in Glasgow
EC	09/14		EU's Rehn at Event on Future of Monetary Union in Estonia
GE	09/15	07:00	Merkel Holds Campaign Rally in Dresden
GE	09/15	09:00	Merkel Holds Campaign Rally in Bad Köstritz
GE	09/15		Germany Holds State Elections in Bavaria
EC	09/16	01:30	ECB's Mersch Speaks in Dubai
PO	09/16	03:00	EU, IMF Officials Start Review of Portuguese Aid Program
EC	09/16	03:00	Bundesbank's Lautenschlaeger Speaks in Frankfurt
SP	09/16	04:00	Spain central govt, regions, Social Security budget YTD July
EC	09/16	04:00	ECB's Draghi Speaks in Berlin
EC	09/16	04:30	ECB's Praet Speaks in London
GE	09/16	05:00	Merkel at Event Kick-Starting Campaign Team Bustour: Berlin
GE	09/16	09:30	Germany's Schaeuble Speaks at CDU Election Event, Loerrach
GE	09/16	10:00	Merkel Holds Campaign Rally in Duderstadt
GE	09/16	11:00	Steinbrück campaign event in Emden
GE	09/16	12:00	Germany's Schaeuble Speaks at CDU Election Event, Emmendingen
GE	09/16	13:30	Merkel Holds Campaign Rally in Potsdam
GE	09/16	14:00	Germany's Schaeuble Speaks at CDU Election Event, Freiburg
SW	09/16	18:00	Swedish parliament opens 2013/2014 session
AS	09/17	03:00	ECB's Nowotny, Bafin's Koenig at Vienna Conference
FI	09/17	04:00	ECB's Liikanen Speaks at Bank of Finland Briefing in Helsinki
TU	09/17	07:00	**Benchmark Repurchase Rate**
GE	09/17	10:30	Merkel Holds Campaign Rally in Magdeburg
GE	09/17	11:00	Steinbrück campaign event in Wuppertal
GE	09/17	13:30	Merkel Holds Campaign Rally in Rüsselsheim
GE	09/17	14:00	Merkel Speaks at CDU Election Rally Near Frankfurt
GE	09/17		Schaeuble Speaks at CDU Election Event, Oberkirch-Stadelhofen

Source: Bloomberg, Scotiabank Economics.

Events for the week of September 16 - 20

Europe *(continued from previous page)*

Country	Date	Time	Event
EC	09/18	01:30	ECB's Coeure Speaks in Dubai
SW	09/18	03:30	Riksbank Minutes from Rate Meeting Released
UK	09/18	04:30	Bank of England Releases Monetary Policy Committee Minutes
EC	09/18	06:00	EU to Propose Draft Legislation on Benchmark Rates
EC	09/18	07:45	German Marshall Fund Releases Trans-Atlantic Opinion Poll
GE	09/18	08:30	Germany's Schaeuble Speaks at CDU Election Event, Buchen
GE	09/18	09:00	Steinbrück campaign event in Oldenburg
GE	09/18	11:00	Merkel Holds Campaign Rally in Schwerin
GE	09/18	11:30	Germany's Schaeuble Speaks at CDU Election Event, Bruchsal
GE	09/18	13:00	Merkel Holds Campaign Rally in Hamburg
GE	09/18	13:00	Steinbrück campaign event in Hamburg
EC	09/19	02:30	NATO's Rasmussen Speaks at Brussels Think Tank
EC	09/19	03:00	Bundesbank's Dombret Speaks in Oestrich-Winkel, Germany
SZ	09/19	03:30	**SNB 3-Month Libor Target Rate**
NO	09/19	04:00	**Deposit Rates**
NO	09/19	04:00	Norges Bank Hold Press Conference on Rate Decision
GE	09/19	09:30	Germany's Schaeuble Speaks at CDU Election Event, Bietigheim
GE	09/19	10:30	Merkel Holds Campaign Rally in Fulda
GE	09/19	11:30	Germany's Schaeuble Speaks at CDU Election Event, Ludwigsburg
GE	09/19		Steinbrück campaign event in Berlin
FI	09/20	04:00	ECB's Erkki Liikanen Speaks at Finnish Parliament Hearing
IT	09/20	05:00	President Napolitano Attends Event at Luiss University in Rome
GE	09/20	10:00	Merkel Holds Campaign Rally in Hannover
GE	09/20	10:30	Germany's Schaeuble Speaks at CDU Election Event, Remchingen
GE	09/20	13:00	Merkel Holds Campaign Rally in München
GE	09/20	13:30	Germany's Schaeuble Speaks at CDU Election Event, Backnang
EC	09/20		EU, Chinese Officials Hold Summit in Brussels
GE	09/20		Steinbrück campaign event in Kassel
GE	09/22		Germany Holds Federal Elections

