Global Views

Weekly commentary on economic and financial market developments

December 13, 2013

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

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FOMC & Budget Votes To Shape Global Markets

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

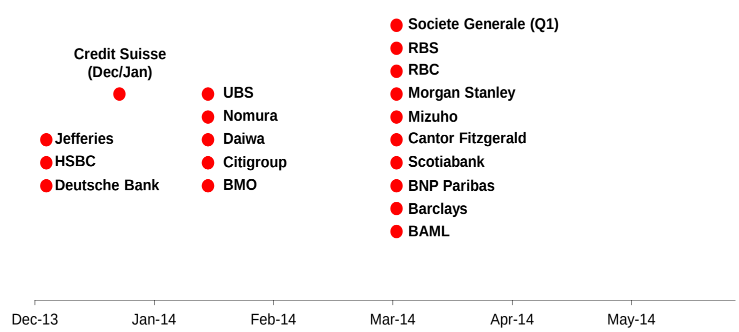
United States — Less Conviction Toward A Later Taper

While it remains our base case view, we are less convinced that the Federal Reserve will wait until March to reduce its asset purchases. Two factors would give one cause for greater uncertainty skewed more toward a December or January taper. One is the possibility that the US has achieved a longer-lasting fiscal policy agreement earlier than we had expected. This remains to be seen, with the Senate yet to vote on the budget bill as we go to print, but if the budget passes the Senate (as seems fairly likely) then it lessens the impact of fiscal policy uncertainty in the near term. I had thought that Republican and Democrat negotiations would be less acrimonious than those leading up to the October shutdown, but not yield an agreement until closer to the mid-January funding deadline, and that an agreement would buy enough peace to last just beyond the November 2014 Congressional mid-term elections. Instead, an earlier agreement has sharply reduced fiscal policy risks for about twice as long and that could be confidence building. Whereas Chairman Bernanke made it clear in his July semi-annual testimony before Congress that the Fed will not compound fiscal policy uncertainty with monetary policy instability, such an imperative may have weakened now. The second factor is that the private economy readings have generally held up rather well through the most recent shutdown period including factors like retail sales, ISM, and jobs. These two factors raise the probability of tapered asset purchases next week or in January.

Compared to the consensus scattering of views in Chart 1, the risk to expectations is that of a nearer-term taper. We also continue to think that too many within consensus assume a straight line path of steady tapering decisions at each FOMC meeting that ends the QE3 program by Q3 2014. The process of tapering is likely to be more drawn out and peppered with a series of pauses to evaluate the impact on the economy and markets. That leads us to believe QE3 will be around throughout calendar 2014 (Chart 2). The prospect of a renewed contraction in Japan's economy into next summer when a 3% rise in the sales tax is implemented may combine with renewed emerging market instability as the Fed tapers to raise global system risks and give cause for central banks to cool exit talk and pursue this path with greater trepidation.

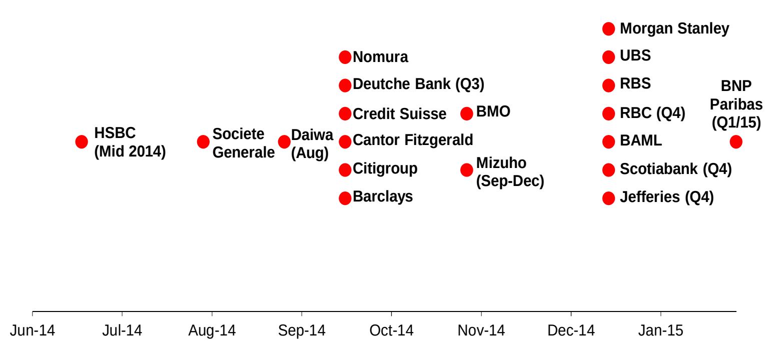
There nevertheless remain two broad reasons for sticking to our March call, albeit tepidly so. One is falling inflation. The Fed has introduced entirely new QE programs at comparably low rates of inflation in the past, so it is unlikely to beat a hasty retreat from QE3 amidst currently soft inflation rates. Second, Fed Chair-designate Janet Yellen did not sound near-term data dependent in her Senate confirmation hearing. By noting that Fed policy has had beneficial effects to date but that much further room for progress remains, it sounded unlikely that she was signaling a top-of-the-house bias in favour of imminent tapering. Indeed, following such testimony, we would view Fed communications through a poor light if it tapered next week.

Chart 1 When To Taper?



Source: Reuters.

Chart 2 When Will QE3 End?



Source: Reuters.

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Note that next week's FOMC statement will also be accompanied by a revised Summary of Economic Projections and a full press conference by Chairman Bernanke. They could be equally material to markets. Possibilities in each of the statement, press conference and revised forecasts include pushing out the forecast increase in the fed funds target, lowering the unemployment rate threshold that would trigger a rise in the fed funds target, and cutting the interest rate paid on excess reserves while relying more heavily upon an experimental reverse repo facility to prevent the effective fed funds rate from going negative.

Data risk will also be elevated over the week. A softer year-ago base effect may cause headline CPI to drift slightly higher on Tuesday. That could feed sentiment expressed by some Fed officials like Philadelphia's Charles Plosser that very low inflation rates will revert higher in future, though we've heard that many times over the years as inflation risk has failed to materialize. We're therefore skeptical, and see this year-ago base effect story as a temporary influence. After dipping in October, consensus expects Monday's industrial output figures to resume growth and post the third gain in four months which would add to sentiment that private economy readings are firming. Soaring building permits are expected to drive further gains in housing starts on Wednesday, just ahead of that day's FOMC. The resale side of the housing picture remains bearish, however, as consensus expects the third straight monthly decline in existing home sales in lagged fashion to the decline in pending home sales and mortgage purchase applications. Consensus expects no further material revisions to Q3 GDP growth on Friday, and frankly its volatility makes guessing Thursday's Philly Fed reading pure speculation.

Canada — CPI Still Seriously Undershooting

Next Friday's Canadian CPI for November will intensify the debate over the Bank of Canada's next actions. It is possible that the year-ago rate rises gently if for no other reason than weak year-ago base effects that will continue weakening for a few months. After that point, this argument reverses on higher year-ago base effects into next Spring and this may therefore make any near-term upward pressure on inflation a temporary phenomenon.

Further to this, by emphasizing downside risks to inflation in the December 4th statement and Governor Poloz's speech on December 12th, we think the Bank of Canada is teeing up markets for a further downward revision to its inflation forecasts in the January Monetary Policy Report and greater elaboration on joint risks to housing and inflation. The BoC had forecast that 2013Q4 inflation would come in at 1.3% which may be a tad high, and may signal more uncertainty over the 2014 inflation outlook. That would be a further dovish nod to markets as it bides time evaluating the evolution of inflation, housing and credit data. I maintain the view that there is a material probability of a rate cut within a one year horizon that is not yet priced into CAD or the curve but that should be. CAD is likely to weaken further against the USD on a relative growth underperformance story combined with Fed tapering that would both lead to greater capital flows in favour of the USD relative to CAD.

Data risk will be focused upon informing our tracking of GDP growth in October as updates for manufacturing shipments, wholesale trade and retail sales land throughout the week. So far we know that new home construction was fairly neutral to GDP growth in October, job growth and hours worked were only mildly positive, and a drop in existing home sales likely had an adverse impact upon related services. Monday's existing home sales for November won't matter much to either markets or housing observers as it's entering further into a soft volume time of year. The next big test of our housing story will come next spring when volumes will be sizeable enough to test the theory that strength this past summer was simply brought forward at the expense of future home sales as borrowers triggered options to buy within generous 90-120 day mortgage rate guarantees on fears that mortgage rates would revert sharply higher.

Asia-Pacific — Where's The Trade Gain From Abenomics?

How is Abenomics performing so far? The data have been mixed, particularly the most recent batch. GDP numbers for Q3 were revised down fairly sharply to 1.1% q/q from an initial 1.9%. Inflation figures are back in positive territory if due largely to the commodity pass-through from the depreciated JPY. Abenomics was always supposed to function largely through improvement to the trade account, and an update on trade data for November will provide more information on that channel. Thus far, again, the evidence is mixed, with the real trade balance

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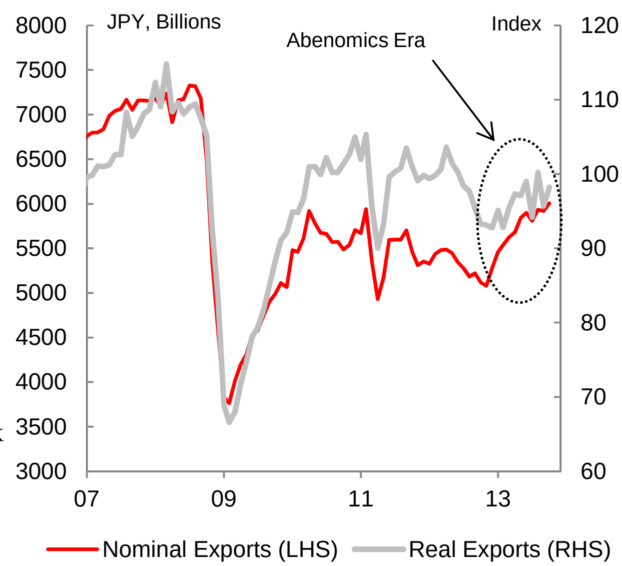
failing to make the same type of progress as the nominal figures, again signaling that the currency depreciation is creating the illusion of progress, if nothing definite (see chart 3). The BoJ will be making a policy statement on Friday and may have something to say on the subject of Japan's choppy economic progress.

Chart 3 **Japan, Nominal & Real JPY Exports**
Evident Nominal Abenomics Bounce But Not in Real Terms



Source: Japan MoF, BoJ, Scotiabank Economics

The RBI will make a policy announcement as well (Wednesday) and the question is whether or not new Governor Rajan will continue to hike rates. While consensus is expecting a hold, there are a number of forecasters (as well as market participants) who are looking for the aggressive rate hike policy that Rajan initiated upon the start of his administration to continue, particularly as the odds of a Fed taper have to be seen as having increased in the wake of recent developments — meaning that the EM sell-off of the summer could be back on and with it depreciation in the rupee that would further aggravate higher Indian CPI inflation through greater import price inflation.

