Global Views

Weekly commentary on economic and financial market developments

November 15, 2013

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

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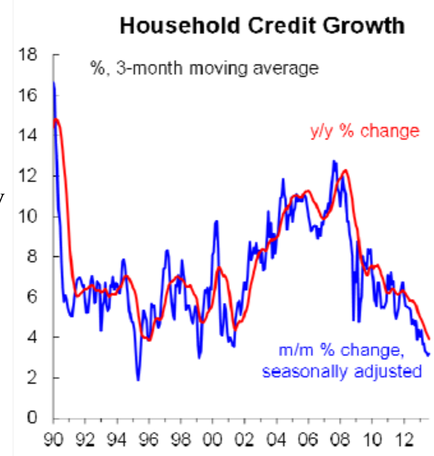
Big Weeks For The BoC And The Fed

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

Canada — Why Not Cut?

Markets could well raise implied probabilities of a rate cut by the Bank of Canada by the end of next week. A catalyst will be next Friday's CPI inflation print that we expect to further undershoot not only the oft-cited 2% mid-point of the BoC's inflation target range, but even the very bottom of that 1-3% interval, due in part to a drop in gasoline prices. If this happens, then it would reverse the move away from very low rates of inflation in the Spring and return the focus to why the BoC has been persistently disappointed in hoping for a gradual return to hitting its inflation target. A year ago in the October 2012 Monetary Policy Report, the BoC was of the view that it would have hit its 2% inflation target by now. Instead, inflation has been averaging 0.9% so far this year and has been running at the weakest trend rate since 2009 as part of a global disinflationary wave that has sparked the Fed to push back on tapering fears and the ECB to cut its policy rate. At some point, talking through a persistent downside surprise to inflation on the hope that it will not persist in future will make markets increasingly question how sacrosanct the 2% inflation target is.



Source: Bank of Canada, Scotiabank Economics.

So why not cut? This is usually among the strictest inflation-targeting central banks anywhere and such a persistent undershoot would traditionally have incited more serious talk of easing. Further, financial stability considerations that have to date held the BoC back from cutting should be viewed as having turned the other way as household credit growth continues to plunge to the weakest rates since the moribund 1990s and with no signs that this trend is abating (see chart). In that context, a further tightening of mortgage rules when the past rounds of tightening are still working through markets with multi-year lagged effects would be courting elevated downside risks. A reason not to cut rates may include keeping some powder dry in the event that downside risks become amplified.

Our point is that there should be a higher probability of a rate cut priced into the front end of the Canada curve than is evident at the moment including with Canada 2s partially factoring in a rate hike — even if the BoC ultimately resists a cut. What's holding us back from making a cut call is a clearer signal from the BoC that it is increasingly concerned about undershooting its inflation target and prepared to entertain action. There may be just such an opportunity next week as **the top of the house at the BoC will be grilled and their inflation thoughts should be a major focal point**. Three of the BoC's heaviest hitters take to the stage. Senior Deputy Governor Tiff Macklem appears on Monday as part of a panel discussion. Recall that it was Macklem's speech in early October that tipped the BoC's hand concerning forecast downgrades and so the risk of a material comment on Monday cannot be ignored. Then Deputy Governor John Murray will speak the next day on "Price Puzzles And The Exchange Rate." His speeches are often among the most insightful, including his summertime speech on the impact of Fed tapering on Canada. **The big show, however, may arrive Wednesday when both Governor Poloz and Macklem testify at the Senate Committee on Banking, Trade and Commerce.** This is Canada's more subdued version of Bernanke's testimony before Congress, and Poloz will issue an opening statement and address often very civil lines of questioning. Unless Macklem or Murray spill the beans early in the week, then none of this will impact a Canada 2s auction scheduled for Wednesday ahead of CPI and Poloz's testimony.

Additional Canadian data risk will include what is likely to be a small retail sales gain on Friday that should be held back by a drop in gasoline prices and auto sales on the month. Wholesale trade on Wednesday will be the other indicator to round out our September GDP and Q3 GDP calls.

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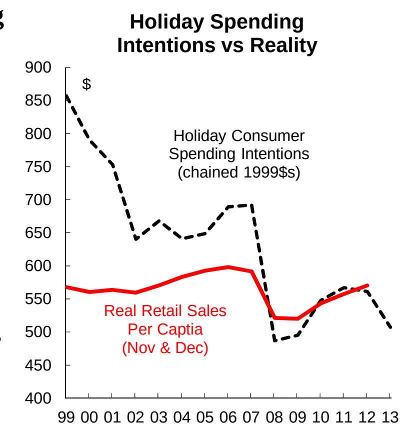
US — Did The Rest Of The FOMC Agree With Yellen?

Whether or not the rest of the FOMC committee subscribes to as strong a dovish bias as Fed Chairman-nominee Janet Yellen will be the week's focal point alongside a smattering of dovish data. That's because of the release of minutes to the October 30th FOMC meeting on Wednesday, and a heavy schedule for Fed speakers. Speakers will include Chairman Bernanke, Governors Powell and Tarullo, permanently voting Dudley, voting (until December) regional presidents such as Evans, Bullard, Rosengren, and George, soon to become voting members Plosser and Kocherlakota, and Lacker who doesn't vote until 2015.

We'll have an eye on the FOMC minutes not only for signs of cohesiveness, but also for further insight into **whether the Fed is getting closer to altering its threshold guidance**.



Source: Gallup, Federal Reserve Bank of St Louis, Scotiabank Economics.

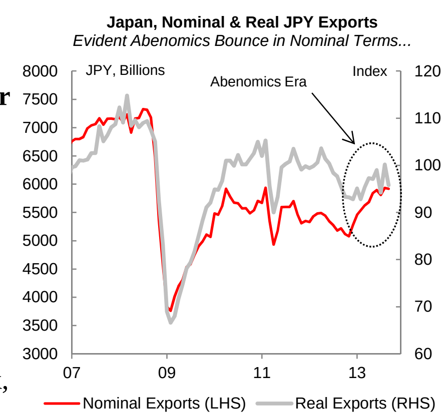
Data risk should be dovish in nature. That includes expectations for a soft retail sales print in the wake of a drop in auto sales and gasoline prices, and a further decline in CPI inflation to about 1% (both due out on Wednesday). How the consumer will fare in the holiday season that kicks off with Black Friday two weeks from now will be more important than the last retail sales print. The early indicators are not terribly positive, including a recent opinion poll on spending intentions that has performed better since the crisis phase than it did previously (see chart). We also expect another drop in existing home sales that has been led by a sharp drop in pending home sales that turn into completed resales within 2-3 months in response to the lagged effects of higher mortgage rates since Spring. The volatile Philly Fed diffusion index will be watched for signs of how sentiment held up in the wake of the government shutdown and consensus expects a slightly weaker print.

The US auctions $13 billion in a reopening of 10 year TIPS on Thursday.

Asia — Trade Still A Drag On Japanese GDP?

How concerned is the RBA about the overvalued AUD? Obviously not worried enough to cut interest rates, as Australia's central bank left rates unchanged and kept its rate cut guidance out of the picture in its most recent statement – even as it warned on the valuation of the currency. Minutes due out next week from the November RBA meeting should flesh out what the RBA is hoping to achieve – and what might trigger a deepening of the easing cycle.

The Bank of Japan will also be making an interest rate decision, with no changes either in the pace of asset purchases or the tone of guidance expected from Japan's central bank. **The larger challenge for Japan in our view is whether or not real exports will pick up** in line with the increase in nominal exports seen since the massive monetary easing component of Abenomics caused a strong drop in the JPY in late 2012 and into 2013. The weak yen has increased the nominal haul from trade – but real exports haven't gone anywhere (see chart), and indeed are exerting a drag effect on GDP growth. Japanese trade data for October lands overnight on the 20th giving an update on this phenomenon.



Source: Japan MoF, BoJ, Scotiabank Economics

The major Chinese data release will be the flash PMI, due out mid-week, which has shown improvement since seemingly bottoming this summer. Asian markets also get to digest Chinese property prices ahead of the open

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on Sunday. In addition to the Chinese numbers, Thai GDP data is expected to show a bounce to +1.5% q/q in Q3 after notching a very weak -0.3% q/q decline in Q2, and Malaysian CPI numbers will be released for October.

Europe — Will Sentiment Surveys Hold Up?

Remember those sentiment surveys that did a poor job of predicting Q3 Eurozone GDP? Here comes the next round. In fact, the whole slew of sentiment readings will be scattered throughout the week starting with ZEW investor sentiment on Tuesday, manufacturing and service PMIs on Thursday, and Germany's IFO business confidence print on Friday. **Renewed disappointment in Q3 Eurozone GDP growth and the US government shutdown in October put the slant toward downside risks.**

The final Q3 print for German GDP on Friday will be useful not only for revisions, but also because Germany releases no details on the composition of growth with the first pass. We'll therefore have a better handle on the quality of the deceleration to just 0.3% q/q growth, and hand-off risks into Q4.

Minutes to the Bank of England's MPC meeting on November 6th-7th will be released on Wednesday. Recall that the central bank dramatically shortened its forward rate guidance and deferred to markets on the point at which the unemployment rate is expected to hit the central bank's 7% threshold.

EC trade, Italian industrial orders, and Italian retail sales round out the data hits.

Against the full backdrop of renewed disappointment to Eurozone growth, **the OECD will issue fresh global forecasts** on Tuesday and will no doubt weigh in on the debate over what's next.