Asia Pacific

Country	Date	Time	Event
AU	09/16	21:30	RBA Policy Meeting - September Minutes
AU	09/16	21:30	RBA Assistant Governor Malcolm Edey Speaks on Panel in Sydney
AU	16-20 SEP		2014 IAVE World Conference
ID	16-19 SEP		APEC Senior Finance Officials', Finance Deputies' Meeting
JN	09/18	21:30	BOJ Board Member Kiuchi Speech & Press Conference
AU	09/18	21:30	RBA Bulletin - September Quarter
AU	09/18	21:30	RBA FX Transactions Market
HK	18-19 SEP		**Composite Interest Rate**
JN	18-19 SEP		Bank of Japan Governor Kuroda Speaks in Tokyo
JN	18-19 SEP		Bank of Japan Policy Board Member Kiuchi Speaks
ID	19-20 SEP		APEC Finance Ministers' Meeting
JN	19-20 SEP		Bank of Japan Governor Kuroda Speaks at Kisaragi-kai Meeting
IN	09/20	01:30	RBI Cash Reserve Ratio
IN	09/20	01:30	**RBI Repurchase Rate**
IN	09/20	01:30	RBI Reverse Repo 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	October 23, 2013	1.00	--
Federal Reserve – Federal Funds Target Rate	0.25	September 18, 2013	0.25	0.25
Banco de México – Overnight Rate	3.75	October 25, 2013	3.75	--

Fed: For our thoughts on the Fed's statement and press conference on Sept. 18, please see our article "Tapernomics: Why now, and what else?". BoC: August CPI data due out on Sept. 20 will likely result in an inflation number at the very low end of the BoC's 1-3% target band. While we expect CPI to pick up and approach 2% y/y by year end, CPI will likely remain quite low in Q3.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	0.50	October 2, 2013	0.50	--
Bank of England – Bank Rate	0.50	October 10, 2013	0.50	0.50
Swiss National Bank – Libor Target Rate	0.00	September 19, 2013	0.00	0.00
Central Bank of Russia – Refinancing Rate	8.25	October 14, 2013	8.25	--
Hungarian National Bank – Base Rate	3.80	September 24, 2013	3.60	3.70
Central Bank of the Republic of Turkey – 1 Wk Repo Rate	4.50	September 17, 2013	4.50	4.50
Sweden Riksbank – Repo Rate	1.00	October 24, 2013	1.00	--
Norges Bank – Deposit Rate	1.50	September 19, 2013	1.50	1.50

The central bank of Turkey is not expected to change its benchmark interest rates next Tuesday. Economic growth was much stronger than expected in the second quarter, inflation moderated in August (from 8.9% y/y to 8.2%), and the downward pressure on the lira appears to have tempered in the aftermath of the disappointing US nonfarm payrolls print which significantly reduced the likelihood of tapering by the Fed later this month. The Swiss National Bank (SNB) and Norges Bank will also meet next week (Thursday), and no policy changes are anticipated from either authority as economic conditions remain fragile and inflationary pressures are subdued. The SNB will also maintain its minimum exchange rate policy – its primary monetary policy tool since September 2011 – at the current level of 1.20 francs per euro.

Asia Pacific

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Japan – Target Rate	0.10	October 4, 2013	0.10	--
Reserve Bank of Australia – Cash Target Rate	2.50	October 1, 2013	2.50	2.50
Reserve Bank of New Zealand – Cash Rate	2.50	October 30, 2013	2.50	2.50
People's Bank of China – Lending Rate	6.00	TBA	--	--
Reserve Bank of India – Repo Rate	7.25	September 20, 2013	7.25	--
Bank of Korea – Bank Rate	2.50	October 9, 2013	2.50	--
Bank of Thailand – Repo Rate	2.50	October 16, 2013	2.50	--
Bank Indonesia – Reference Interest Rate	7.25	October 8, 2013	7.00	--

The Reserve Bank of India will meet on September 20th; we expect that the benchmark repo rate will be kept unchanged at 7.25%. India is facing re-accelerating inflation that will prevent authorities from providing monetary stimulus to the sluggish economy; in fact, the central bank's monetary policy focus is now directed to stabilizing the Indian rupee that has recently faced a severe depreciating bias.