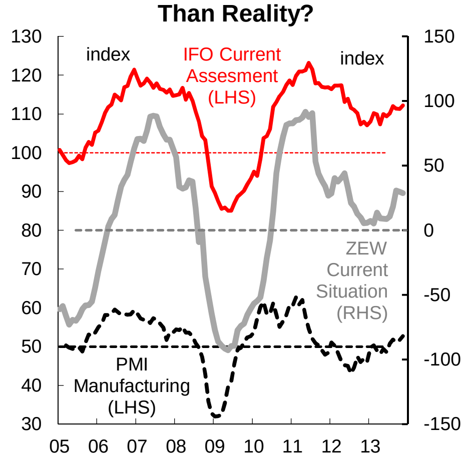
The data round-up in Asia includes a trio of second-tier numbers out of China (the flash PMI for December, the November property price survey, and FDI figures), CPI numbers out of Malaysia (Wednesday), and minutes from the RBA's recent meeting at which it did nothing but jaw-boned over the elevated terms of trade. Capping things off, Q3 New Zealand GDP is due out on the 18th.

Europe — More Sentiment Than Reality Again In Q4?

Most eyes in Europe will watch the Fed as a prime determinant of global market moves next week. By corollary since it informs the Fed debate, global markets will also watch the US budget votes. At the margin, European markets will also follow several key European releases. They will include manufacturing and service sector purchasing managers' indices on Monday, Germany's ZEW investor sentiment on Tuesday, and the IFO business confidence reading on Wednesday. **The fourth quarter appears to be repeating the third-quarter story about how sentiment surveys are sharply overshooting actual GDP growth.** Witness the steady upward trends in Germany's readings in the accompanying chart.

Chart 4

European Sentiment Stronger Than Reality?



Source: Bloomberg, IFO Institute, ZEW, Markit, Scotiabank Economics.

UK markets could follow behind sentiment surveys in driving European market risks. Consensus thinks November UK CPI inflation will remain unchanged at 2.2% y/y, and the unemployment rate will also remain unchanged at 7.6% and thus maintaining little distance from the BoE's 7% threshold rolled out in August before rate guidance was then reduced. Other data could be more constructive as retail sales are expected to rise following October's drop. The final estimate for Q3 GDP growth is expected to remain unchanged at 0.8% in q/q terms. How the Bank of England views the course of recent developments will also be the focus of Wednesday's minutes to the December 5th statement.

Trade figures for Italy and the broader EC, industrial production and retail sales in Italy, and EC inflation round out the hits.

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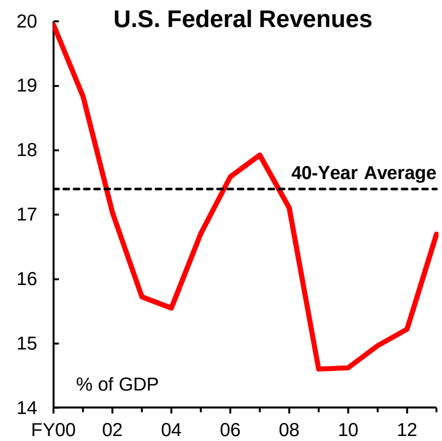
Washington's Budget Fix — An Agreement Covering Two Years, But Limited

- **The sequester, near-term, is relaxed.**

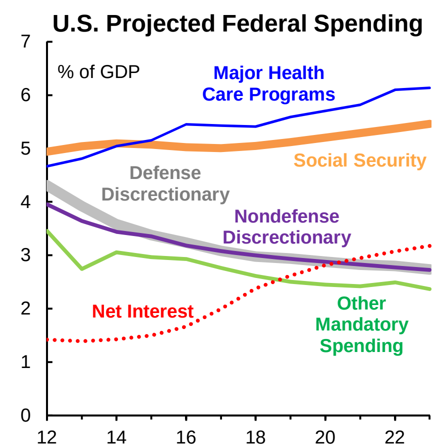
If passed into law before the holidays, the Bipartisan Budget Act of 2013 will mark a step away from the 'crisis budgeting' constraining Washington in recent years. Although modest, with particularly contentious issues such as significant tax and entitlement reform taken off the table, the agreement nevertheless sets expenditures for fiscal 2013-14 (FY14) and FY15.[1] The compromise centres on easing sequestration for this fiscal year and next, allowing additional spending of $48 billion over the two years, and a cumulative $62½ billion from FY14 to FY23. From FY16 to FY21, the caps remain unchanged. Facilitating the agreement was the substantial $0.4 trillion narrowing of the FY13 deficit to 4.1% of GDP and the recovery in federal revenues towards the 40-year average of 17.4% of GDP (top chart). Also persuasive were the program consequences of further rounds of sequestration on non-defense domestic and defense discretionary spending, as mapped out in May by the Congressional Budget Office (middle chart) and the reduction in net outlays already achieved in FY13 (bottom table).

To cover the additional $62½ billion of additional expenditures and lower the cumulative red ink from FY14 to FY23 by $23 billion, the agreement includes a basket of expenditure cuts totaling $78 billion and $7 billion of varied revenue increases, such as higher air passenger security fees. Of note is the structure of the expenditure reductions, with over one-third pushed out to FY22 and FY23 by extending the automatic cuts in specific mandatory spending accounts for two years beyond their present FY21 expiry. Several of the compensating measures initiate important repair, such as raising pension contributions by 1.3% of pay for new federal employees as of calendar 2014 and increasing the variable and flat rate premiums paid by defined benefit plan sponsors to the Pension Benefit Guaranty Corporation.

Although not assured, a path is now clear for the House and Senate appropriations committees to complete the detailed FY14 expenditure legislation by the mid-January deadline. A debt ceiling increase of about $0.7 trillion would likely fund Washington through the November 2014 mid-term elections. The economic drag from austerity in 2014 is now expected to be roughly one-third of the total 2013 restraint. The federal deficit should continue to narrow, albeit at a much more moderate pace. Yet the resulting business and consumer confidence rebound is likely to be partial. Immediate issues, such as the tax credits expiring at year-end, were not resolved. It also is not clear whether this deal will set the stage for revisiting longer-term measures, such as immigration reform, this spring.



Source: Congressional Budget Office.



Source: Congressional Budget Office, May 2013.

Major U.S. Federal Net Outlays, FY13

	y/y % ch.	% share
National Defense	-6.3	18.4
Education, Social Services	-21.9	2.1
Health	3.1	10.3
Medicare	5.5	14.4
Income Security	-1.1	15.6
Social Security	5.2	23.6
Veterans Benefits	11.5	4.0
Net Interest	0.4	6.4
Total	**-2.4**	**100**

Source: U.S. Treasury

[1] All dollar data in the article are US dollars. The *Budget Control Act of 2011* scheduled an initial set of caps on annual discretionary funding through FY21 and the sequester applies a set of lower caps for FY14 through FY21. Last spring, the FY14 *Budget* of the Republican-dominated House was based upon the $967½ billion post-sequester level, while the Senate Democrats started $90 billion higher at $1,058 billion as set by the *Budget Control Act* caps without sequestration.

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Checking In On Greece's Continued Transformation

- **Budding green shoots support cautious optimism, but political risk remains high.**

Investor perceptions of Greece's creditworthiness have begun to improve over the last year. Citing a reduced risk of a destabilizing exit from the euro zone, Standard & Poor's lifted Greece's credit rating out of "selective default", assigning a "B-" rating with a "stable" outlook in December 2012. Fitch then announced an upgrade to an equivalent "B-" rating in May of this year, followed by a similar move by Moody's in November (though its rating remains three notches below S&P and Fitch). Reflecting renewing interest by niche investors in higher-risk Greek securities amid the continued low-yield environment in most advanced economies, Greek corporations are increasingly turning to capital market financing. This year saw record corporate bond issuance of roughly €4 billion through November. Since peaking at nearly 35% in late 2011, the yield on the 10-year government bond has declined markedly, briefly dipping below 8% in early November for the first time since May 2010 (currently 8.6%). Meanwhile, regular quoting of the cost of insurance against sovereign default resumed in May, and the credit default swap rate moved below 1000 basis points (bps) in late September for the first time in over two years. Greece is the IMF's single largest debtor, accounting

This year will mark the sixth consecutive year of recession in Greece; real output contracted by 20% in 2008-2012 and is set to fall by another 4% in 2013. The pace of decline is slowing, however, with the third quarter marking the slowest pace of decline (3% y/y) since 2010 Q2. The Greek government, the International Monetary Fund (IMF) and the European Commission (EC) all project a return to positive growth next year, in line with the assumptions underpinning the nation's official aid program. Conversely, many private sector forecasters - Scotiabank included - foresee a further modest decline; we expect GDP to lose ⅔% in 2014 before finally expanding by around 1⅓% in 2015. Growing contributions from net exports and investment will lead the economic recovery over the medium term, while domestic consumption will remain weak on the back of high unemployment (the jobless rate is 27.4% and 58% for youth) and additional fiscal tightening to restore public sector efficiency and further improve competitiveness.

The fiscal reform process is ongoing. The adjustment to date has been considerable, with the general government fiscal deficit narrowing from 15.6% in 2009 to an estimated 4% this year. The 2014 budget, approved by parliament in early December, projects a primary fiscal surplus this year for the first time since 2002. If realized, this could qualify the country for additional debt relief - in the form of lower interest rates and maturity extensions - from the "troika" of official sector creditors (i.e., the EC, IMF, ECB). However, the government's specific measures and projections have yet to be approved by the troika, who had called for additional austerity measures, resulting in a delay in the latest €1 billion installment of the country's €240 billion aid program (of which roughly €215 billion has already been disbursed, equivalent to 115% of 2013 GDP). As of now, the government is pre-funded through February of next year. The gross public debt ratio is set to peak at 176% of GDP in 2013-14 (up from 107% in 2007). Following a massive write-down in early 2012, only 20% of Greek sovereign debt is now held by private sector creditors. Reflecting an acute contraction in imports and a lower income deficit, the current account has improved markedly; from a deficit of 15% of GDP in 2008, the account has moved into a slight surplus position through the first nine months of 2013.

The political landscape remains fragmented and uncertain. The government is currently led by a coalition of the pro-bailout New Democracy and PanHellenic Socialist Movement parties with a slim parliamentary majority of just four seats. With frequent anti-austerity social unrest and heightened political instability, an early election (before the next scheduled ballot in 2016) is likely. Greece assumes the rotating presidency of the EU in January.