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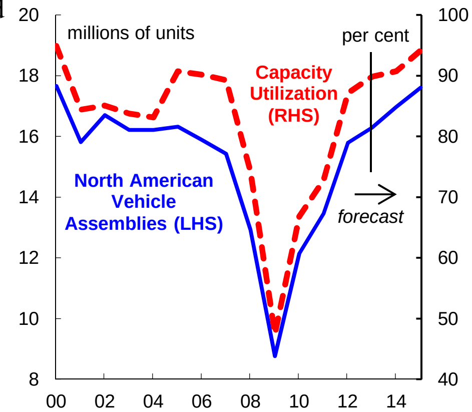
Decade-High Operating Rates For North American Auto Industry

- **Capacity constraints point to new investment.**

The North American auto industry is poised for increased investment as rising vehicle demand has boosted production on the continent, including Canada, to the highest level in nearly a decade, lifting operating rates and leaving some plants bursting at the seams. In addition, last year's contract agreement between the Detroit Three and the CAW helped improve Canada's competitive position, leading to several positive announcements in recent months. Moreover, the recently announced free trade agreement with the European Union opens the door for Canada to begin diversifying its motor vehicle exports beyond the United States. Canadian plants are especially well positioned to benefit from soaring demand for crossover utility vehicles (CUVs), which account for nearly 40% of Canadian assemblies. In fact, a recent report from IHS Automotive suggests sales of small CUVs — such as the RAV4, CRV and Equinox, all assembled in Canada — could rise to 583,000 units in Europe by 2016, up from 307,000 this year.

Record Production & Operating Rates by Mid-Decade



Source: Ward's Automotive Reports, Scotiabank Economics.

Strengthening demand will lift North American vehicle production above 16 million units this year for the first time since 2005. This has boosted operating rates above full capacity at several facilities and lifted the industry-wide utilization rate to 90% — the highest level in nearly a decade. Furthermore, conditions will continue to tighten as the replacement-led recovery lifts vehicle production to 17.0 million units in 2014 and a record 17.6 million by mid-decade, surpassing the previous peak set at the turn of the millennium. We estimate that ongoing output gains will lift North American capacity utilization to an unsustainable 95% by mid-decade, putting pressure on automakers to add capacity.

Tight supply conditions have already led to additional shifts at several assembly plants across North America, and is one of the reasons why Ford Canada recently announced that it will invest $700 million to retool its assembly plant in Oakville. Meanwhile, rising demand has prompted General Motors to extend production at its Consolidated Line in Oshawa from mid-2013 through 2016.

Improving cost competitiveness was also a factor in the above-mentioned announcements. Last year's agreement with the CAW allows automakers in Canada to hire new workers at a reduced starting wage — 60% of wage rate for existing workers — and with lower benefits. In fact, the latest contract makes new hires for Canadian assembly plants more cost effective than the two-tier wage system for new auto workers in the United States. Estimates suggest the current all-in cost for a new hire by the Detroit Three in the United States is roughly US$37 per hour compared with just over C$32 in Canada — a 15% advantage. While the cost advantage will narrow gradually, we estimate that it will remain at nearly 10% by 2015, when the current contract between the Detroit Three and the UAW expires. Furthermore, these calculations assume a Canadian dollar at par with the U.S. greenback. The recent depreciation of the Canadian dollar from US$1.01 a year ago to the current US$0.96 further enhances the competitive position of the Canadian auto industry.

While Mexico has been a big winner in attracting auto industry investment in recent years, only 60% of its production is exported to its NAFTA partners. This suggests that of the more than 600,000 units of new annual assembly capacity coming on stream in Mexico next year, only about 350,000 units are likely to make their way to the United States and Canada each year. This accounts for roughly half of the projected increase in vehicle demand in the two NAFTA countries in 2014 and highlights the industry's tightening supply conditions. In this environment, the recent improvement in Canada's competitive position leaves the industry on a much better footing than during the past decade, when Canada was considered one of the most expensive vehicle-producing jurisdictions.

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Typhoon Haiyan's Impact On The Philippine Economy

- **Reconstruction efforts and increasing remittances to boost economic activity amidst widespread devastation.**

A week after the Typhoon Haiyan ("Yolanda") hit the central Philippines, the assessment of its economic consequences is just beginning. The main area of devastation was in the Leyte and Samar islands where the storm ruined cities and towns. While the scale of destruction is not yet clear, the government's National Disaster Risk Reduction and Management Council (NDRRMC) estimates that over 9 million people were affected by the typhoon, with the official confirmed number of fatalities at 3,631 as of November 15th. While the social cost of the storm is immeasurable, this article focuses on studying its economic impact. At the time of writing, the official estimate for the total cost of damages is PHP9.5 billion (US$220 million). This estimation is set to rise in the coming days and months given the fact that the cost of the less severe Typhoon Bopha — that crossed over the island of Mindanao in December 2012 — was significantly higher, climbing to PHP37 billion (US$882 million, equivalent to 0.5% of the country's GDP).

According to the NDRRMC (as of November 15th), Typhoon Haiyan damaged around 275,000 houses, while the cost of infrastructure destruction is PHP362.8 million (US$8.4 million). However, this figure will surely be revised upwards in the coming days. While last year's Typhoon Bopha was also a category 5 tropical cyclone and travelled through similarly agriculture-oriented areas of the country, it caused fewer casualties; nevertheless, infrastructure damage rose to PHP7.6 billion (US$180 million), over 20 times more than the current estimate for Typhoon Haiyan. Though the affected area's economic activity is currently virtually stalled, the forthcoming rebuilding phase will provide a boost to the country's real GDP growth, particularly during the first quarter of 2014.

The positive contribution to economic growth by rebuilding of infrastructure and housing will be partially offset by the storm's adverse impact on agriculture and exports. The area's economy is driven largely by crop growing and fishing, but also relies on industry, mining and generation of geothermal energy. Regional exports will contract not only by the loss of crops but also by broken supply chains. The NDRRMC estimates that over 155,000 hectares of agricultural land planted with rice, corn, and high-value crops were affected, with the estimated production loss of PHP7.7 billion (US$180 million). The total estimated cost of damages to agriculture amounts to PHP9.1 billion (US$212 million; equivalent to 1% of the country's annual agricultural output) that includes losses in fisheries, irrigation facilities, equipment and livestock in addition to crops.

The natural disaster will likely temporarily push up inflation in the Philippines. We expect the headline inflation rate to close the year around 3½% y/y, up from the October level of 2.9%. Naturally, government finances will be under pressure in the coming quarters, with any fiscal consolidation efforts likely to be postponed. Nevertheless, public finances will remain relatively sound; we expect budget deficits to average 2% of GDP over the medium term with gross debt hovering around 40% of GDP.

Despite the destruction and humanitarian crisis, the Philippine economic outlook remains strong, with solid growth momentum likely to be maintained through 2014. Supported by surging domestic demand, we expect the country's real GDP expansion to reach 7½% this year as a whole, followed by a 6.0% gain in 2014. Investment is fuelled by public spending, low interest rates, and upbeat business confidence. Contrary to many of its export-dependent regional peers, Philippine domestic demand — particularly household consumption — will continue to be the main economic driver through the forecast horizon, underpinned by remittances from the 2.2 million Filipinos working abroad that totalled over US$21 billion in 2012 (equivalent to 8½% of the country's GDP). These earnings inflows grew by 6% y/y in the first nine months of the year, and will likely receive a substantial boost in the coming months as family members abroad increase the amount of money sent home in order to help their typhoon-affected relatives.

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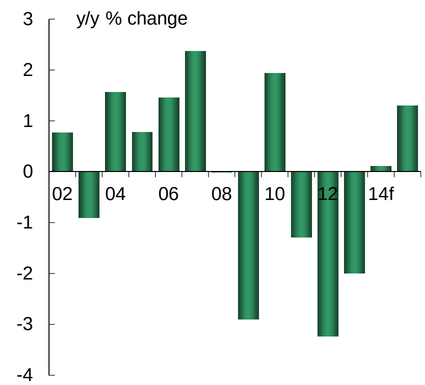
Portugal Faces Challenging Path To Bailout Program Exit

- **With uncertain economic recovery prospects and persistent political tensions, fiscal adjustment likely to fall short of targets in the medium term.**

The Portuguese economy has exited recession, but a return to a sustainable, balanced growth trend remains uncertain. Real GDP growth was stronger than expected in the first nine months of the year, with a hefty 1.1% q/q non-annualized gain in the second quarter (after 10 quarters of decline) followed by a 0.2% advance in the July-September period. Exports are driving the recovery, while domestic demand continues to contract on the back of private sector deleveraging, fiscal retrenchment and still high unemployment. We anticipate an output contraction of around 2% this year as a whole and a roughly flat performance in 2014. The jobless rate has begun to stabilize, easing to 16.3% in September (37% for youth) from a peak of 17.7% in January. Over the near term recovery prospects are conditional on improving conditions elsewhere in the euro zone, especially in Spain, Portugal's top trade partner.

Real GDP Growth



Source: Bloomberg, Scotiabank Economics.