Latin America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	9.00	October 9, 2013	9.50	--
Banco Central de Chile – Overnight Rate	5.00	October 17, 2013	5.00	--
Banco de la República de Colombia – Lending Rate	3.25	September 27, 2013	3.25	--
Banco Central de Reserva del Perú – Reference Rate	4.25	October 10, 2013	4.25	4.25

Africa

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

The South African Reserve Bank (SARB) is concerned regarding the potential impact of currency weakness on price stability, as inflation is already running at the top end of the 3-6% tolerance range (at 6.3% y/y in July). However, the central bank faces a dilemma in that the growth outlook has weakened (with industrial strikes expected to extend through the coming weeks, real GDP growth in 2013 could end up below 2%) and the unemployment rate remains elevated (above 25%, and over 50% for youth). Therefore, the SARB is unlikely to alter monetary conditions at this point.

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

Forecasts as at August 29, 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	3.4				
Canada	2.2	1.7	1.7	2.3	2.1	1.5	1.2	1.9
United States	1.9	2.8	1.6	2.6	2.5	2.1	1.6	2.1
Mexico	2.3	3.8	1.9	3.7	4.8	3.6	4.0	4.0
United Kingdom	1.9	0.1	1.3	1.8	2.3	2.7	2.6	2.2
Euro Zone	1.4	-0.5	-0.5	0.6	2.1	2.2	1.5	1.6
Japan	0.8	2.0	1.7	1.7	-0.3	-0.1	0.7	1.2
Australia	3.0	3.6	2.4	2.7	3.1	2.2	2.5	3.0
China	9.4	7.8	7.3	7.3	2.4	2.5	3.0	3.3
India	7.4	5.1	5.0	5.8	6.6	7.3	5.8	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	3.7	4.0	2.6	3.6	2.1	3.0
Brazil	3.6	0.9	2.3	2.8	6.6	5.8	6.0	6.0
Chile	4.4	5.6	4.6	4.4	3.4	1.5	2.7	3.3
Peru	5.6	6.3	5.7	5.7	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	1.07	1.08	1.07	1.07	1.06
Canadian Dollar (CADUSD)	1.01	0.98	0.95	0.93	0.93	0.93	0.93	0.94
Euro (EURUSD)	1.32	1.28	1.30	1.30	1.25	1.25	1.24	1.24
Sterling (GBPUSD)	1.63	1.52	1.52	1.50	1.45	1.45	1.45	1.44
Yen (USDJPY)	87	94	99	103	105	106	107	109
Australian Dollar (AUDUSD)	1.04	1.04	0.91	0.88	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	12.9	13.1	13.0	12.9	12.8
Brazilian Real (USDBRL)	2.05	2.02	2.23	2.35	2.30	2.32	2.35	2.38
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	3.10				
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$/oz)	668	1,670	1,395	1,250				
Pulp (US$/tonne)	718	872	925	870				
Newsprint (US$/tonne)	581	640	609	635				
Lumber (US$/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	13Q1	13Q2	Latest	
Real GDP (annual rates)	1.7	2.2	1.7		
Current Acc. Bal. (C$B, ar)	-62.2	-53.8	-58.3		
Merch. Trade Bal. (C$B, ar)	-12.0	-7.4	-11.6	-11.2	(Jul)
Industrial Production	1.0	0.6	-0.2	-0.5	(Jun)
Housing Starts (000s)	215	175	190	180	(Aug)
Employment	1.2	1.7	1.2	1.5	(Aug)
Unemployment Rate (%)	7.3	7.1	7.1	7.1	(Aug)
Retail Sales	2.5	1.0	2.7	3.1	(Jun)
Auto Sales (000s)	1673	1683	1753	1718	(Jun)
CPI	1.5	0.9	0.8	1.3	(Jul)
IPPI	0.6	0.7	0.2	-1.4	(Jul)
Pre-tax Corp. Profits	-4.9	-10.5	-7.9		