The Greek financial system has been overhauled since 2010. Nine non-viable banks have been resolved and the four remaining core banks have been fully recapitalized, one of which remains under state control. A national backstop holds around €10 billion in emergency capital and bank reliance on ECB financing has eased. Some strains in asset quality remain, however, in the context of the recession. The non-performing loan ratio has increased from 4.5% in the third quarter of 2008 to 28% as of the first quarter of 2013.

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Euro Area Recovery Already At Risk?

- It seems that history is repeating rather quickly. Three months ago, the release of very poor industrial production data in Europe's Economic and Monetary Union (EMU), down -1.0% m/m in July, raised questions regarding the strength of the recovery as we entered the third quarter. Ultimately, this concern proved to be right as we ended up with a meager +0.1% q/q rise in real GDP.

- Last week, EMU industrial production showed a -1.1% m/m fall in October. Following a -0.2% m/m drop in September, the carry-over in industrial production in the first month of Q4 is already down -0.9% vs. Q3. This is worrying as indications on the demand side of the economy were not bright either with EMU retail sales also down for a second straight month in October. All in all, adding to data on consumer confidence to track spending trends in the service sector and the carry-over on the export side after September data, there seems to be a high risk for the recovery to once again disappoint with GDP growth in the -0.1/+0.1% q/q range in the final quarter. So, a downside risk compared to the Q3 performance and completely at odds with the optimistic trend set by business surveys.

- Across EMU countries, Germany proved to be the most disappointing. For an economy which is seen by the consensus as outperforming the rest of the area next year and becoming a bigger traction for other economies, weak data both on the supply and the demand sides of the economy in the first month of Q4 suggest a flat to negative GDP quarterly trend. Among peripherals, while the acceleration of Spanish growth seems to mark a pause, Italy could emerge from the recession at the end of the year.

Table 1 : Expected trend on Q4 GDP

	EMU	Germany	France	Italy	Spain
Industrial production (Q/Q)					
Q2	0.8	1.3	1.4	-0.8	-0.1
Q3	-0.2	0.5	-1.4	-0.7	0.4
October	-0.9	-1.0	-0.3	0.7	-0.4
Retail sales (Q/Q)					
Q2	0.2	-0.1	0.7	0.1	0.6
Q3	0.4	-0.4	1.5	-0.3	1.6
October	-0.5	-0.8	0.8	-0.1*	-2.3
Consumer Confidence (Level)					
Q2	-20.9	-4.2	-30	-28.5	-28.7
Q3	-16	-3.2	-22.7	-17.8	-20.5
October/November	-15	-3.2	-22.4	-20	-20.6
Export (Q/Q)					
Q2	0.0	0.1	1.7	0.2	5.4
Q3	-0.4	0.4	-0.8	0.0	-3.9
October	0.8*	1.6	0.4	0.9*	
GDP (Q/Q)					
Q2	0.3	0.7	0.5	-0.3	-0.1
Q3	0.1	0.3	-0.1	0.0	0.1
Estimated Q4	-0.1/+0.1	-0.1/0.0	0.1/0.2	0.1/0.2	0.0/0.1

* w ith Sept data
Source: Scotiabank

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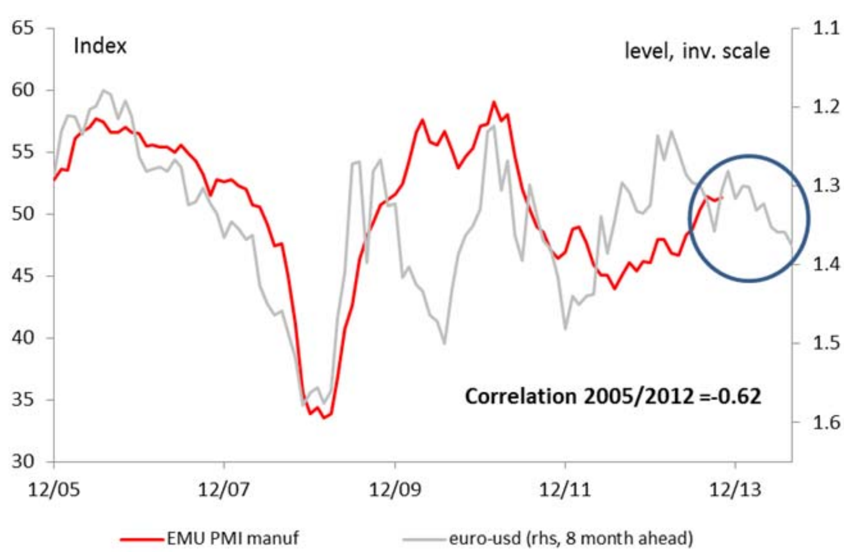
- The European Central Bank's (ECB) new GDP growth forecast at +1.1% for next year implies a +0.3% q/q trend in each of the coming five quarters. So, reaching this target for Q4 suggests that we have to see a strong payback in hard data in the November reports. In view of positive business surveys, this is what some economic institutes seem to expect. In France for example, the Banque de France just revised up its quarterly GDP growth projection for France in the final quarter of the year from +0.4% q/q to +0.5% under the assumption of strengthening activity in November. However, if this rebound fails to materialise, it seems that the "downside risk" indicated by the ECB in its growth scenario could materialise quicker than expected.

- Beyond this, with the euro nominal effective exchange rate reaching its highest level in two years, there is also a growing risk that business sentiment turns down, converging on the downside towards the poor dynamic seen in hard data rather than the reverse with an upward catch-up. The correlation between the euro and business sentiment is not always perfect and strengthening global demand as seen by the rising US ISM or Chinese PMI could partly offset the negative impact of currency appreciation, pushing the euro "pain threshold" for the EMU cycle higher. However, looking to the past relationship, there is a growing risk that the rise of euro over the past six months starts to be felt in the February/March business surveys.

Chart 1 : EMU PMI manufacturing & EUR/USD



- Any weakening in business surveys at a time when hard data are disappointing will bring back enormous pressure on the ECB to take additional action. As seen over the past year, it is not the first time that the ECB has alternated between strong actions and less dovish comments at the following meetings. These swings have fuelled a lot of volatility on both fixed income and FX markets. Strong action has each time in particular helped to disconnect ECB monetary policy and euro short-term rates like eonia forward 1Y in 1Y from the US and especially the rising trend in US 10Yr yields since the Fed indicated the prospect of an exit strategy. This disconnection is key for the EMU recovery scenario as it avoids premature tightening in financial conditions through either higher rates or a strengthening euro.

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Chart 2 : Forward 1Y/1Y eonia & 10YR US yields

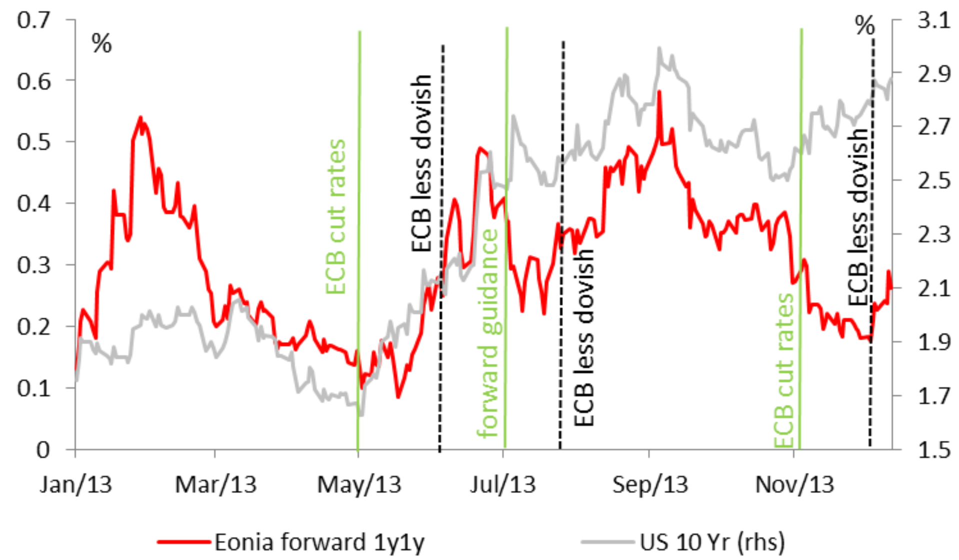
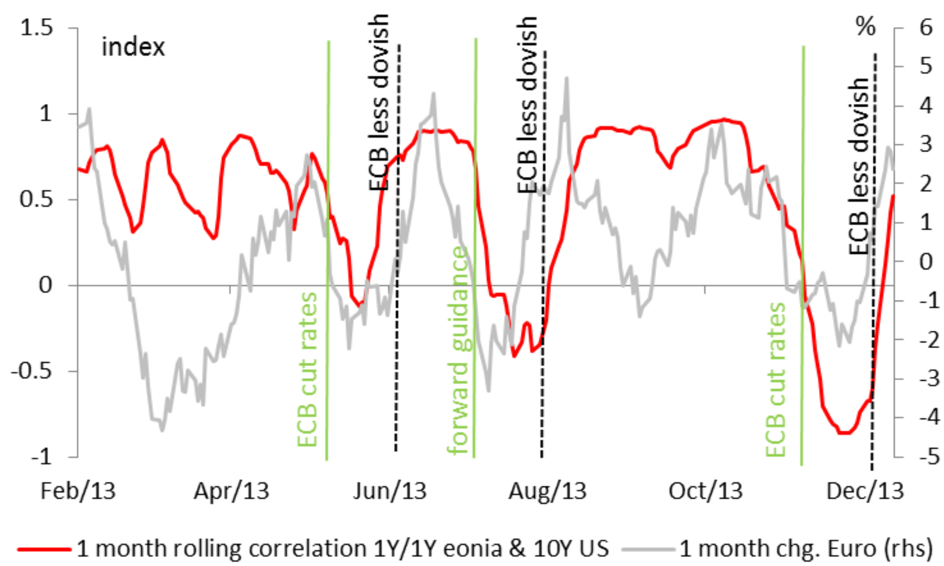


Chart 3 : Correlation: Forward 1Y/1Y eonia vs. 10YR US yields & change in EUR/USD



- Following the less dovish tone at the December ECB meeting, the EMU recovery cycle is once again facing the risk of retightening financial conditions through higher rates and a strengthening of the euro. Any disappointing news on the recovery cycle through either a lack of rebound in hard data in November reports or weakening business sentiment early next year would likely boost the case for additional action from the ECB in order to offset the adverse impact of tighter financial conditions.