The risk of deflation is elevated in Portugal, with the headline inflation rate slipping from 2.8% y/y on average in 2012 to 0% by October of this year. Consumer price growth should resume over the forthcoming period, though continued downward pressure on wages and a static trajectory for energy prices will keep inflation far beneath the ECB's "below, but close to, 2%" target through 2015. The ECB responded to region-wide price stability concerns with a quarter-point reduction in the refinancing rate in November (to a record-low 0.25%). Additional policy accommodation may be necessary should downside risks to growth and inflation materialize.

The public finance situation remains challenging, with the implementation of further required tightening measures in the forthcoming period subject to considerable political and legal risks. The 'troika' of lenders, composed of the International Monetary Fund (IMF), the European Commission and the ECB, judges that the 2013 budget deficit target of 5.5% of GDP is attainable (excluding 0.4% of GDP in bank recapitalization costs), so long as slated corrective measures can address an exposed shortfall of 0.8% of GDP. The draft 2014 budget set out additional consolidation measures worth 2.3% of GDP, including largely permanent spending cuts in the areas of public sector wages and pensions. However, given the high risk of Constitutional Court challenges to the proposed reforms, certain plans may be watered down and/or delayed. We do not expect the official deficit targets of 4% of GDP for 2014 and 2.5% for 2015 to be met. Gross public debt will likely peak at around 128% of GDP in 2013-14. The recent adjustment in external balances has been noteworthy. Thanks to a sharp improvement in the goods and services trade balance, the current account will post a surplus of nearly 1% of GDP in 2013-15 (compared to a deficit of over 10% in 2010).

Well into the third year of a €78 billion multilateral financial support program (worth almost 50% of the country's GDP), Portugal's sovereign credit profile remains under pressure. In September, Standard & Poor's placed Portugal's ratings on "negative credit watch", implying a one-in-two chance of a near-term downgrade (from "BB") in the case of fiscal slippage, domestic political wrangling leading to delays in the reform agenda or waning support from official external creditors. Fitch ("BB+") maintains a "negative" outlook on the nation's long-term foreign-currency rating while Moody's ("Ba3") recently raised its assessment to "stable" following the presentation of the draft 2014 budget. The cost of insuring government bonds, as measured by the credit default swap rate, rose between May and September, but has since returned to the levels prevailing in the first half of 2013 (around 350 basis points). Going forward, investor sentiment and, in turn, Portugal's ability to regain full access to international financial markets will hinge on additional public expenditure restraint, continued economic recovery and efforts to strengthen the banking sector. We do not discount the possibility of an extension of the existing aid program beyond its current expiration in mid-2014.

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The Steep Challenges Of Comprehensive Health Reform

- **A further adjustment to U.S. Obamacare for 2014.**

The roll-out of Obamacare became more complicated this week with the administration's decision to allow the health insurance industry to extend for one year policies that would otherwise be cancelled because they did not meet the new federal standards. For the individuals and small businesses whose existing coverage was going to be cancelled, the opportunity to re-enroll for 2014 may ease the transition and in some instances the expense. Importantly, the number of existing health policies cancelled because they were declared substandard under the new regulations was considerable. The timeline, however, is tight. While the change does not require Congressional approval, the reinstated policies are expected to be effective this January 1st.

For the insurance industry, in addition to the administrative costs of re-issuing cancelled policies to existing holders, a much larger issue is how to price the former policies for the upcoming year. If lower premiums are set for the cancelled policies given their identified deficiencies, a large portion of their current holders who are young and healthy may opt for these policies instead of the new policies, undermining the pooling concept that helped to lower the pricing for the new policies. In addition, the reinstated policies will require negotiation with all the insurers' suppliers. Moreover, the customers gained in 2014 by reinstating existing policies could well prove temporary, since they will return to the health insurance exchanges to shop for 2015.

Obama's adjustment also pressures State governments and their health insurance commissioners. The shift is particularly disruptive for jurisdictions such as Washington and California that have successfully implemented their own state-run insurance exchange and are selling policies for 2014 that meet the new federal requirements.

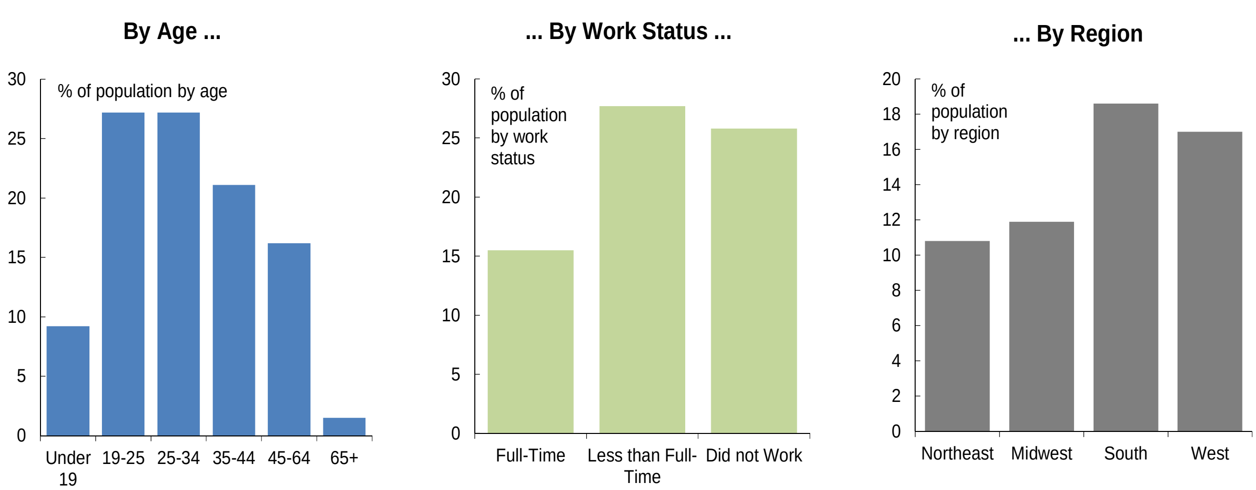
The reality is that a smooth implementation of extensive health care reform is difficult, even if all the major stakeholders are in agreement. The OECD's comments on other health care overhauls, such as the difficulties of simultaneously changing multiple institutions and managing the interactions, now seem very apt. Yet the objective of Obamacare — to offer affordable health insurance to all Americans — is laudable.

U.S. Health Insurance Coverage, 2012

	Total With Plan*	**Only Plan**
	% of population	
Private Plan	**63.9**	**52.0**
Employment-based	54.9	44.8
Direct Purchase	9.8	3.6
Government Plan	**32.6**	**20.7**
Medicare	15.7	5.4
Medicaid	16.4	11.3
Military Health Care	4.4	1.3
Uninsured	**15.4**	n.a.

***** Includes individuals with other plans.

U.S. Citizens Without Health Insurance Coverage, 2012



Source for Table and Charts: U.S. Census Bureau.

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UK: Bank Of England Inflation Report — November

What a Difference 3 Months Makes

The November Bank of England *Inflation Report* was on the hawkish side of expectations. While the overriding message is that the first interest rate hike is still a considerable way away, it feels like it is getting closer. More specifically:

1) The Bank shifted forward the timing that it expects the unemployment rate to fall to 7% from Q4-2016 to Q3-2015 (on the assumption that interest rates move in line with market expectations). **Aggressive, but realistic.**

- We had highlighted that an abrupt move like this was easy to achieve. In particular, since the Bank's previous profile was flat at 7.1% for 5 quarters from Q3-2015 onward, all it would take was a 0.1% downward revision to the entire profile to shift the 7% point forward by 15 months. However, we thought that the Bank would be more hesitant since a move like that would be a shock to the households and businesses that the MPC had tried to convince just 3 months ago that no rate hikes were likely before 2017. In the event, the MPC chose the bold option.
- On the assumption of constant interest rates, that 7% unemployment rate is reached even earlier — in Q4-2014!
- Notwithstanding that this was an aggressive revision, we believe it is preferable to a situation where the Bank is in denial. It spares the Bank blushes at future forecast updates of having to revise again and again in the same direction. The Bank's new forecast of unemployment falling to 7% in Q3-2015 is in line with our own forecast which in turn is broadly in line with consensus. The Bank no longer sticks out as being out on a limb.

2) The Bank shifted its medium term inflation projection down only fractionally (to slightly below 2% at the medium term horizon).

- The Bank's profile is pretty flat at just below 2% y/y from Q1-2015 onwards. There was a case for revising down by even more, but that didn't happen. So again, this was a little more hawkish than it could have been.
- This projection does take account of this week's sharp downward surprise on inflation. However, it does not take account of the likelihood that the Government announces that it is scrapping the green taxes component of utility bills (which could drag a further 0.2% points off the inflation profile).

Other key issues:

- The Bank has chosen to revert to making its central case forecast on the basis of market interest rate expectations. Three months ago it based its projections on the assumption of constant interest rates because it judged that market expectations were not reasonable at that time. The Bank now thinks that market expectations of the first rate hike around mid-2015 are more reasonable so it has reverted to forecasting based on market rate expectations.
- The BoE was at pains to stress 'fine margins'. The unemployment rate forecast was only shifted by 0.1% point. That should be the focus rather than the fact that this brought forward the 7% point by 15 months.
- However, by the same token, the Bank's updated profile is flat at 7.1% for three quarters starting from Q4-2014. So another 'fine margins' downward adjustment of just 0.1% point would bring forward the 7% point to end-2014. That is significantly earlier than the initial forecast made in August.