United States	2012	13Q1	13Q2	Latest	
Real GDP (annual rates)	2.8	1.1	2.5		
Current Acc. Bal. (US$B, ar)	-440	-425			
Merch. Trade Bal. (US$B, ar)	-741	-718	-703	-703	(Jul)
Industrial Production	3.6	2.4	1.9	1.4	(Jul)
Housing Starts (millions)	0.78	0.96	0.87	0.90	(Jul)
Employment	1.7	1.6	1.6	1.7	(Aug)
Unemployment Rate (%)	8.1	7.7	7.6	7.3	(Aug)
Retail Sales	5.0	3.9	4.7	4.8	(Aug)
Auto Sales (millions)	14.4	15.3	15.5	16.0	(Aug)
CPI	2.1	1.7	1.4	2.0	(Jul)
PPI	1.9	1.5	1.6	1.4	(Aug)
Pre-tax Corp. Profits	18.5	1.4	4.1		

Mexico					
Real GDP	3.8	0.6	1.5		
Current Acc. Bal. (US$B, ar)	-14.2	-21.3	-24.0		
Merch. Trade Bal. (US$B, ar)	0.0	-4.1	-3.4	-17.3	(Jul)
Industrial Production	2.8	-1.7	-0.4	-0.5	(Jul)
CPI	4.1	3.7	4.5	3.5	(Aug)

Europe

Euro Zone	2012	13Q1	13Q2	Latest	
Real GDP	-0.6	-1.0	-0.5		
Current Acc. Bal. (US$B, ar)	157	172	272	414	(Jun)
Merch. Trade Bal. (US$B, ar)	127.1	171.6	272.6	294.0	(Jun)
Industrial Production	-2.3	-2.3	-1.1	-2.7	(Jul)
Unemployment Rate (%)	11.3	12.0	12.1	12.1	(Jul)
CPI	2.5	1.9	1.4	1.6	(Jul)

Germany	2012	13Q1	13Q2	Latest	
Real GDP	0.9	-0.3	0.5		
Current Acc. Bal. (US$B, ar)	238.8	237.7	240.0	224.7	(Jul)
Merch. Trade Bal. (US$B, ar)	243.2	266.4	250.7	227.6	(Jul)
Industrial Production	-0.4	-2.4	-0.8	-2.3	(Jul)
Unemployment Rate (%)	6.8	6.9	6.8	6.8	(Aug)
CPI	2.0	1.5	1.5	1.5	(Aug)

France					
Real GDP	0.0	-0.5	0.3		
Current Acc. Bal. (US$B, ar)	-57.3	-65.6	-48.7	-25.0	(Jul)
Merch. Trade Bal. (US$B, ar)	-52.0	-47.6	-44.6	-46.9	(Jul)
Industrial Production	-2.5	-2.3	0.2	-1.8	(Jul)
Unemployment Rate (%)	10.3	10.8	10.9	11.0	(Jul)
CPI	2.0	1.1	0.8	0.9	(Aug)

United Kingdom					
Real GDP	0.2	0.3	1.5		
Current Acc. Bal. (US$B, ar)	-93.8	-97.5			
Merch. Trade Bal. (US$B, ar)	-172.4	-162.2	-155.4	-179.6	(Jul)
Industrial Production	-2.4	-2.6	-0.8	-1.5	(Jul)
Unemployment Rate (%)	8.0	7.8	7.8	7.7	(Jun)
CPI	2.8	2.8	2.7	2.7	(Jul)

Italy					
Real GDP	-2.4	-2.4	-2.1		
Current Acc. Bal. (US$B, ar)	-11.3	-31.0	26.2	51.8	(Jun)
Merch. Trade Bal. (US$B, ar)	13.8	14.1	50.0	57.3	(Jun)
Industrial Production	-6.3	-4.3	-3.7	-4.4	(Jul)
CPI	3.1	1.9	1.2	1.0	(Aug)

Russia					
Real GDP	3.4	1.6	1.2		
Current Acc. Bal. (US$B, ar)	74.8	25.1	6.9		
Merch. Trade Bal. (US$B, ar)	16.0	16.2	14.3	13.3	(Jul)
Industrial Production	-5.3	-0.1	0.3	-0.7	(Jul)
CPI	5.1	7.1	7.2	6.5	(Aug)

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

Source: Bloomberg, Global Insight, Scotiabank Economics.