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

Next week's FOMC meeting is very likely to take the global markets' centre stage, and it will be interesting to see which way the USD turns following the decision. Over the past few months, investors have likely been positioning for the expected potential taper, which should mitigate the impact of the decision if the Fed decides to pull the trigger. However, in order to play it safe, we lean more towards "relative value" / "relative story" trades within LATAM, as opposed to directional USD bets. Besides the Fed, this is a busy week for central bankers in the Americas, with the highlight being the Fed holding its FOMC meeting, but also featuring inflation report releases by Peru and Brazil, BanRep's MPC meeting, and minutes from Banxico. Some questions as we head into year-end are:

- Is tapering already priced? leaving room for a "sell the fact" move? (or did the reaction to the strong payrolls data earlier this month also reduce that risk?)

- With liquidity in LATAM seemingly already at "end-of-year mode", could MXN's volatility rise even further as it is used as a regional proxy?

Week-ahead views:

Brazil: This week is relatively loaded with "guidance items" which will likely help shape expectations for monetary policy going forward, with IPCA and the BCB quarterly inflation report likely being the most relevant. In particular, they are likely to be important pieces of the puzzle for the debate over whether to look for the COPOM to continue with its +50bps SELIC rate hike pace, or slow to a +25bps adjustment pace… our sense is that the +25bps camp is winning (which we also see as the most likely next decision based on recent data and BCB communication).

Chile: As widely expected, the BCCh left the overnight rate unchanged in yesterday's meeting, although there appeared to be very little in the statement that would suggest the door for further cuts has been shut (we believe the central bank is in data watch mode, but the bias is still towards further easing). Now that the last central bank meeting of the year is out of the way, we go back to election watch mode. The second round of the presidential elections is scheduled to take place over the week-end, and surveys suggest that Michelle Bachelet is very likely to secure the victory. If that proves to be the case, given a very light data pipeline (basically dry), policy plan guidance and her degree of control in the legislative will be the major CLP price drivers, along with US monetary policy.

Colombia: This week features a heavy pipeline of tier-1 releases, which could help at least temporarily revive what has been a very slow December from a flows perspective. The trade balance data is likely to be an important part of the puzzle for BanRep / FX intervention policy going forward, as parts of the non-oil sector have shown symptoms of Dutch disease, and the FinMin has in the past flagged it as a concern. In addition, Q3 GDP, retail sales and industrial production are all in the pipeline, and they are likely to be watched for signs indicating whether the central bank can shift back into "easing mode". Finally, BanRep is expected to leave the policy rate unchanged in its MPC meeting. Our view for USD/COP is to continue to trade the 1915-1953 range.

Mexico: Now that both Congress and the Senate have approved the energy reform bill, the next step is for 17 state legislatures to approve the bill (which we don't see as a problem, given the PRI alone controls more than that number of states), followed by the President's signature of the bill. In addition, secondary legislation will also need to be drafted and approved (a simple majority will be enough for it), and then we head into the "implementation stage". We like the fact that the bill designates an autonomous (and presumably professional) body to regulate the energy industry which we see as an important step in maximizing the bill's long term potential. In terms of market impact, we believe the next thing to look out for is rating agency reactions, as well as signs of interest in the opening of the oil sector from the IOCs (which we expect to be strong). Outside of the energy reform's aftermath story, and the Fed's FOMC meeting, important events for next week are the release of retail sales and unemployment data, which will likely be watched for signs of how the economy is

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recovering, as well as the Minutes from Banxico's latest monetary policy meeting, although these probably lose importance due to the signal by Banxico that monetary policy is on stand-by.

Peru: As widely expected, the BCRP left the reference rate unchanged at 4%, describing the current monetary settings as consistent with achieving 2% inflation in the 2014-2015 horizon. The central bank's statement highlights anchored inflation expectations, below-potential growth over recent prints, some indications of a global growth upswing, and a reversal of the supply-side effects that had pushed inflation to move to the upper half of the central bank's target. The central bank reiterated its flexibility in using its different policy instruments to meet its inflation target. In terms of data, next week looks set to be an interesting one, with the economic activity index and unemployment rate both scheduled for release, as well as the BCRP's quarterly inflation report. Governor Velarde appears to have seen Santa Claus arrive early, given that for the first time since 2011, the BCRP looks set to have a full board, as lawmakers finally approved the 3 pending nominations that complete it.

Global Views

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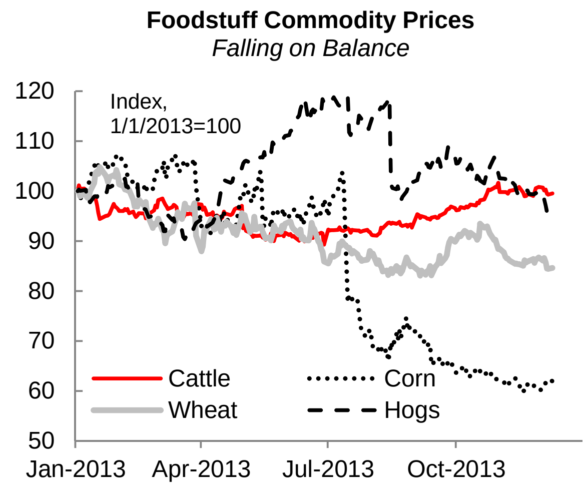
Key Data Preview

CANADA

We're looking for **Canadian CPI** (Dec. 20) to post a flat print (0% m/m) in headline terms with a modest positive (+0.1% m/m) in terms of core CPI. That will leave headline CPI at 0.9% y/y and core at 1.2% y/y. There are a variety of categories that typically weigh on not-seasonally-adjusted CPI in November, including recreation and reading, clothing, and transportation prices, all of which tend to fall due to seasonal discounting. Those factors should be compounded this November by slightly softer gasoline prices (-1% m/m on average). The wildcard is the pass-through from weak food prices. As chart 1 shows, foodstuff commodity prices have been weak all year, and while soft commodity prices only pass into headline inflation with a lag — they do pass through. Compounding the soft commodity prices, as chart 2 indicates, there is a retail battle underway in the Canadian grocery sector that is driving down same-store-sales at some of the main supermarket chains even further. Bottom line: inflation is well contained, with downside risks — explaining the BoC's growing concern about risk management on the inflation front.

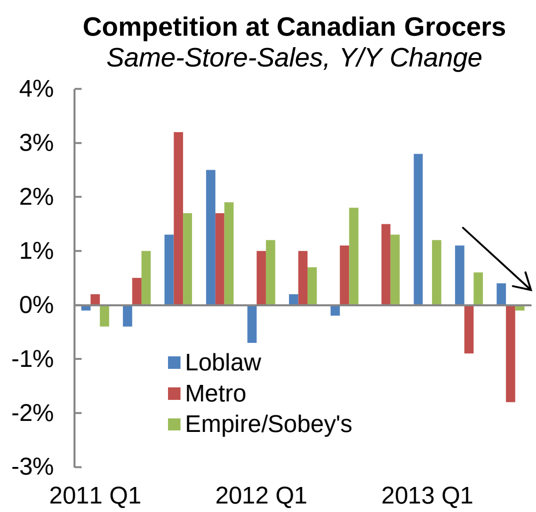
Chart 1



Source: Bloomberg, Scotiabank Economics

Retail sales for October (Dec. 20) will offer some insight into the pace of growth at the kick-off of Q4 in Canada. We're looking for a solid 0.4% m/m print on strength in automotive sales. We're not expecting too much of a lift from price pressure (seasonally adjusted CPI was essentially flat) and gasoline prices fell quite substantially (-5.5%) which could cap gains and in fact points to some downside risk. We may update our view after the Survey of Large Retailers is released next week.

Chart 2



Source: Scotiabank GBM

Manufacturing sales (Dec. 17) are another piece of the October GDP puzzle, and we see some pretty severe downside risks here. Aside from the fact that industrial product prices fell (-0.3% m/m) with some sharp declines in manufactured energy products (-2.4% m/m), leading indicators for manufacturing volumes look soft — with an emphasis on new orders. Q3 manufacturing might have been positive, but orders during the quarter lost momentum. We're expecting the lagged impact of the weak orders to be felt in Q4, starting with the October number, which has us looking for a -0.5% m/m print.

UNITED STATES

We see **CPI** downside in the United States in November as well (Dec. 17). Gasoline prices in the U.S. were softer than in Canada (-3% m/m in the U.S.). Natural gas prices were weak also (-1.5% m/m). The same softness in agricultural commodity prices that impacts Canada should impact the U.S. on the month, and as the lag from changes in agricultural commodity prices into U.S. food CPI tends to be shorter, we expect a bit more drag from food in the U.S. Net, we're looking for U.S. CPI to come in flat on a month-on-month seasonally adjusted basis, with the year-on-year registering soft 1.2% growth. A 0.1% m/m rise in core CPI would leave the annual number at 1.7%.

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EUROPE

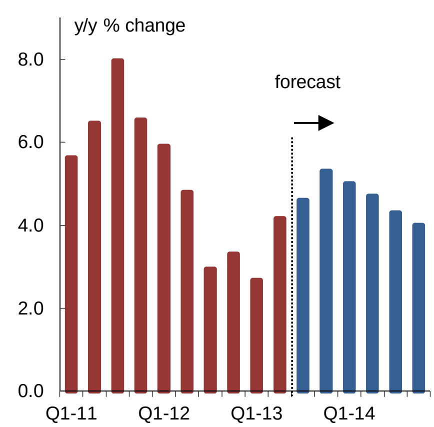
Lower-than-expected inflation readings over the last two months have led to a shift in market expectations regarding Sweden's monetary policy. The November inflation report showed the headline rate contracting by 0.1% in month-over-month terms, bringing the annual rate up only slightly to 0.1% y/y from -0.1% in the prior month, while the underlying monetary policy-relevant rate rose from 0.6% to 0.7%. In light of this release, many Riksbank watchers are now predicting that the central bank will opt to ease policy at next week's meeting (the decision will be announced on Tuesday). Conversely, while we recognize that the chances of a rate cut have increased materially, we maintain our view that the central bank will look through the recent inflation results, keeping the benchmark repo rate at 1.0% over the next year as indicated in the last policy statement.