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- We continue to agree that forward guidance is working. Without this policy the market and forecasters would be anticipating the first rate hike to arrive pretty imminently. As things stand there is at least a year before anyone realistically expects a hike. Nonetheless, having deliberately telegraphed to the wider public three months ago that there was unlikely to be a rate hike until 2017 — to shift that forward to mid-2015 is likely to have harmed the Bank's credibility among Joe Public.
- The 7% threshold was chosen three months ago and caused some surprise — most had expected a lower 'target'. However, it was argued at the time that although the NAIRU was probably around 6.5%, it is reasonable to begin the process of raising Bank Rate before the unemployment rate got to neutral. The Holy Grail is to get policy rates up to a more neutral level, just as the unemployment rate falls to the NAIRU. In other words, once unemployment gets to 7%, the Bank has the time it takes for unemployment to fall by a further ½% to get Bank Rate up to a more neutral level — around 3.75%. That highlights the risk that once the BoE gets into hiking mode, that rates could rise much more quickly than the market and most forecasters assume.

All in all, the market was largely braced for the 7% unemployment rate forecast to be shunted forward by around a year. The inflation forecast was revised down, but not by much. Hence the overriding feeling was hawkish. It is pretty easy for the 7% unemployment rate forecast to be brought forward by a sizeable amount at the next *Inflation Report*. So while the Bank was at pains to stress that 7% is not a trigger for a hike, it does feel like the time of the first rate hike is approaching much more quickly than previously assumed. We are fairly comfortable with our forecast that the first rate hike arrives in Q3-2015. However, we are starting to feel twitchy that if unemployment surprises relative to the BoE's projection in the immediate few months that the first hike could arrive much earlier in 2015.

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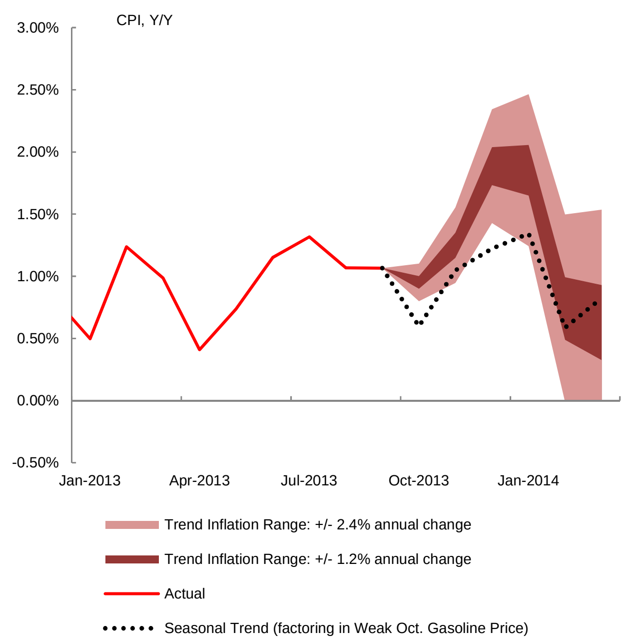
Key Data Preview

CANADA

Retail sales numbers for September (Nov. 22) should be soft at 0.1% m/m. Our forecast is premised on weakness in gasoline prices, which were slightly negative on the month (-0.6% m/m), and soft passenger car sales, which our autos group thinks declined by close to 2.5% m/m. Despite that, although new car dealers and gasoline stations cumulatively account for 31% of retail sales, note that they respectively sell items other than new cars and gasoline — so the results in both categories can be different than implied by gasoline prices and new car sales volumes alone. On the upside, seasonally adjusted consumer prices were up by 0.2%, which should mitigate the declines we described and go some ways to lifting retail sales overall.

CPI for October (Nov. 22) will likely show a marked slow-down in inflation. We're looking for a -0.2% m/m decline with downside risks, leaving annual CPI at 0.7% or lower. There are two key factors here. One is that October is a seasonally soft month in a variety of important categories, including recreation, education and reading, health and personal care, and clothing and footwear. That alone ought to weigh on monthly CPI. Over and above seasonal weakness, gasoline prices plummeted in October, falling by 5.5% on average (ex-taxes). The weak gasoline prices will put additional downward pressure on overall CPI. We expect the soft gasoline prices to result in a very weak pattern for CPI moving into the final quarter of the year assuming fairly stable gasoline prices moving forward. Indeed, if gasoline prices remain stable at current levels, we expect CPI to remain exceedingly low — near the 1% y/y mark for some time (see chart).

Canada CPI: How Low Can You Go?



Source: Scotiabank Economics, Statistics Canada

UNITED STATES

We anticipate that U.S. **retail sales** (Nov. 20) were soft in October, and our forecast is for a -0.1% m/m decline. New car sales fell marginally (-0.4% m/m), gasoline prices were lower (-4.9% m/m), and the ISCS index was weaker. An interesting question is how the U.S. government shutdown will have impacted retail sales. Will sales have fallen because of furloughs? Or will furloughed workers have used their extra time to go shopping? Both are distinct possibilities and there is no easy or clear guide. For what it's worth, retail sales were very soft during the height of the Clinton-era shutdown (-0.6% m/m in January 1996).

Much as in Canada, **U.S. inflation** for October (Nov. 20) will be heavily influenced by gasoline prices. We're expecting a -0.1% m/m print that will leave CPI at 0.9% y/y (although we're expecting core CPI to remain higher at 1.6% y/y). U.S. gasoline prices fell a bit less than Canadian gasoline prices, but declined by 4.9% nonetheless. Much as in Canada, seasonal prices tend to fall in October, however since the headline CPI number in the U.S. is seasonally adjusted, that means that the headline month-on-month CPI number should be somewhat lower than what we're looking for on the northern side of the border.

Will **existing home sales** (Nov. 20) continue to fall in October? Existing homes sales declined in September, albeit from fairly high levels, precipitating speculation that the interest rate shock and increase in mortgage costs imposed during the summer (when taper-talk rocked fixed income markets) was passing through to the real estate sector. We're not sure; however, important leading indicators including mortgage purchase applications and pending home sales have recently edged off, leading us to forecast a modest decline in existing home sales in October to 5.2 million at an annualized rate.

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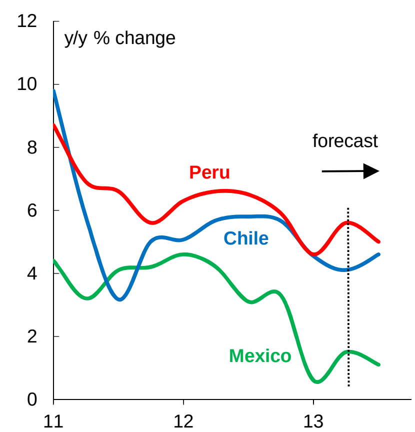
EUROPE

The euro area recovery came close to stalling in the third quarter, with real GDP rising a meager 0.1% q/q. However, the broad consensus scenario and the one suggested by the European Central Bank (ECB) is that, beyond third-quarter weakness, the gradual recovery remains in place with some reacceleration expected in the final quarter of the year. As such, this week's November business surveys (ZEW, PMIs, German Ifo) will provide some insight on the potential for a growth pick-up. In October, business sentiment showed very mixed signals with the ZEW and Ifo indices down slightly while the aggregate euro area manufacturing PMI edged higher. The strength of the euro last month likely played into the sense of increased nervousness and it remains to be seen whether the ECB's recent rate cut and the slight downward correction in the euro have been strong enough to refuel positive sentiment this month. With respect to the PMIs, the bias should still be on the upside. While the strong level of the euro could continue to be seen as a negative factor, signs of further improvement in the global economy through in particular ongoing strength in US ISM numbers, lower oil prices and rising equity markets are traditionally supportive factors. We thus anticipate an uptick in the euro area manufacturing PMI from 51.3 to 52.

LATIN AMERICA

Economic growth in Latin America decelerated in the second quarter, with high-frequency data suggesting that the moderation continued through the July-September period. Next week, third-quarter real GDP growth will be released in Chile (November 18th), Mexico (21st) and Peru (22nd). We anticipate that Chilean economic output increased by 4.5% y/y in the third quarter, slightly above the 4.1% gain registered in the April-June period, but significantly below the 5.8% observed a year earlier. Additionally, the presidential election will take place on Sunday November 17th. We expect former president Michelle Bachelet to be elected as the new Chilean President, possibly in the first round of voting. In Mexico, as a result of poor performance in government spending and in the construction sector, we now expect the economy to have grown by a mild 1.1% y/y in the third quarter. We do not foresee a significant rebound in the fourth quarter, limiting the 2013 real GDP growth rate to 1.2%. Although the Peruvian economy remains as the fastest-growing country among major economies in the region, it has also slowed. We estimate that Peruvian output increased by 5.0% y/y in the period, significantly below the 6.5% pace observed a year ago.

Real GDP



Source: Bloomberg, Scotiabank Economics.