Asia Pacific

Australia	2012	13Q1	13Q2	Latest	
Real GDP	3.7	2.5	2.6		
Current Acc. Bal. (US$B, ar)	-56.8	-40.4	-21.7		
Merch. Trade Bal. (US$B, ar)	5.9	14.3	33.1	3.4	(Jul)
Industrial Production	3.8	3.4	3.9		
Unemployment Rate (%)	5.2	5.5	5.6	5.8	(Aug)
CPI	1.8	2.5	2.4		

Japan	2012	13Q1	13Q2	Latest	
Real GDP	2.0	0.1	1.3		
Current Acc. Bal. (US$B, ar)	60.4	66.4	65.9	69.5	(Jul)
Merch. Trade Bal. (US$B, ar)	-85.9	-115.3	-89.1	-113.6	(Jul)
Industrial Production	0.2	-6.5	-3.1	0.4	(Jul)
Unemployment Rate (%)	4.4	4.2	4.0	3.8	(Jul)
CPI	0.0	-0.6	-0.3	0.7	(Jul)

South Korea	2012	13Q1	13Q2	Latest	
Real GDP	2.0	1.5	2.3		
Current Acc. Bal. (US$B, ar)	43.1	39.9	79.2	81.3	(Jul)
Merch. Trade Bal. (US$B, ar)	28.3	22.7	57.1	59.0	(Aug)
Industrial Production	1.2	-0.8	-1.8	-0.6	(Jul)
CPI	2.2	1.4	1.1	1.3	(Aug)

China	2012	13Q1	13Q2	Latest	
Real GDP	10.4	7.7	7.5		
Current Acc. Bal. (US$B, ar)	290.0				
Merch. Trade Bal. (US$B, ar)	230.7	168.4	263.2	342.2	(Aug)
Industrial Production	10.3	8.9	8.9	10.4	(Aug)
CPI	2.5	2.1	2.7	2.6	(Aug)

Thailand	2012	13Q1	13Q2	Latest	
Real GDP	6.5	5.4	2.8		
Current Acc. Bal. (US$B, ar)	0.2	1.3	-5.1		
Merch. Trade Bal. (US$B, ar)	0.5	-0.1	-0.2	0.3	(Jul)
Industrial Production	2.1	3.7	-5.1	-5.8	(Jul)
CPI	3.0	3.1	2.3	1.6	(Aug)

India	2012	13Q1	13Q2	Latest	
Real GDP	5.1	4.8	4.4		
Current Acc. Bal. (US$B, ar)	-91.5	-18.1			
Merch. Trade Bal. (US$B, ar)	-16.2	-15.1	-16.9	-10.9	(Aug)
Industrial Production	0.7	2.2	-1.1	2.6	(Jul)
WPI	7.5	6.7	4.7	5.8	(Jul)

Indonesia	2012	13Q1	13Q2	Latest	
Real GDP	6.2	6.0	5.8		
Current Acc. Bal. (US$B, ar)	-24.4	-5.8	-9.8		
Merch. Trade Bal. (US$B, ar)	-0.1	-0.1	-1.0	-2.3	(Jul)
Industrial Production	4.1	9.0	6.1	3.2	(Jul)
CPI	4.3	5.3	5.6	8.8	(Aug)

Latin America

Brazil	2012	13Q1	13Q2	Latest	
Real GDP	0.8	1.8	3.2		
Current Acc. Bal. (US$B, ar)	-54.2	-99.2	-74.6		
Merch. Trade Bal. (US$B, ar)	19.4	-20.6	8.3	14.7	(Aug)
Industrial Production	-2.7	1.3	3.3	1.1	(Jul)
CPI	5.4	6.4	6.6	6.1	(Aug)

Chile	2012	13Q1	13Q2	Latest	
Real GDP	5.6	4.5	4.1		
Current Acc. Bal. (US$B, ar)	0.1	-7.4	-6.5		
Merch. Trade Bal. (US$B, ar)	12.4	2.5	4.9	-6.3	(Aug)
Industrial Production	2.9	3.3	1.4	9.5	(Jul)
CPI	3.0	1.5	1.3	2.2	(Aug)

Peru	2012	13Q1	13Q2	Latest	
Real GDP	9.2	4.5	5.6		
Current Acc. Bal. (US$B, ar)	-7.1	-2.7			
Merch. Trade Bal. (US$B, ar)	0.5	0.1	-0.2	-0.5	(Jul)
Unemployment Rate (%)	7.0	6.3	5.7	6.0	(Jul)
CPI	3.7	2.6	2.5	3.3	(Aug)