Firstly, in the last vote, only two Executive Board members voted for a rate cut, against four calling for a hold, including Governor Ingves who sits in the more hawkish camp. Since decisions are taken by majority, with the deciding vote cast by the governor in the case of the tie, a decision to cut would require two other deputy governors changing their vote. Secondly, the basis for the change in opinions is not overwhelming, given that the Riksbank follows a 'flexible' inflation-targeting monetary regime. As such, the bank takes consideration of economic developments (i.e., growth and employment) as equally important as inflation dynamics, with a view to price stability. On the domestic economic front, the labour market has begun to improve and sentiment indicators, including the PMIs, are at their highest levels since mid-2011. Although the third-quarter GDP result was softer than expected (due to weak exports), an upward revision to the Q2 data implies that the economy is still on track to register growth of around ¾%, in line with Riksbank projections. Lastly, still strong credit growth and rising household indebtedness in the context of prolonged low interest rates remain a concern for monetary policymakers.

LATIN AMERICA

Colombian third-quarter real GDP will be released next week on December 19th. We expect the economy to maintain its upward trend and to have expanded by 4.6% y/y in the July-September period, following the 4.2% y/y rate observed in the previous quarter. The Colombian economy has been accelerating gradually throughout the year; however, the recovery has been uneven across sectors. Industrial activity remains subdued, while consumer spending has been picking up in recent quarters. We anticipate that the economy will grow by 4.2% in 2013 as a whole, followed by a gain of 4.5% in 2014. The central bank will likely maintain its reference rate unchanged at 3.25% (for a further discussion on monetary policy, please see page A9 of this document).

Colombian Real GDP



Source: Bloomberg, Scotiabank Economics.

Key Indicators for the week of December 16 – 20

North America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	12/16	08:30	International Securities Transactions (C$ bn)	Oct	--	--	8.4
US	12/16	08:30	Empire State Manufacturing Index	Dec	0.0	5.0	-2.2
US	12/16	08:30	Productivity (q/q a.r.)	3Q F	--	2.8	1.9
US	12/16	08:30	Unit Labor Costs (q/q a.r.)	3Q F	--	-1.4	-0.6
CA	12/16	09:00	Existing Home Sales (m/m)	Nov	--	--	-3.2
US	12/16	09:00	Total Net TIC Flows (US$ bn)	Oct	--	--	-106.8
US	12/16	09:00	Net Long-term TIC Flows (US$ bn)	Oct	--	40.0	25.5
US	12/16	09:15	Capacity Utilization (%)	Nov	--	78.4	78.1
US	12/16	09:15	Industrial Production (m/m)	Nov	0.4	0.6	-0.1
CA	12/17	08:30	Manufacturing Shipments (m/m)	Oct	-0.5	-0.3	0.6
US	12/17	08:30	CPI (m/m)	Nov	0.0	0.1	-0.1
US	12/17	08:30	CPI (y/y)	Nov	1.2	1.3	1.0
US	12/17	08:30	CPI ex. Food & Energy (m/m)	Nov	0.1	0.1	0.1
US	12/17	08:30	CPI ex. Food & Energy (y/y)	Nov	1.7	1.7	1.7
US	12/17	08:30	Current Account (US$ bn)	3Q	--	-100.5	-98.9
US	12/17	10:00	NAHB Housing Market Index	Dec	53	55	54
US	12/18	07:00	MBA Mortgage Applications (w/w)	DEC 13	--	--	1.0
CA	12/18	08:30	Wholesale Trade (m/m)	Oct	0.1	0.3	0.2
US	12/18	08:30	Building Permits (000s a.r.)	Nov	--	990	1039
US	12/18	08:30	Housing Starts (000s a.r.)	Nov	925	952	883
US	12/18	08:30	Housing Starts (m/m)	Nov	--	--	0.0
US	12/18	14:00	**FOMC Interest Rate Meeting (%)**	**Dec 18**	**0.25**	**0.25**	**0.25**
US	12/19	08:30	Continuing Claims (000s)	DEC 7	2800	2770	2791
US	12/19	08:30	Initial Jobless Claims (000s)	DEC 14	330	336	368
MX	12/19	09:00	Retail Sales (INEGI) (y/y)	Oct	--	-2.0	-4.0
US	12/19	10:00	Existing Home Sales (mn a.r.)	Nov	5.0	5.0	5.1
US	12/19	10:00	Existing Home Sales (m/m)	Nov	--	-2.0	-3.2
US	12/19	10:00	Leading Indicators (m/m)	Nov	--	0.7	0.2
US	12/19	10:00	Philadelphia Fed Index	Dec	8.0	10.0	6.5
CA	12/20	08:30	Core X8 CPI (m/m)	Nov	0.1	0.1	0.2
CA	12/20	08:30	Core X8 CPI (y/y)	Nov	1.2	1.3	1.2
CA	12/20	08:30	CPI, All items (m/m)	Nov	0.0	0.1	-0.2
CA	12/20	08:30	CPI, All items (y/y)	Nov	0.9	1.0	0.7
CA	12/20	08:30	CPI SA, All items (m/m)	Nov	--	--	-0.1
CA	12/20	08:30	Core CPI SA, All items (m/m)	Nov	--	--	0.0
CA	12/20	08:30	Retail Sales (m/m)	Oct	0.4	0.2	1.0
CA	12/20	08:30	Retail Sales ex. Autos (m/m)	Oct	0.2	0.1	0.0
US	12/20	08:30	GDP (q/q a.r.)	3Q T	3.6	3.6	3.6
US	12/20	08:30	GDP Deflator (q/q a.r.)	3Q T	--	2.0	2.0
MX	12/20	09:00	Unemployment Rate (%)	Nov	--	--	5.0

Europe

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
FR	12/16	03:00	Manufacturing PMI	Dec P	--	49.0	48.4
FR	12/16	03:00	Services PMI	Dec P	--	48.7	48.0
GE	12/16	03:30	Manufacturing PMI	Dec A	--	53.0	52.7
GE	12/16	03:30	Services PMI	Dec A	--	55.3	55.7
EC	12/16	04:00	Composite PMI	Dec A	52.0	52.0	51.7
EC	12/16	04:00	Manufacturing PMI	Dec A	52.0	51.9	51.6
EC	12/16	04:00	Services PMI	Dec A	52.0	51.5	51.2
EC	12/16	05:00	Trade Balance (€ bn)	Oct	--	15.0	13.1

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

Key Indicators for the week of December 16 – 20

Europe *(continued from previous page)*

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
SW	12/17	03:30	**Riksbank Interest Rate (%)**	**Dec 17**	**1.00**	**0.75**	**1.00**
UK	12/17	04:30	CPI (y/y)	Nov	--	2.2	2.2
UK	12/17	04:30	PPI Input (m/m)	Nov	--	-0.5	-0.6
UK	12/17	04:30	PPI Output (m/m)	Nov	--	0.0	-0.3
UK	12/17	04:30	RPI (y/y)	Nov	--	2.7	2.6
EC	12/17	05:00	CPI (m/m)	Nov	-0.1	-0.1	-0.1
EC	12/17	05:00	CPI (y/y)	Nov F	0.9	0.9	0.9
EC	12/17	05:00	Labour Costs (y/y)	3Q	--	--	0.9
EC	12/17	05:00	ZEW Survey (Economic Sentiment)	Dec	--	--	60.2
GE	12/17	05:00	ZEW Survey (Current Situation)	Dec	--	29.9	28.7
GE	12/17	05:00	ZEW Survey (Economic Sentiment)	Dec	--	55.0	54.6
IR	12/17	06:59	Real GDP (q/q)	3Q	--	0.6	0.4
TU	12/17	07:00	**Benchmark Repo Rate (%)**	**Dec 17**	**4.50**	**4.50**	**4.50**
HU	12/17	08:00	**Base Rate (%)**	**Dec 17**	**3.00**	**3.00**	**3.20**
GE	12/18	04:00	IFO Business Climate Survey	Dec	109.5	109.5	109.3
GE	12/18	04:00	IFO Current Assessment Survey	Dec	--	112.5	112.2
GE	12/18	04:00	IFO Expectations Survey	Dec	--	106.5	106.3
UK	12/18	04:30	Average Weekly Earnings (3-month, y/y)	Oct	--	0.8	0.7
UK	12/18	04:30	Employment Change (3M/3M, 000s)	Oct	--	165.0	177.0
UK	12/18	04:30	Jobless Claims Change (000s)	Nov	--	-35.0	-41.7
UK	12/18	04:30	ILO Unemployment Rate (%)	Oct	--	7.6	7.6
IT	12/18	05:00	Current Account (€ mn)	Oct	--	--	227.0
EC	12/19	04:00	Current Account (€ bn)	Oct	--	--	13.7
UK	12/19	04:30	Retail Sales ex. Auto Fuel (m/m)	Nov	--	0.3	-0.6
UK	12/19	04:30	Retail Sales with Auto Fuel (m/m)	Nov	--	0.3	-0.7
UK	12/19	19:05	GfK Consumer Confidence Survey	Dec	--	-11.0	-12.0
GE	12/20	02:00	GfK Consumer Confidence Survey	Jan	--	7.4	7.4
UK	12/20	04:30	Current Account (£ bn)	3Q	--	-14.0	-13.0
UK	12/20	04:30	GDP (q/q)	3Q F	0.8	0.8	0.8
UK	12/20	04:30	Index of Services (m/m)	Oct	--	0.3	0.2
UK	12/20	04:30	PSNB ex. Interventions (£ bn)	Nov	--	15.0	8.1
EC	12/20	10:00	Consumer Confidence	Dec A	--	-15.0	-15.4

Asia Pacific

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CH	12/14	06:59	Actual FDI (y/y)	Nov	--	1.1	1.2
JN	12/15	18:50	Tankan All Industries Index	4Q	--	5.5	5.1
JN	12/15	18:50	Tankan Manufacturing Index	4Q	--	15.0	12.0
JN	12/15	18:50	Tankan Non-Manufacturing Index	4Q	--	16.0	14.0
CH	12/15	20:45	HSBC Flash China Manufacturing PMI	Dec	--	50.9	50.4
IN	12/16	01:30	Monthly Wholesale Prices (y/y)	Nov	7.0	7.0	7.0
NZ	12/16	06:59	REINZ Housing Price Index (m/m)	Nov	--	--	1.2
SK	12/16	16:00	PPI (y/y)	Nov	--	--	-1.4
AU	12/16	18:00	Conference Board Leading Index (%)	Oct	--	--	0.3
SI	12/16	19:30	Exports (y/y)	Nov	--	4.5	2.8
JN	12/17	01:00	Machine Tool Orders (y/y)	Nov F	15.4	--	15.4
HK	12/17	03:30	Unemployment Rate (%)	Nov	3.3	3.3	3.3
JN	12/17	18:50	Merchandise Trade Balance (¥ bn)	Nov	--	-1335.9	-1092.7
JN	12/17	18:50	Adjusted Merchandise Trade Balance (¥ bn)	Nov	--	-1198.1	-1072.5
JN	12/17	18:50	Merchandise Trade Exports (y/y)	Nov	--	18.0	18.6
JN	12/17	18:50	Merchandise Trade Imports (y/y)	Nov	--	21.7	26.2