ASIA

The Thai economy will continue to stabilize in the coming months. Real GDP contracted for a second consecutive quarter in the April-June period, while in year-over-year terms, growth slowed to 2.8% from 5.4%. Nevertheless, the first-quarter expansion was boosted by the base effect stemming from destructive flooding a year earlier. We estimate that Thai output increased by 3.0% y/y in the third quarter, with the country's economy expected to expand by 3⅔% in 2013 as a whole. While consumer confidence has weakened somewhat in recent months, rising incomes (resulting from tight domestic labour market conditions) combined with an accommodative monetary policy stance offer a relatively sound outlook for domestic demand. Thailand's monetary authorities highlight that key downside risks to economic growth stem from a delay in fiscal disbursement, especially for infrastructure projects, as well as from uncertain global recovery prospects. The external sector will continue to be adversely impacted by China's structural move to a lower growth trajectory (China purchases 12% of all Thai exports) combined with still-subdued — though improving — demand conditions in advanced economies (the US, Japan and the euro area together buy 30% of Thai shipments abroad). The tourism industry is performing well; arrivals increased by 22% y/y in the January-September period while tourism receipts were up by 27% y/y in the first half of the year. We assess that a gradual export sector recovery will lift Thailand's annual real GDP growth rate to 4¼% in 2014-15.

Key Indicators for the week of November 18 – 22

North America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	11/18	08:30	International Securities Transactions (C$ bn)	Sep	--	--	2.1
US	11/18	09:00	Total Net TIC Flows (US$ bn)	Sep	--	--	-2.9
US	11/18	10:00	NAHB Housing Market Index	Nov	--	55.0	55.0
US	11/19	08:30	Employment Cost Index (q/q)	3Q	--	0.5	0.5
US	11/20	07:00	MBA Mortgage Applications (w/w)	NOV 15	--	--	-1.8
CA	11/20	08:30	Wholesale Trade (m/m)	Sep	0.2	0.3	0.5
US	11/20	08:30	CPI (m/m)	Oct	-0.1	0.0	0.2
US	11/20	08:30	CPI (y/y)	Oct	0.9	1.0	1.2
US	11/20	08:30	CPI ex. Food & Energy (m/m)	Oct	0.1	0.1	0.1
US	11/20	08:30	CPI ex. Food & Energy (y/y)	Oct	1.6	1.7	1.7
US	11/20	08:30	Retail Sales (m/m)	Oct	-0.1	0.0	-0.1
US	11/20	08:30	Retail Sales ex. Autos (m/m)	Oct	-0.2	0.1	0.4
MX	11/20	09:00	Retail Sales (INEGI) (y/y)	Sep	3.3	-2.2	-2.2
US	11/20	10:00	Business Inventories (m/m)	Sep	--	0.3	0.3
US	11/20	10:00	Existing Home Sales (mn a.r.)	Oct	5.2	5.2	5.3
US	11/20	10:00	Existing Home Sales (m/m)	Oct	--	-2.7	-1.9
US	11/21	08:30	Continuing Claims (000s)	NOV 9	2860	2870	2874
US	11/21	08:30	Initial Jobless Claims (000s)	NOV 16	335	335	339
US	11/21	08:30	PPI (m/m)	Oct	--	-0.2	-0.1
US	11/21	08:30	PPI ex. Food & Energy (m/m)	Oct	--	0.1	0.1
MX	11/21	09:00	GDP (q/q)	3Q	--	0.7	-0.7
MX	11/21	09:00	GDP (y/y)	3Q	1.1	0.9	1.5
MX	11/21	09:00	Global Economic Indicator IGAE (y/y)	Sep	0.6	0.5	0.8
US	11/21	10:00	Philadelphia Fed Index	Nov	17	16.0	19.8
CA	11/22	08:30	Core X8 CPI (m/m)	Oct	0.1	0.2	0.2
CA	11/22	08:30	Core X8 CPI (y/y)	Oct	1.1	1.2	1.3
CA	11/22	08:30	CPI, All items (m/m)	Oct	-0.2	-0.1	0.2
CA	11/22	08:30	CPI, All items (y/y)	Oct	0.7	0.8	1.1
CA	11/22	08:30	CPI SA, All items (m/m)	Oct	--	--	0.2
CA	11/22	08:30	Core CPI SA, All items (m/m)	Oct	--	--	0.1
CA	11/22	08:30	Retail Sales (m/m)	Sep	0.1	0.5	0.2
CA	11/22	08:30	Retail Sales ex. Autos (m/m)	Sep	0.1	0.3	0.4
MX	11/22	09:00	Bi-Weekly Core CPI (% change)	Nov 15	--	0.1	0.1
MX	11/22	09:00	Bi-Weekly CPI (% change)	Nov 15	0.4	0.7	0.1

Europe

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
EC	11/18	04:00	Current Account (€ bn)	Sep	--	--	17.4
EC	11/18	05:00	Trade Balance (€ mn)	Sep	--	14.5	7057.8
EC	11/19	05:00	ZEW Survey (Economic Sentiment)	Nov	--	--	59.1
GE	11/19	05:00	ZEW Survey (Current Situation)	Nov	--	30.9	29.7
GE	11/19	05:00	ZEW Survey (Economic Sentiment)	Nov	--	54.0	52.8
TU	11/19	07:00	**Benchmark Repo Rate (%)**	**Nov 19**	**4.50**	**4.50**	**4.50**
FR	11/21	03:00	Manufacturing PMI	Nov P	--	49.5	49.1
FR	11/21	03:00	Services PMI	Nov P	--	51.0	50.9
GE	11/21	03:30	Manufacturing PMI	Nov A	--	52.0	51.7
GE	11/21	03:30	Services PMI	Nov A	--	53.0	52.9
EC	11/21	04:00	Composite PMI	Nov A	52.2	52.0	51.9
EC	11/21	04:00	Manufacturing PMI	Nov A	52.0	51.5	51.3
EC	11/21	04:00	Services PMI	Nov A	--	51.9	51.6

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

Key Indicators for the week of November 18 – 22

Europe *(continued from previous page)*

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
UK	11/21	04:30	PSNB ex. Interventions (£ bn)	Oct	--	7.2	11.1
UK	11/21	04:30	Public Finances (PSNCR) (£ bn)	Oct	--	--	-0.6
UK	11/21	04:30	Public Sector Net Borrowing (£ bn)	Oct	--	5.1	9.4
EC	11/21	10:00	Consumer Confidence	Nov A	--	-14.0	-14.5
GE	11/22	04:00	IFO Business Climate Survey	Nov	107.5	107.7	107.4
GE	11/22	04:00	IFO Current Assessment Survey	Nov	111.0	111.5	111.3
GE	11/22	04:00	IFO Expectations Survey	Nov	104.0	104.0	103.6

Asia Pacific

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
SK	11/17	06:59	Discount Store Sales (y/y)	Oct	--	--	-5.30
SK	11/17	06:59	Department Store Sales (y/y)	Oct	--	--	2.8
SK	11/17	16:00	PPI (y/y)	Oct	--	--	-1.8
SI	11/17	19:30	Exports (y/y)	Oct	--	-3.1	-1.2
TH	11/17	21:30	GDP (y/y)	3Q	3.0	2.9	2.8
HK	11/18	03:30	Unemployment Rate (%)	Oct	3.3	3.3	3.3
SI	11/18	06:59	Real GDP (y/y)	3Q F	5.1	5.3	5.1
JN	11/18	07:59	Nationwide Department Store Sales (y/y)	Oct	--	--	2.8
AU	11/18	18:00	Conference Board Leading Index (%)	Sep	--	--	-0.2
JN	11/19	00:00	Coincident Index CI	Sep F	108.2	--	108.2
JN	11/19	00:00	Leading Index CI	Sep F	109.5	--	109.5
PH	11/19	06:59	Balance of Payments (US$ mn)	Oct	--	--	465.0
HK	11/19	07:59	Composite Interest Rate (%)	Oct	0.3	--	0.3
NZ	11/19	16:45	Producer Price - Inputs (q/q)	3Q	--	--	0.6
NZ	11/19	16:45	Producer Price - Outputs (q/q)	3Q	--	--	1.0
JN	11/19	18:50	Merchandise Trade Balance (¥ bn)	Oct	--	-851.7	-934.3
JN	11/19	18:50	Adjusted Merchandise Trade Balance (¥ bn)	Oct	--	-875.5	-1091.3
JN	11/19	18:50	Merchandise Trade Exports (y/y)	Oct	--	16.2	11.5
JN	11/19	18:50	Merchandise Trade Imports (y/y)	Oct	--	19.0	16.5
JN	11/19	23:30	All Industry Activity Index (m/m)	Sep	--	0.4	0.3
TA	11/20	03:00	Export Orders (y/y)	Oct	--	0.2	2.0
TA	11/20	03:20	Current Account Balance (US$ mn)	3Q	--	--	13796.0
MA	11/20	04:00	CPI (y/y)	Oct	2.7	2.8	2.6
CH	11/20	20:45	HSBC Flash China Manufacturing PMI	Nov	50.8	50.8	50.9
JN	11/21	00:00	Supermarket Sales (y/y)	Oct	--	--	0.4
JN	11/21	01:00	Machine Tool Orders (y/y)	Oct F	8.4	--	8.4
HK	11/21	03:30	CPI (y/y)	Oct	--	4.4	4.6
JN	11/21	07:59	**BoJ Target Rate (%)**	Nov 21	**0.10**	**--**	**0.10**
TA	11/21	19:30	Unemployment Rate (%)	Oct	4.2	4.2	4.2