Colombia	2012	13Q1	13Q2	Latest	
Real GDP	4.0	2.8			
Current Acc. Bal. (US$B, ar)	-11.9	-3.0			
Merch. Trade Bal. (US$B, ar)	0.4	0.2	0.4	0.7	(Jun)
Industrial Production	0.1	-6.6	-0.2	-5.5	(Jun)
CPI	3.2	1.9	2.1	2.3	(Aug)

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	Sep/06	Sep/13*	United States	13Q1	13Q2	Sep/06	Sep/13*
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	0.99	3-mo. T-bill	0.07	0.03	0.02	0.01
10-yr Gov't Bond	1.87	2.44	2.77	2.77	10-yr Gov't Bond	1.85	2.49	2.93	2.90
30-yr Gov't Bond	2.50	2.90	3.24	3.25	30-yr Gov't Bond	3.10	3.50	3.87	3.83
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US$B)	70.0	68.8	69.6	(Jul)	FX Reserves (US$B)	135.2	134.7	136.5	(Jul)
Germany					**France**				
3-mo. Interbank	0.11	0.14	0.16	0.14	3-mo. T-bill	0.01	0.03	0.08	0.08
10-yr Gov't Bond	1.29	1.73	1.95	1.98	10-yr Gov't Bond	2.03	2.35	2.55	2.54
FX Reserves (US$B)	66.6	66.1	65.4	(Jul)	FX Reserves (US$B)	52.6	51.4	51.8	(Jul)
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	0.08	0.07	3-mo. T-bill	0.39	0.39	0.40	0.40
FX Reserves (US$B)	326.6	324.9	325.9	(Jul)	10-yr Gov't Bond	1.77	2.44	2.94	2.92
					FX Reserves (US$B)	88.4	90.2	91.7	(Jul)
Japan					**Australia**				
Discount Rate	0.30	0.30	0.30	0.30	Cash Rate	3.00	2.75	2.50	2.50
3-mo. Libor	0.10	0.09	0.09	0.09	10-yr Gov't Bond	3.41	3.76	4.14	4.09
10-yr Gov't Bond	0.55	0.85	0.78	0.73	FX Reserves (US$B)	46.7	45.0	46.9	(Jul)
FX Reserves (US$B)	1215.0	1209.4	1221.7	(Jul)					

Exchange Rates (end of period)

USDCAD	1.02	1.05	1.04	1.03	¥/US$	94.22	99.14	99.11	99.33
CADUSD	0.98	0.95	0.96	0.97	US¢/Australian$	1.04	0.91	0.92	0.92
GBPUSD	1.520	1.521	1.563	1.586	Chinese Yuan/US$	6.21	6.14	6.12	6.12
EURUSD	1.282	1.301	1.318	1.326	South Korean Won/US$	1111	1142	1093	1087
JPYEUR	0.83	0.78	0.77	0.76	Mexican Peso/US$	12.331	12.931	13.167	13.049
USDCHF	0.95	0.95	0.94	0.93	Brazilian Real/US$	2.022	2.232	2.307	2.279

Equity Markets (index, end of period)

United States (DJIA)	14579	14910	14923	15352	U.K. (FT100)	6412	6215	6547	6569
United States (S&P500)	1569	1606	1655	1685	Germany (Dax)	7795	7959	8276	8494
Canada (S&P/TSX)	12750	12129	12821	12720	France (CAC40)	3731	3739	4049	4105
Mexico (IPC)	44077	40623	39915	40943	Japan (Nikkei)	12398	13677	13861	14405
Brazil (Bovespa)	56352	47457	53749	53504	Hong Kong (Hang Seng)	22300	20803	22621	22915
Italy (BCI)	851	849	929	958	South Korea (Composite)	2005	1863	1955	1994

Commodity Prices (end of period)

Pulp (US$/tonne)	900	950	950	950	Copper (US$/lb)	3.44	3.06	3.25	3.19
Newsprint (US$/tonne)	610	605	605	605	Zinc (US$/lb)	0.85	0.83	0.85	0.83
Lumber (US$/mfbm)	408	292	335	392	Gold (US$/oz)	1598.25	1192.00	1387.00	1318.50
WTI Oil (US$/bbl)	97.23	96.56	110.53	107.63	Silver (US$/oz)	28.64	18.86	23.05	21.72
Natural Gas (US$/mmbtu)	4.02	3.57	3.53	3.67	CRB (index)	296.39	275.62	293.34	290.61

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

Emerging Markets Strategy

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