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

Key Indicators for the week of December 16 – 20

Asia Pacific *(continued from previous page)*

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
IN	12/18	00:30	**Repo Rate (%)**	**Dec 18**	**8.00**	**8.00**	**7.75**
IN	12/18	00:30	Reverse Repo Rate (%)	Dec 18	7.00	7.00	6.75
IN	12/18	00:30	Cash Reserve Ratio (%)	Dec 18	4.00	4.00	4.00
MA	12/18	04:00	CPI (y/y)	Nov	2.9	2.9	2.8
JN	12/18	06:59	Nationwide Department Store Sales (y/y)	Nov	--	--	-0.6
NZ	12/18	16:45	GDP (y/y)	3Q	--	3.4	2.5
JN	12/18	23:30	All Industry Activity Index (m/m)	Oct	--	-0.3	0.4
JN	12/19	00:00	Coincident Index CI	Oct F	109.6	--	109.6
JN	12/19	00:00	Leading Index CI	Oct F	109.9	--	109.9
HK	**12/19**	**06:59**	**Composite Interest Rate (%)**	**Nov**	**0.34**	**--**	**0.34**
JN	12/20	00:00	Supermarket Sales (y/y)	Nov	--	--	0.5
TA	12/20	03:00	Export Orders (y/y)	Nov	--	-3.3	3.2
JN	12/20	07:59	BoJ Monetary Base Target (¥ tn)	Dec 20	--	--	270.0

Latin America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
PE	12/16	06:59	Economic Activity Index NSA (y/y)	Oct	--	--	4.4
PE	12/16	06:59	Unemployment Rate (%)	Nov	--	--	5.8
CO	12/16	16:00	Trade Balance (US$ mn)	Oct	--	225.0	-65.5
BZ	12/19	06:00	Unemployment Rate (%)	Nov	--	5.0	5.2
BZ	12/19	07:30	Current Account (US$ mn)	Nov	--	--	-7132.5
CO	12/19	11:00	GDP (y/y)	3Q	4.6	4.2	4.2
CO	12/19	16:00	Industrial Production (y/y)	Oct	--	3.9	-1.8
CO	12/19	16:00	Retail Sales (y/y)	Oct	--	--	2.3
CO	12/20	06:59	**Overnight Lending Rate (%)**	**Dec 20**	**3.25**	**3.25**	**3.25**

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

Global Auctions for the week of December 16 – 20

North America

Country	Date	Time	Event
US	12/16	11:00	U.S. Fed to Purchase USD2.75-3.50 Bln Notes
US	12/16	11:30	U.S. to Sell 3-Month Bills
US	12/16	11:30	U.S. to Sell 6-Month Bills
US	12/17	11:00	U.S. Fed to Purchase USD1.25-1.75 Bln Notes
US	12/17	01:00	U.S. to Sell 2-Year Notes
US	12/18	01:00	U.S. to Sell 5-Year Notes
US	12/19	11:00	U.S. Fed to Purchase USD1.25-1.75 Bln Notes
US	12/19	01:00	U.S. to Sell 7-Year Notes
US	12/19	01:00	U.S. to Sell 5-Year TIPS Reopening
US	12/19	02:00	U.S. Fed to Purchase USD4.75-5.75 Bln Notes
US	12/20	11:00	U.S. Fed to Purchase USD2.75-3.50 Bln Notes

Europe

Country	Date	Time	Event
FR	12/16	08:50	France to Sell Bills
SP	12/17	04:30	Spain to Sell 3-Month and 9-Month Bills
GR	12/17	05:00	Greece to Sell 13-Week Bills
BE	12/17	05:30	Belgium to Sell 3-Month Bills
BE	12/17	05:30	Belgium to Sell 12-Month Bills
SW	12/18	05:03	Sweden to Sell SEK5 Bln 89-Day Bills
SW	12/18	05:03	Sweden to Sell SEK10 Bln 180-Day Bills
SP	12/19	04:30	Spain to Sell Bonds
UK	12/20	06:10	UK to Sell Bills

Asia Pacific

Country	Date	Time	Event
JN	12/16	10:45	Japan to Sell 20-Year Bonds
JN	12/17	10:35	Japan to Sell 1-Year Bill
JN	12/18	10:35	Japan to Sell 3-Month Bill
JN	12/19	03:00	Japan Auction for Enhanced-Liquidity

Source: Bloomberg, Scotiabank Economics.

Events for the week of December 16 – 20

North America

Country	Date	Time	Event
US	12/16		U.S., EU Holds Transatlantic Trade Talks in Washington
CA	12/17	11:45	Former Quebec Premier Charest Speaks at Economic Club
CA	12/17	12:00	Former Canadian Prime Minister Clark Speaks at Canadian Club
US	12/17		**Federal Reserve FOMC Meeting**
US	12/18	14:00	**FOMC Rate Decision**
US	12/18	14:00	Fed Releases Summary of Economic Projections
US	12/18	14:30	Fed's Bernanke Holds Press Conference in Washington
US	12/20		S&P Index Quarterly Review Become Effective

Europe

Country	Date	Time	Event
EC	12/14	10:30	ECB's Coeure Speaks in Monaco
EC	12/15	03:30	ECB's Coeure Speaks in Monaco
EC	12/16	03:30	EU Foreign Ministers Hold Meeting in Brussels
GE	12/16	07:30	German Coalition Accord to Be Signed, Pending SPD Approval
EC	12/16	09:00	ECB President Draghi Speaks to European Parliament in Brussels
SZ	12/16	12:00	SNB's Zurbruegg Holds Speech in Zurich
US	12/16	00:00	U.S., EU Hold Transatlantic Trade Talks in Washington
SP	12/17	03:00	Economy Minister de Guindos Speaks in Madrid
SW	**12/17**	**03:30**	**Riksbank Interest Rate**
EC	12/17	04:00	EU General Affairs Ministers Hold Meeting in Brussels
SW	12/17	05:00	Riksbank's Ingves Holds Press Conference After Rate Decision
TU	**12/17**	**07:00**	**Benchmark Repurchase Rate**
HU	**12/17**	**08:00**	**Central Bank Rate Decision**
UK	12/17	10:30	Carney Testifies to House of Lords Economic Affairs Committee
EC	12/17	13:30	Euro-Area Finance Ministers Meet in Brussels
EC	12/18	03:00	European Union Finance Ministers Meet in Brussels
SW	12/18	03:15	NIER presents Swedish economic forecasts
UK	12/18	04:30	Bank of England Releases Monetary Policy Committee Minutes
HU	12/18	06:30	Hungarian Central Bank President Matolcsy Speaks
SZ	12/19	09:00	SNB Quarterly Bulletin
EC	12/19	09:00	EU Leaders Hold Summit in Brussels
UK	12/19		Last Day of Commons Session Before Christmas Recess
EC	12/20	03:30	EU Leaders Conclude Summit in Brussels
PO	12/20	08:00	Bank of Portugal Releases Monthly Economic Indicators Report
EC	12/20	12:00	EU, U.S. Negotiators Brief Press on Trade Talks in Washington

Source: Bloomberg, Scotiabank Economics.

Events for the week of December 16 – 20

Asia Pacific

Country	Date	Time	Event
AU	12/16	07:30	RBA Policy Meeting - December Minutes
NZ	12/16		New Zealand Half-Year Economic, Fiscal Update
AU	12/16		RBA Assistant Governor Speaks on Panel in Sydney
IN	12/18	12:30	RBI Cash Reserve Ratio
IN	12/18	12:30	**RBI Repurchase Rate**
IN	12/18	12:30	RBI Reverse Repo Rate
AU	12/18	07:30	RBA FX Transactions Market
NZ	12/18	09:00	RBNZ Publishes Monthly Assessment of Currency Flows
HK	12/18	00:00	**Composite Interest Rate**
JN	12/19	00:00	**BOJ 2014 Monetary Base Target**

Latin America

Country	Date	Time	Event
CL	12/15		Chile Presidential Elections
CO	12/20		**Overnight Lending Rate**

Source: Bloomberg, Scotiabank Economics.

Global Central Bank Watch

North America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Canada – Overnight Target Rate	1.00	January 22, 2014	1.00	--
Federal Reserve – Federal Funds Target Rate	0.25	December 18, 2013	0.25	0.25
Banco de México – Overnight Rate	3.50	January 31, 2014	3.50	--

Fed: While it remains our base case view, we are less convinced that the Federal Reserve will wait until March to reduce its asset purchases due to: a) the possibility that the US has achieved a longer-lasting fiscal policy agreement, and b) generally stronger private economy readings. We continue to think that the process of tapering is likely to be drawn out, leading us to believe that QE3 will be around throughout calendar 2014. Soft US inflation leaves us still expecting the Fed to commence tapering in March – but our view is less firm than in the past. BoC: By emphasizing downside risks to inflation in the December 4th statement and Governor Poloz's speech on December 12th, we think the Bank of Canada is teeing up markets for a further downward revision to its inflation forecasts in the January Monetary Policy Report.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	0.25	January 9, 2014	0.25	--
Bank of England – Bank Rate	0.50	January 9, 2014	0.50	0.50
Swiss National Bank – Libor Target Rate	0.00	March 20, 2014	0.00	--
Central Bank of Russia – One-Week Auction Rate	5.50	February 14, 2014	5.50	--
Hungarian National Bank – Base Rate	3.20	December 17, 2013	3.00	3.00
Central Bank of the Republic of Turkey – 1 Wk Repo Rate	4.50	December 17, 2013	4.50	4.50
Sweden Riksbank – Repo Rate	1.00	December 17, 2013	1.00	0.75
Norges Bank – Deposit Rate	1.50	March 27, 2014	1.50	--

The Turkish central bank is expected to leave interest rates unchanged after the meeting next Tuesday. GDP growth was stronger than anticipated in the third quarter, while the inflation rate has been coming down in recent months. The central bank will stand ready to contain currency volatility and/or excessive domestic credit growth, though the benchmark one-week repo rate will likely be kept unchanged in the lead-up to local and presidential elections in March and August, respectively. The Hungarian central bank also meets on Tuesday. Previous guidance by the central bank governor indicated a 3-3.5% target for the base rate. With the rate currently at 3.20%, we anticipate that a 20 basis-point cut next week could be the last in the current easing cycle. Inflation remains low, but the growth outlook has improved somewhat, supported by monetary easing worth 380 basis points since August 2012.