Latin America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CL	11/18	06:30	GDP (q/q)	3Q	--	1.0	0.5
CL	11/18	06:30	GDP (y/y)	3Q	4.5	4.4	4.1
CO	11/18	16:00	Trade Balance (US$ mn)	Sep	--	250.0	241.5
CL	11/19	16:00	**Nominal Overnight Rate Target (%)**	**Nov 19**	**4.50**	**4.50**	**4.75**
CO	11/20	16:00	Industrial Production (y/y)	Sep	--	-0.5	-3.9
CO	11/20	16:00	Retail Sales (y/y)	Sep	--	4.9	6.9
BZ	11/21	06:00	Unemployment Rate (%)	Oct	--	5.3	5.4
PE	11/22	06:59	GDP (y/y)	3Q	5.0	4.3	5.6
BZ	11/22	07:30	Current Account (US$ mn)	Oct	--	-6780.0	-2629.0

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

Global Auctions for the week of November 18 – 22

North America

Country	Date	Time	Event
US	11/18	11:00	U.S. Fed to Purchase USD1.25-1.75 Bln Notes
US	11/18	11:30	3M High Yield Rate
US	11/18	11:30	3M Direct Accepted %
US	11/18	11:30	3M Bid/Cover Ratio
US	11/18	11:30	3M Indirect Accepted %
US	11/18	11:30	6M Direct Accepted %
US	11/18	11:30	6M Indirect Accepted %
US	11/18	11:30	6M High Yield Rate
US	11/18	11:30	6M Bid/Cover Ratio
US	11/18	11:30	U.S. to Sell 3-Month Bills
US	11/18	11:30	U.S. to Sell 6-Month Bills
US	11/18	14:00	U.S. Fed to Purchase USD3.00-4.00 Bln Notes
CA	11/19	10:30	Canada to Sell CAD5.1 Bln 98-Day Bills
CA	11/19	10:30	Canada to Sell CAD1.950 Bln 182-Day Bills
CA	11/19	10:30	Canada to Sell CAD1.950 Bln 364-Day Bills
US	11/19	11:00	U.S. Fed to Purchase USD2.75-3.50 Bln Notes
US	11/19	11:30	4W Direct Accepted %
US	11/19	11:30	4W Indirect Accepted %
US	11/19	11:30	4W Bid/Cover Ratio
US	11/19	11:30	4W High Yield Rate
US	11/19	11:30	U.S. to Sell 4-Week Bills
US	11/20	11:00	U.S. Fed to Purchase USD1.25-1.75 Bln Notes
CA	11/20	12:00	Canada to Sell 2-Year Bonds
CA	11/20	12:00	2Y Auction Size
CA	11/20	12:00	2Y Auction Yield
US	11/21	11:00	U.S. Fed to Purchase USD4.25-5.25 Bln Notes
US	11/21	13:00	10Y Tips Bid/Cover Ratio
US	11/21	13:00	10Y Tips Direct Accepted %
US	11/21	13:00	10Y Tips Indirect Accepted %
US	11/21	13:00	10Y Tips High Yield Rate
US	11/21	13:00	U.S. to Sell 10-Year TIPS Reopening
US	11/22	11:00	U.S. Fed to Purchase USD1.25-1.75 Bln Notes

Europe

Country	Date	Time	Event
NE	11/18	04:30	Netherlands to Sell Up to EUR2 Bln 100-Day Bills
NE	11/18	04:30	Netherlands to Sell Up to EUR2 Bln 160-Day Bills
FR	11/18	08:50	France to Sell Bills
SP	11/19	04:30	Spain to Sell 6-Month and 12-Month Bills
SZ	11/19	05:30	Switzerland to Sell 182-Day Bills
UK	11/19	05:30	U.K. to Sell GBP3.75 Bln 2.25% 2023 Bonds
SW	11/20	05:03	Sweden to Sell SEK15 Bln 89-Day Bills
PO	11/20	05:30	Portugal to Sell 91-Day Bills
PO	11/20	05:30	Portugal to Sell 364-Day Bills
SP	11/21	04:30	Spain to Sell Bonds
SW	11/21	05:03	Sweden to Sell SEK1 Bln 0.5% I/L 2017 Bonds
UK	11/21	05:30	U.K. to Sell GBP4.75 Bln 1.75% 2019 Bonds
FR	11/21	05:50	France to Sell I/L Bonds and Notes
UK	11/22	06:10	UK to Sell Bills

Source: Bloomberg, Scotiabank Economics.

Global Auctions for the week of November 18 – 22

Asia Pacific

Country	Date	Time	Event
JN	11/17	22:35	Japan to Sell 1-Year Bill
JN	11/18	22:35	Japan to Sell 2-Month Bill
JN	11/18	22:45	Japan to Sell 20-Year Bonds
CH	11/19	22:00	China to Sell 10-Year Bonds
JN	11/19	22:35	Japan to Sell 3-Month Bill
NZ	11/20	20:05	NZ Plans to Sell Inflation-indexed Bond
JN	11/22	03:00	Japan Auction for Enhanced-Liquidity

Latin America

Country	Date	Time	Event
BZ	11/21	08:00	Brazil to Sell Bills due 10/01/2014 - LTN
BZ	11/21	08:00	Brazil to Sell Bills due 7/1/2015 - LTN
BZ	11/21	08:00	Brazil to Sell Bills due 7/1/2017 - LTN
BZ	11/21	11:00	Brazil to Sell Fixed-rate bonds due 1/1/2019 - NTN-F
BZ	11/21	11:00	Brazil to Sell Fixed-rate bonds due 1/1/2023 - NTN-F
CL	11/21	11:00	1M Bill Yield

Source: Bloomberg, Scotiabank Economics.

Events for the week of November 18 – 22

North America

Country	Date	Time	Event
US	11/18	01:00	Fed's Rosengren Speaks on capital regulation in Abu Dhabi
CA	11/18	11:00	Bank of Canada's Macklem Speaks in Montreal
US	11/18	12:15	Fed's Dudley to Speak in Queens, New York
US	11/18	13:30	Fed's Plosser Speaks on the Economic Outlook in Philadelphia
US	11/18	15:45	Fed's Dudley to Tour Steinway Factory in Long Island City
US	11/18	19:45	Fed's Kocherlakota Speaks on Bank Regulation in Minneapolis
US	11/19	10:00	Tax Overhaul Hearing
US	11/19	02:15	Fed's Evans Speaks to Illinois Bankers in Chicago
CA	11/19	17:45	Bank of Canada's Murray Speak at Mount Allison
US	11/19	19:00	Fed's Bernanke Speaks to Economists Club in Washington
US	11/20	10:00	Fed's Dudley to Speak on Economy at Briefing in New York
US	11/20	12:10	Fed's Bullard Speaks on Economy and Monetary Policy in Chicago
US	11/20	02:00	Fed Releases Minutes from Oct 29-30 FOMC Meeting
CA	11/20	16:15	Bank of Canada's Poloz, Macklem Speak at Senate Committee
US	11/21	12:30	Fed's Lacker Speaks on Economy in Asheboro, North Carolina
US	11/21	13:00	Fed's Bullard Speaks on Monetary Policy in Rogers, Arkansas
US	11/22	08:40	Fed's George Speaks on Banking Supervision in Paris

Europe

Country	Date	Time	Event
FI	11/16	03:05	EU Economy Commissioner Olli Rehn Speaks on Finnish YLE TV1
EC	11/18	03:00	ECB's Nowotny Speaks in Vienna
IT	11/18	03:30	Letta, Profumo, Patuano, Fassina Speak at Conference in Rome
EC	11/18	03:30	ECB's Mersch Speaks in Frankfurt
EC	11/18	05:00	ECB's Jazbec, Nowotny, Asmussen Speak in Vienna
UK	11/18		Commons Reconvenes After November Recess
EC	11/18		EU Foreign Ministers Hold Meeting in Brussels
JN	11/18		EU-Japan Summit Nov. 19-20 in Tokyo
FR	11/18		French President Hollande Visits Israel, Palestinian Territory
EC	11/19	03:30	ECB's Praet, EBA's Enria Speak in Frankfurt
EC	11/19	05:30	EBA's Farkas Speaks in Frankfurt
GE	11/19	06:00	Merkel's CDU/CSU Holds Coalition Talks With SPD
TU	11/19	07:00	Benchmark Repurchase Rate
EC	11/19	07:15	ECB's Nowotny Speaks in Vienna
EC	11/19	08:00	Bundesbank's Dombret Speaks in Frankfurt
EC	11/19		EU General Affairs Ministers Hold Meeting in Brussels
IT	11/20	03:30	Letta Informs Parliament on U.S. Eavesdropping
UK	11/20	04:30	Bank of England Releases Monetary Policy Committee Minutes
IT	11/20	10:00	Italy's Letta Meets French President in Rome
CH	11/20		EU-China Summit Nov. 21-22 in Beijing
SP	11/21	03:00	IMF Spain Full Bank Report Expected
EC	11/21	05:00	ECB President Draghi speaks in Berlin
GE	11/21	06:00	Merkel's CDU/CSU Holds Coalition Talks With SPD
GE	11/21	08:00	Merkel Speaks at Retail Convention in Berlin
EC	11/21	11:00	ECB's Weidmann speaks in Berlin
EC	11/22	03:00	ECB's Noyer, Praet, Nowotny Speak in Paris
GE	11/22	05:45	Schaeuble Speaks at European Banking Congress, Frankfurt
IT	11/22	06:00	Letta speaks at Conference in Berlin
PO	11/22	08:00	Bank of Portugal Releases Monthly Economic Indicators Report
GE	11/22	08:00	Merkel Speaks at East, Central German CDU/CSU Federation
PO	11/22		Portugal Releases Year-to-Date Budget Report

Source: Bloomberg, Scotiabank Economics.