Asia Pacific

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Reserve Bank of Australia – Cash Target Rate	2.50	February 3, 2014	2.50	--
Reserve Bank of New Zealand – Cash Rate	2.50	January 29, 2014	2.50	--
People's Bank of China – Lending Rate	6.00	TBA	--	--
Reserve Bank of India – Repo Rate	7.75	December 18, 2013	8.00	8.00
Bank of Korea – Bank Rate	2.50	January 8, 2014	2.50	--
Bank of Thailand – Repo Rate	2.25	January 22, 2014	2.25	--
Bank Indonesia – Reference Interest Rate	7.50	TBA	7.50	--

The Reserve Bank of India (RBI) increased the benchmark repo rate by 25 basis points to 7.75% at end-October in order to curb mounting inflationary pressures that reflect rupee depreciation and higher food and energy costs. To counterbalance the impact of the higher repo rate on growth, the RBI simultaneously took other measures to ease liquidity conditions in the banking system. The current monetary tightening cycle began in September, and we expect a further small hike to 8.0% to take place next week. Inflation—measured by the wholesale price index—continues to accelerate, reaching 7.0% y/y in October, up from 6.5% the month before and 4.6% in May.

Latin America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	10.00	January 15, 2014	10.25	--
Banco Central de Chile – Overnight Rate	4.50	January 17, 2014	4.50	--
Banco de la República de Colombia – Lending Rate	3.25	December 20, 2013	3.25	3.25
Banco Central de Reserva del Perú – Reference Rate	4.00	January 9, 2014	4.00	4.00

The central bank of Colombia will likely maintain the reference rate unchanged at 3.25%, being the only major central bank in Latin America to uphold a stable monetary policy stance in recent months. The authorities eased monetary conditions by 100 basis points in the first quarter of the year, aiming to boost economic activity while headline inflation decelerated to below the official target range of 2-4% y/y. Although inflation has returned to levels lower than the 2% mark again in October and November, we do not anticipate that the authorities will modify the reference rate in the coming months.

Africa

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
South African Reserve Bank – Repo Rate	5.00	January 29, 2014	5.00	--

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

Forecasts as at November 29, 2013*	2000-12	2013e	2014f	2015f	2000-12	2013e	2014f	2015f
Output and Inflation (annual % change)		**Real GDP**				**Consumer Prices[2]**		
World[1]	3.7	2.9	3.5	3.6				
Canada	2.2	1.7	2.2	2.5	2.1	1.0	1.3	1.8
United States	1.9	1.6	2.5	3.0	2.5	1.5	1.6	1.9
Mexico	2.4	1.3	3.3	3.7	4.7	3.9	4.3	4.0
United Kingdom	1.7	1.5	2.5	1.7	2.3	2.0	2.2	2.4
Euro Zone	1.3	-0.5	0.8	1.3	2.1	0.8	1.2	1.4
Japan	0.9	1.9	1.8	1.2	-0.3	1.0	1.5	2.1
Australia	3.1	2.4	2.7	2.9	3.0	2.5	3.0	2.9
China	9.3	7.7	7.3	7.0	2.4	3.0	3.3	3.9
India	7.2	4.5	5.2	5.7	6.7	6.8	7.1	6.7
South Korea	4.3	2.7	3.3	3.5	3.1	1.0	2.2	2.5
Thailand	4.2	3.5	4.0	4.5	2.7	1.6	2.5	2.9
Brazil	3.4	2.3	2.8	3.4	6.5	6.0	5.7	5.8
Chile	4.5	4.4	4.4	4.7	3.2	2.5	3.0	3.0
Peru	5.7	5.1	5.4	5.6	2.6	2.9	3.0	2.5

Central Bank Rates (%, end of period)	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f	15Q1f	15Q2f	15Q3f
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	0.25	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bank of England	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75
Swiss National Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Reserve Bank of Australia	2.50	2.50	2.50	2.50	2.75	3.00	3.25	3.50
Exchange Rates (end of period)								
Canadian Dollar (USDCAD)	1.06	1.07	1.08	1.07	1.06	1.06	1.05	1.04
Canadian Dollar (CADUSD)	0.94	0.93	0.93	0.93	0.94	0.94	0.95	0.96
Euro (EURUSD)	1.31	1.30	1.29	1.27	1.25	1.25	1.24	1.24
Sterling (GBPUSD)	1.60	1.60	1.59	1.58	1.57	1.55	1.54	1.53
Yen (USDJPY)	101	102	104	107	109	110	111	112
Australian Dollar (AUDUSD)	0.89	0.87	0.90	0.90	0.93	0.93	0.94	0.94
Chinese Yuan (USDCNY)	6.1	6.1	6.1	6.1	6.0	5.9	5.9	5.9
Mexican Peso (USDMXN)	13.2	13.2	13.1	13.2	13.4	13.4	13.4	13.5
Brazilian Real (USDBRL)	2.25	2.25	2.28	2.29	2.30	2.28	2.25	2.23

Commodities (annual average)	2000-12	2013e	2014f	2015f
WTI Oil (US$/bbl)	60	98	92	90
Brent Oil (US$/bbl)	62	109	108	108
Nymex Natural Gas (US$/mmbtu)	5.45	3.70	3.75	4.00
Copper (US$/lb)	2.22	3.30	3.10	3.00
Zinc (US$/lb)	0.78	0.87	0.97	1.40
Nickel (US$/lb)	7.64	6.95	7.25	7.60
Gold, London PM Fix (US$/oz)	745	1,410	1,270	1,375
Pulp (US$/tonne)	730	936	940	970
Newsprint (US$/tonne)	585	608	615	650
Lumber (US$/mfbm)	274	356	390	400

[1] World GDP for 2003-12 are IMF PPP estimates; 2013-15f are Scotiabank Economics' estimates based on a 2012 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	13Q2	13Q3	Latest	
Real GDP (annual rates)	1.7	1.6	2.7		
Current Acc. Bal. (C$B, ar)	-62.2	-63.7	-61.9		
Merch. Trade Bal. (C$B, ar)	-12.0	-9.9	-9.0	0.9	(Oct)
Industrial Production	0.9	0.1	1.9	3.2	(Sep)
Housing Starts (000s)	215	190	193	192	(Nov)
Employment	1.2	1.2	1.3	1.1	(Nov)
Unemployment Rate (%)	7.3	7.1	7.1	6.9	(Nov)
Retail Sales	2.5	2.7	3.1	3.6	(Sep)
Auto Sales (000s)	1673	1745	1776	1775	(Sep)
CPI	1.5	0.8	1.1	0.7	(Oct)
IPPI	0.6	0.3	1.3	-0.8	(Oct)
Pre-tax Corp. Profits	-4.9	-8.2	-1.1		

United States	2012	13Q2	13Q3	Latest	
Real GDP (annual rates)	2.8	2.5	3.6		
Current Acc. Bal. (US$B, ar)	-440	-396			
Merch. Trade Bal. (US$B, ar)	-741	-703	-715	-723	(Oct)
Industrial Production	3.6	2.1	2.4	3.3	(Oct)
Housing Starts (millions)	0.78	0.87		0.88	(Aug)
Employment	1.7	1.6	1.7	1.7	(Nov)
Unemployment Rate (%)	8.1	7.6	7.3	7.0	(Nov)
Retail Sales	5.0	4.7	4.7	4.6	(Nov)
Auto Sales (millions)	14.4	15.5	15.7	16.3	(Nov)
CPI	2.1	1.4	1.6	1.0	(Oct)
PPI	1.9	1.5	1.2	0.7	(Nov)
Pre-tax Corp. Profits	18.5	3.7	3.5		

Mexico	2012	13Q2	13Q3	Latest	
Real GDP	3.9	1.6	1.3		
Current Acc. Bal. (US$B, ar)	-14.6	-19.9	-21.8		
Merch. Trade Bal. (US$B, ar)	0.0	-3.4	-4.1	-1.5	(Oct)
Industrial Production	2.6	-0.3	-0.5	0.1	(Oct)
CPI	4.1	4.5	3.4	3.6	(Nov)

Europe

Euro Zone	2012	13Q2	13Q3	Latest	
Real GDP	-0.6	-0.6	-0.4		
Current Acc. Bal. (US$B, ar)	162	276	279	225	(Sep)
Merch. Trade Bal. (US$B, ar)	122.0	272.2	220.6	219.2	(Sep)
Industrial Production	-2.5	-0.9	-1.2	-0.1	(Oct)
Unemployment Rate (%)	11.3	12.1	12.1	12.1	(Oct)
CPI	2.5	1.4	1.3	0.7	(Oct)

Germany	2012	13Q2	13Q3	Latest	
Real GDP	0.9	0.4	0.5		
Current Acc. Bal. (US$B, ar)	240.8	240.3	235.1	312.1	(Oct)
Merch. Trade Bal. (US$B, ar)	245.1	249.5	262.4	274.1	(Oct)
Industrial Production	-0.4	-0.5	-0.2	1.1	(Oct)
Unemployment Rate (%)	6.8	6.8	6.8	6.9	(Nov)
CPI	2.0	1.5	1.6	3.1	(Nov)

France	2012	13Q2	13Q3	Latest	
Real GDP	0.0	0.5	0.2		
Current Acc. Bal. (US$B, ar)	-57.3	-36.2	-49.6	-56.2	(Oct)
Merch. Trade Bal. (US$B, ar)	-52.4	-43.8	-47.4	-41.3	(Oct)
Industrial Production	-2.5	0.6	-1.4	0.0	(Oct)
Unemployment Rate (%)	10.3	10.8	11.0	10.9	(Oct)
CPI	2.0	0.8	0.9	1.7	(Nov)

United Kingdom	2012	13Q2	13Q3	Latest	
Real GDP	0.1	1.3	1.5		
Current Acc. Bal. (US$B, ar)	-94.8	-75.0			
Merch. Trade Bal. (US$B, ar)	-172.4	-155.9	-182.6	-188.0	(Oct)
Industrial Production	-2.5	-0.5	-0.1	3.2	(Oct)
Unemployment Rate (%)	8.0	7.8		7.6	(Aug)
CPI	2.8	2.7	2.7	2.2	(Oct)

Italy	2012	13Q2	13Q3	Latest	
Real GDP	-2.6	-2.2	-1.8		
Current Acc. Bal. (US$B, ar)	-8.1	20.2	35.8	3.6	(Sep)
Merch. Trade Bal. (US$B, ar)	12.4	49.4	41.4	13.3	(Sep)
Industrial Production	-6.4	-3.5	-3.9	-1.1	(Oct)
CPI	3.1	1.2	1.0	2.7	(Nov)

Russia	2012	13Q2	13Q3	Latest	
Real GDP	3.4	1.2	1.2		
Current Acc. Bal. (US$B, ar)	74.8	3.4	1.1		
Merch. Trade Bal. (US$B, ar)	16.0	14.2	14.3	15.7	(Sep)
Industrial Production	-5.3	0.3	-0.1	-0.1	(Oct)
CPI	5.1	7.2	6.4	6.5	(Nov)

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

Source: Bloomberg, Global Insight, Scotiabank Economics.