Events for the week of November 18 – 22

Asia Pacific

Country	Date	Time	Event
HK	11/16	02:00	Steering Committee on Population Policy Public Forum
NZ	11/16		New Zealand Prime Minister Key Visits Thailand
AU	11/18	19:30	RBA Policy Meeting - November Minutes
HK	11/18		**Composite Interest Rate**
JN	11/18		EU-Japan Summit Nov. 19-20 in Tokyo
AU	11/19	19:30	RBA Assistant Governor Guy Debelle Speaks at Forum
AU	11/20	19:30	RBA FX Transactions Market
JN	11/20		**BOJ Target Rate**
JN	11/20		BOJ 2014 Monetary Base Target
CH	11/20		EU-China Summit Nov. 21-22 in Beijing
AU	11/21	04:05	RBA Governor Glenn Stevens Gives Speech in Sydney
JN	11/22		Bank of Japan's Monthly Economic Report for November

Latin America

Country	Date	Time	Event
CL	11/17		Chile Presidential Elections
CL	11/19	16:00	**Overnight Rate Target**
BZ	11/19		Brazil Legislature Votes on New Bill to Meet Fiscal Targets

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	December 4, 2013	1.00	--
Federal Reserve – Federal Funds Target Rate	0.25	December 18, 2013	0.25	--
Banco de México – Overnight Rate	3.50	December 6, 2013	3.50	--

Fed: The beginning of Janet Yellen's confirmation process included very dovish remarks that leave us expecting an even later tapering of Federal Reserve asset purchases than we had initially expected. We see risks that the Fed could wait beyond March 2014 to reduce the pace of asset purchases. BoC: We're expecting a dramatic drop in year-on-year CPI to 0.7% y/y or perhaps even lower when inflation data are released on November 22. This should increase the willingness of market participants to consider at least a slight probability of a BoC interest rate cut.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	0.25	December 5, 2013	0.25	--
Bank of England – Bank Rate	0.50	December 5, 2013	0.50	0.50
Swiss National Bank – Libor Target Rate	0.00	December 12, 2013	0.00	--
Central Bank of Russia – One-Week Auction Rate	5.50	December 13, 2013	5.50	--
Hungarian National Bank – Base Rate	3.40	November 26, 2013	3.20	3.20
Central Bank of the Republic of Turkey – 1 Wk Repo Rate	4.50	November 19, 2013	4.50	4.50
Sweden Riksbank – Repo Rate	1.00	December 17, 2013	1.00	--
Norges Bank – Deposit Rate	1.50	December 5, 2013	1.50	--

The Turkish central bank will likely leave monetary conditions unchanged when it meets next Tuesday. Inflation is declining, albeit at a slow pace, with the headline rate easing to 7.7% y/y in October. More material disinflation will be precluded by significant currency depreciation over the last six months. Meanwhile, the external adjustment process continues to be hampered by the external environment and high domestic credit growth, with both the monthly and the 12-month rolling sum measures of the current account deficit widening in September. Monetary authorities are unlikely to raise interest rates as economic conditions remain subdued; however, should evidence of slowing capital inflows due to global monetary policy uncertainty pose a threat to price stability, alternative policy tightening tools may be employed in the forthcoming period.

Asia Pacific

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Japan – Target Rate	0.10	November 21, 2013	0.10	--
Reserve Bank of Australia – Cash Target Rate	2.50	December 2, 2013	2.50	--
Reserve Bank of New Zealand – Cash Rate	2.50	December 11, 2013	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	--
Bank of Korea – Bank Rate	2.50	December 11, 2013	2.50	--
Bank of Thailand – Repo Rate	2.50	November 27, 2013	2.50	--
Bank Indonesia – Reference Interest Rate	7.50	December 12, 2013	7.50	--

Policymakers at the Bank of Japan will likely remain in wait-and-see mode next week to continue to assess the effectiveness of the monetary stimulus measures implemented earlier this year. In our view, there is potential for further monetary easing in the first half of 2014 if the forthcoming sales tax increase leads to a stalling of the ongoing economic recovery.

Latin America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	9.50	November 27, 2013	10.00	10.00
Banco Central de Chile – Overnight Rate	4.75	November 19, 2013	4.50	4.50
Banco de la República de Colombia – Lending Rate	3.25	November 29, 2013	3.25	3.25
Banco Central de Reserva del Perú – Reference Rate	4.00	December 12, 2013	4.00	4.25

After unexpectedly cutting the reference rate in October, the central bank of Chile will likely reduce the rate by another 25 basis points to 4.50% at the next meeting on November 19th. Authorities have highlighted that economic activity is moderating in response to lower global growth, less favourable terms of trade and the ending of the investment cycle in the mining sector. Headline inflation reversed its upward trend and is again below the official range of 2-4%; however, core inflation continues to trend up, being slightly above the 2% mark.

Africa

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
South African Reserve Bank – Repo Rate	5.00	November 21, 2013	5.00	5.00

The South African Reserve Bank (SARB) is expected to once again maintain the key policy rate at 5.0% when it meets next Thursday. Inflation declined in October, from 6.4% y/y to 6.0%, but remains at the upper end of the bank's 3-6% tolerance range on the back of sustained currency weakness, while the core index also remains elevated (at 5.3%). At the same time, economic activity is relatively weak, weighed down by industrial strikes and fragile external demand. There is a possibility for an interest rate cut in the coming months should inflation fall further and growth conditions remain challenging.

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

Forecasts as at October 31, 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	2.8	3.4	3.6				
Canada	2.2	1.6	2.2	2.5	2.1	1.1	1.7	2.0
United States	1.9	1.6	2.5	3.0	2.5	1.6	1.9	2.1
Mexico	2.4	1.2	3.3	3.7	4.7	3.8	3.9	4.0
United Kingdom	1.7	1.5	2.1	1.3	2.3	2.5	2.3	2.4
Euro Zone	1.3	-0.5	0.7	1.3	2.1	0.9	1.5	1.5
Japan	0.9	2.0	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	1.5	2.8	3.0
Thailand	4.2	3.7	4.0	4.5	2.7	1.7	3.0	2.9
Brazil	3.4	2.3	2.8	3.4	6.5	6.0	5.7	5.8
Chile	4.5	4.4	4.2	4.7	3.2	2.7	3.3	3.0
Peru	5.7	5.7	5.7	6.3	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	0.25	0.25	0.25	0.25	0.25	0.25	0.25
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	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)	1.59	1.58	1.57	1.56	1.55	1.55	1.54	1.53
Yen (USDJPY)	101	102	104	107	109	110	111	112
Australian Dollar (AUDUSD)	0.93	0.90	0.91	0.92	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)	2.20	2.15	2.20	2.25	2.30	2.28	2.25	2.23

Commodities (annual average)	2000-12	2013e	2014f	2015f
WTI Oil (US$/bbl)	60	99	97	93
Brent Oil (US$/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$/lb)	0.78	0.88	1.00	1.40
Nickel (US$/lb)	7.64	6.95	7.75	7.60
Gold, London PM Fix (US$/oz)	745	1,410	1,350	1,400
Pulp (US$/tonne)	730	936	915	915
Newsprint (US$/tonne)	585	608	630	665
Lumber (US$/mfbm)	274	350	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	1.7			
Current Acc. Bal. (C$B, ar)	-62.2	-58.3			
Merch. Trade Bal. (C$B, ar)	-12.0	-10.2	-11.0	-5.2	(Sep)
Industrial Production	0.9	0.0		1.9	(Aug)
Housing Starts (000s)	215	190	193	198	(Oct)
Employment	1.2	1.2	1.3	1.1	(Oct)
Unemployment Rate (%)	7.3	7.1	7.1	6.9	(Oct)
Retail Sales	2.5	2.7		2.7	(Aug)
Auto Sales (000s)	1673	1744		1802	(Aug)
CPI	1.5	0.8	1.1	1.1	(Sep)
IPPI	0.6	0.2	1.4	-1.0	(Sep)
Pre-tax Corp. Profits	-4.9	-7.9			

United States	2012	13Q2	13Q3	Latest	
Real GDP (annual rates)	2.8	2.5	2.8		
Current Acc. Bal. (US$B, ar)	-440	-396			
Merch. Trade Bal. (US$B, ar)	-741	-703	-711	-735	(Sep)
Industrial Production	3.6	2.1	2.4	3.3	(Oct)
Housing Starts (millions)	0.78	0.87		0.89	(Aug)
Employment	1.7	1.6	1.7	1.7	(Oct)
Unemployment Rate (%)	8.1	7.6	7.3	7.3	(Oct)
Retail Sales	5.0	4.7	4.6	3.1	(Sep)
Auto Sales (millions)	14.4	15.5	15.7	15.2	(Oct)
CPI	2.1	1.4	1.6	1.2	(Sep)
PPI	1.9	1.5	1.3	0.3	(Sep)
Pre-tax Corp. Profits	18.5	3.7			

Mexico					
Real GDP	3.8	1.5			
Current Acc. Bal. (US$B, ar)	-14.2	-24.0			
Merch. Trade Bal. (US$B, ar)	0.0	-3.4	-4.1	7.9	(Sep)
Industrial Production	2.6	-0.3	-0.6	-1.6	(Sep)
CPI	4.1	4.5	3.4	3.4	(Oct)