Asia Pacific

Australia	2012	13Q2	13Q3	Latest
Real GDP	3.6	2.4	2.3	
Current Acc. Bal. (US$B, ar)	-64.1	-31.9	-52.8	
Merch. Trade Bal. (US$B, ar)	5.9	32.6	12.7	7.7 (Oct)
Industrial Production	4.8	5.0	2.7	
Unemployment Rate (%)	5.2	5.6	5.7	5.8 (Nov)
CPI	1.8	2.4	2.2	

Japan	2012	13Q2	13Q3	Latest
Real GDP	1.4	1.3	2.4	
Current Acc. Bal. (US$B, ar)	60.4	70.0	53.4	-15.7 (Oct)
Merch. Trade Bal. (US$B, ar)	-85.8	-88.6	-117.6	-131.5 (Oct)
Industrial Production	0.2	-3.1	1.9	5.3 (Oct)
Unemployment Rate (%)	4.4	4.0	4.0	4.0 (Oct)
CPI	0.0	-0.3	0.9	1.1 (Oct)

South Korea	2012	13Q2	13Q3	Latest
Real GDP	2.0	2.3	3.3	
Current Acc. Bal. (US$B, ar)	48.1	79.2	75.9	114.1 (Oct)
Merch. Trade Bal. (US$B, ar)	28.5	57.4	43.4	57.6 (Nov)
Industrial Production	1.2	-1.7	1.0	0.8 (Oct)
CPI	2.2	1.1	1.2	2.2 (Nov)

China	2012	13Q2	13Q3	Latest
Real GDP	10.4	7.5	7.8	
Current Acc. Bal. (US$B, ar)	193.1			
Merch. Trade Bal. (US$B, ar)	230.7	263.5	246.0	405.6 (Nov)
Industrial Production	10.3	8.9	10.2	10.0 (Nov)
CPI	2.5	2.7	3.1	3.0 (Nov)

Thailand	2012	13Q2	13Q3	Latest
Real GDP	6.5	2.9	2.7	
Current Acc. Bal. (US$B, ar)	-1.5	-6.7	-0.9	
Merch. Trade Bal. (US$B, ar)	0.5	-0.2	1.7	0.3 (Oct)
Industrial Production	2.1	-5.1	-3.9	-3.2 (Oct)
CPI	3.0	2.3	1.7	1.9 (Nov)

India	2012	13Q2	13Q3	Latest
Real GDP	5.1	4.4	4.8	
Current Acc. Bal. (US$B, ar)	-91.5	-21.8	-5.2	
Merch. Trade Bal. (US$B, ar)	-16.1	-16.8	-10.1	-10.6 (Oct)
Industrial Production	0.7	-1.0	1.7	2.0 (Sep)
WPI	7.5	4.8	6.4	7.0 (Oct)

Indonesia	2012	13Q2	13Q3	Latest
Real GDP	6.2	5.8	5.6	
Current Acc. Bal. (US$B, ar)	-24.4	-10.0	-8.4	
Merch. Trade Bal. (US$B, ar)	-0.1	-1.0	-1.0	0.0 (Oct)
Industrial Production	4.1	7.1		12.4 (Aug)
CPI	4.3	5.6	8.6	8.4 (Nov)

Latin America

Brazil	2012	13Q2	13Q3	Latest
Real GDP	0.9	3.1	1.9	
Current Acc. Bal. (US$B, ar)	-54.2	-74.2	-68.4	
Merch. Trade Bal. (US$B, ar)	19.4	8.3	5.9	20.9 (Nov)
Industrial Production	-2.7	3.3	0.3	0.8 (Oct)
CPI	5.4	6.6	6.1	11.1 (Nov)

Chile	2012	13Q2	13Q3	Latest
Real GDP	5.6	4.0	4.7	
Current Acc. Bal. (US$B, ar)	-0.1	-6.8	-13.8	
Merch. Trade Bal. (US$B, ar)	12.4	5.4	-1.8	2.4 (Nov)
Industrial Production	2.8	1.4	4.9	2.1 (Oct)
CPI	3.0	1.3	2.1	2.4 (Nov)

Peru	2012	13Q2	13Q3	Latest
Real GDP	9.2	5.6	4.4	
Current Acc. Bal. (US$B, ar)	-7.1	-3.1		
Merch. Trade Bal. (US$B, ar)	0.5	-0.1	-0.1	0.0 (Sep)
Unemployment Rate (%)	7.0	5.7	5.8	5.8 (Oct)
CPI	3.7	2.5	3.1	3.0 (Nov)

Colombia	2012	13Q2	13Q3	Latest
Real GDP	4.2	4.2		
Current Acc. Bal. (US$B, ar)	-12.2	-2.7		
Merch. Trade Bal. (US$B, ar)	0.4	0.4	0.0	-0.1 (Sep)
Industrial Production	-0.1	-0.2	-1.9	-1.8 (Sep)
CPI	3.2	2.1	2.3	1.8 (Nov)

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

Source: Bloomberg, Global Insight, Scotiabank Economics.

Interest Rates (%, end of period)

Canada	13Q2	13Q3	Dec/06	Dec/13*	United States	13Q2	13Q3	Dec/06	Dec/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	1.02	0.97	0.93	0.93	3-mo. T-bill	0.03	0.01	0.06	0.06
10-yr Gov't Bond	2.44	2.54	2.69	2.67	10-yr Gov't Bond	2.49	2.61	2.86	2.87
30-yr Gov't Bond	2.90	3.07	3.28	3.22	30-yr Gov't Bond	3.50	3.68	3.89	3.88
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US$B)	68.8	71.3	71.4	(Oct)	FX Reserves (US$B)	134.7	136.7	136.4	(Oct)
Germany					**France**				
3-mo. Interbank	0.14	0.15	0.20	0.22	3-mo. T-bill	0.03	0.06	0.08	0.16
10-yr Gov't Bond	1.73	1.78	1.84	1.83	10-yr Gov't Bond	2.35	2.32	2.44	2.43
FX Reserves (US$B)	66.1	65.7	65.6	(Oct)	FX Reserves (US$B)	51.4	54.6	53.2	(Oct)
Euro Zone					**United Kingdom**				
Refinancing Rate	0.50	0.50	0.25	0.25	Repo Rate	0.50	0.50	0.50	0.50
Overnight Rate	0.21	0.18	0.13	0.14	3-mo. T-bill	0.39	0.40	0.40	0.40
FX Reserves (US$B)	324.9	332.5	332.1	(Oct)	10-yr Gov't Bond	2.44	2.72	2.90	2.90
					FX Reserves (US$B)	90.2	93.3	93.8	(Oct)
Japan					**Australia**				
Discount Rate	0.30	0.30	0.30	0.30	Cash Rate	2.75	2.50	2.50	2.50
3-mo. Libor	0.09	0.09	0.08	0.08	10-yr Gov't Bond	3.76	3.81	4.43	4.32
10-yr Gov't Bond	0.85	0.69	0.67	0.70	FX Reserves (US$B)	45.0	45.9	50.8	(Oct)
FX Reserves (US$B)	1209.4	1240.8	1244.3	(Oct)					

Exchange Rates (end of period)

USDCAD	1.05	1.03	1.06	1.06	¥/US$	99.14	98.27	102.91	103.23
CADUSD	0.95	0.97	0.94	0.94	US¢/Australian$	0.91	0.93	0.91	0.90
GBPUSD	1.521	1.619	1.635	1.629	Chinese Yuan/US$	6.14	6.12	6.08	6.07
EURUSD	1.301	1.353	1.371	1.373	South Korean Won/US$	1142	1075	1058	1053
JPYEUR	0.78	0.75	0.71	0.71	Mexican Peso/US$	12.931	13.091	12.932	12.966
USDCHF	0.95	0.90	0.89	0.89	Brazilian Real/US$	2.232	2.217	2.332	2.338

Equity Markets (index, end of period)

United States (DJIA)	14910	15130	16020	15746	U.K. (FT100)	6215	6462	6552	6450
United States (S&P500)	1606	1682	1805	1775	Germany (Dax)	7959	8594	9172	9016
Canada (S&P/TSX)	12129	12787	13281	13112	France (CAC40)	3739	4143	4129	4065
Mexico (IPC)	40623	40185	41926	41801	Japan (Nikkei)	13677	14456	15300	15403
Brazil (Bovespa)	47457	52338	50944	50087	Hong Kong (Hang Seng)	20803	22860	23743	23246
Italy (BCI)	849	950	992	983	South Korea (Composite)	1863	1997	1980	1963

Commodity Prices (end of period)

Pulp (US$/tonne)	950	945	990	990	Copper (US$/lb)	3.06	3.31	3.23	3.27
Newsprint (US$/tonne)	605	605	605	605	Zinc (US$/lb)	0.83	0.85	0.85	0.89
Lumber (US$/mfbm)	292	359	358	355	Gold (US$/oz)	1192.00	1326.50	1233.00	1232.00
WTI Oil (US$/bbl)	96.56	102.33	97.65	96.34	Silver (US$/oz)	18.86	21.68	19.49	19.55
Natural Gas (US$/mmbtu)	3.57	3.56	4.11	4.41	CRB (index)	275.62	285.54	278.66	279.62

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

Fixed Income Strategy (London)

www.gbm.scotiabank.com

Fixed Income Strategy (Paris)

Foreign Exchange Strategy

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