Europe

Euro Zone	2012	13Q2	13Q3	Latest	
Real GDP	-0.6	-0.6	-0.4		
Current Acc. Bal. (US$B, ar)	162	276		191	(Aug)
Merch. Trade Bal. (US$B, ar)	122.0	272.2		131.9	(Aug)
Industrial Production	-2.4	-0.7	-0.9	0.3	(Sep)
Unemployment Rate (%)	11.3	12.1	12.1	12.2	(Sep)
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$B, ar)	240.8	240.3	233.2	314.7	(Sep)
Merch. Trade Bal. (US$B, ar)	245.1	249.5	262.9	301.3	(Sep)
Industrial Production	-0.4	-0.1	0.2	0.9	(Sep)
Unemployment Rate (%)	6.8	6.8	6.8	6.9	(Oct)
CPI	2.0	1.5	1.6	1.2	(Oct)

France					
Real GDP	0.0	0.5	0.2		
Current Acc. Bal. (US$B, ar)	-57.3	-36.2	-49.6	-73.2	(Sep)
Merch. Trade Bal. (US$B, ar)	-52.3	-43.7	-48.6	-52.4	(Sep)
Industrial Production	-2.5	0.7	-1.4	-0.9	(Sep)
Unemployment Rate (%)	10.3	10.8	11.0	11.1	(Sep)
CPI	2.0	0.8	0.9	0.6	(Oct)

United Kingdom					
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	-155.4	-180.4	-186.9	(Sep)
Industrial Production	-2.5	-0.7	-0.1	2.2	(Sep)
Unemployment Rate (%)	8.0	7.8		7.6	(Aug)
CPI	2.8	2.7	2.7	2.2	(Oct)

Italy					
Real GDP	-2.6	-2.2	-1.9		
Current Acc. Bal. (US$B, ar)	-8.1	20.2	34.5	3.6	(Sep)
Merch. Trade Bal. (US$B, ar)	12.4	50.0	41.2	12.7	(Sep)
Industrial Production	-6.3	-3.7	-4.2	-3.4	(Sep)
CPI	3.1	1.2	1.0	0.7	(Oct)

Russia					
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	0.3	(Sep)
CPI	5.1	7.2	6.3	6.3	(Oct)

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	3.7	2.6		
Current Acc. Bal. (US$B, ar)	-56.8	-21.7		
Merch. Trade Bal. (US$B, ar)	5.9	32.7	14.0	19.6 (Sep)
Industrial Production	3.8	3.9		
Unemployment Rate (%)	5.2	5.6	5.7	5.7 (Oct)
CPI	1.8	2.4	2.2	

Japan	2012	13Q2	13Q3	Latest
Real GDP	1.9	1.2	2.6	
Current Acc. Bal. (US$B, ar)	60.4	70.0	53.4	71.0 (Sep)
Merch. Trade Bal. (US$B, ar)	-85.8	-88.1	-115.0	-132.0 (Sep)
Industrial Production	0.2	-3.1	1.9	4.6 (Sep)
Unemployment Rate (%)	4.4	4.0	4.0	4.0 (Sep)
CPI	0.0	-0.3	0.9	1.0 (Sep)

South Korea	2012	13Q2	13Q3	Latest
Real GDP	2.0	2.3	3.3	
Current Acc. Bal. (US$B, ar)	43.1	79.2	76.1	78.9 (Sep)
Merch. Trade Bal. (US$B, ar)	28.3	57.4	43.4	58.5 (Oct)
Industrial Production	1.2	-1.7	1.1	0.2 (Sep)
CPI	2.2	1.1	1.2	0.7 (Oct)

China	2012	13Q2	13Q3	Latest
Real GDP	10.4	7.5	7.8	
Current Acc. Bal. (US$B, ar)	290.0			
Merch. Trade Bal. (US$B, ar)	230.7	263.5	246.0	373.3 (Oct)
Industrial Production	10.3	8.9	10.2	10.3 (Oct)
CPI	2.5	2.7	3.1	3.2 (Oct)

Thailand	2012	13Q2	13Q3	Latest
Real GDP	6.5	2.8		
Current Acc. Bal. (US$B, ar)	-1.5	-6.7	-0.9	
Merch. Trade Bal. (US$B, ar)	0.5	-0.2	1.7	2.6 (Sep)
Industrial Production	2.1	-5.1	-3.9	-3.4 (Sep)
CPI	3.0	2.3	1.7	1.5 (Oct)

India	2012	13Q2	13Q3	Latest
Real GDP	5.1	4.4		
Current Acc. Bal. (US$B, ar)	-91.5	-21.8		
Merch. Trade Bal. (US$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	-0.7 (Sep)
Industrial Production	4.1	7.1		12.4 (Aug)
CPI	4.3	5.6	8.6	8.3 (Oct)

Latin America

Brazil	2012	13Q2	13Q3	Latest
Real GDP	0.8	3.2		
Current Acc. Bal. (US$B, ar)	-54.2	-74.2	-68.4	
Merch. Trade Bal. (US$B, ar)	19.4	8.3	5.9	-2.7 (Oct)
Industrial Production	-2.7	3.3	0.3	0.9 (Sep)
CPI	5.4	6.6	6.1	5.8 (Oct)

Chile	2012	13Q2	13Q3	Latest
Real GDP	5.6	4.1		
Current Acc. Bal. (US$B, ar)	-0.1	-6.5		
Merch. Trade Bal. (US$B, ar)	12.4	4.9	-4.0	2.9 (Oct)
Industrial Production	2.8	1.4	4.9	2.9 (Sep)
CPI	3.0	1.3	2.1	1.5 (Oct)

Peru	2012	13Q2	13Q3	Latest
Real GDP	9.2	5.6		
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 (Oct)

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		0.2 (Aug)
Industrial Production	-0.1	-0.1		-3.9 (Aug)
CPI	3.2	2.1	2.3	1.8 (Oct)

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	Nov/08	Nov/15*
BoC Overnight Rate	1.00	1.00	1.00	1.00
3-mo. T-bill	1.02	0.97	0.91	0.94
10-yr Gov't Bond	2.44	2.54	2.61	2.57
30-yr Gov't Bond	2.90	3.07	3.16	3.13
Prime	3.00	3.00	3.00	3.00
FX Reserves (US$B)	68.8	71.3	71.3	(Sep)
Germany				
3-mo. Interbank	0.14	0.15	0.16	0.16
10-yr Gov't Bond	1.73	1.78	1.76	1.71
FX Reserves (US$B)	66.1	65.7	65.7	(Sep)
Euro Zone				
Refinancing Rate	0.50	0.50	0.50	0.25
Overnight Rate	0.21	0.18	0.08	0.08
FX Reserves (US$B)	324.9	332.5	332.5	(Sep)
Japan				
Discount Rate	0.30	0.30	0.30	0.30
3-mo. Libor	0.09	0.09	0.08	0.08
10-yr Gov't Bond	0.85	0.69	0.59	0.63
FX Reserves (US$B)	1209.4	1240.8	1240.8	(Sep)

United States	13Q2	13Q3	Nov/08	Nov/15*
Fed Funds Target Rate	0.25	0.25	0.25	0.25
3-mo. T-bill	0.03	0.01	0.05	0.07
10-yr Gov't Bond	2.49	2.61	2.75	2.71
30-yr Gov't Bond	3.50	3.68	3.85	3.80
Prime	3.25	3.25	3.25	3.25
FX Reserves (US$B)	134.7	136.7	136.7	(Sep)
France				
3-mo. T-bill	0.03	0.06	0.06	0.06
10-yr Gov't Bond	2.35	2.32	2.22	2.19
FX Reserves (US$B)	51.4	54.6	54.6	(Sep)
United Kingdom				
Repo Rate	0.50	0.50	0.50	0.50
3-mo. T-bill	0.39	0.40	0.40	0.40
10-yr Gov't Bond	2.44	2.72	2.77	2.75
FX Reserves (US$B)	90.2	93.3	93.3	(Sep)
Australia				
Cash Rate	2.75	2.50	2.50	2.50
10-yr Gov't Bond	3.76	3.81	4.13	4.20
FX Reserves (US$B)	45.0	45.9	45.9	(Sep)

Exchange Rates (end of period)

	13Q2	13Q3	Nov/08	Nov/15*
USDCAD	1.05	1.03	1.05	1.05
CADUSD	0.95	0.97	0.95	0.96
GBPUSD	1.521	1.619	1.602	1.610
EURUSD	1.301	1.353	1.337	1.348
JPYEUR	0.78	0.75	0.76	0.74
USDCHF	0.95	0.90	0.92	0.92
¥/US$	99.14	98.27	99.05	100.23
US¢/Australian$	0.91	0.93	0.94	0.94
Chinese Yuan/US$	6.14	6.12	6.09	6.09
South Korean Won/US$	1142	1075	1065	1064
Mexican Peso/US$	12.931	13.091	13.168	12.954
Brazilian Real/US$	2.232	2.217	2.313	2.314

Equity Markets (index, end of period)

	13Q2	13Q3	Nov/08	Nov/15*
United States (DJIA)	14910	15130	15762	15919
United States (S&P500)	1606	1682	1771	1794
Canada (S&P/TSX)	12129	12787	13378	13466
Mexico (IPC)	40623	40185	39864	40918
Brazil (Bovespa)	47457	52338	52249	53452
Italy (BCI)	849	950	1031	1023
U.K. (FT100)	6215	6462	6708	6694
Germany (Dax)	7959	8594	9078	9173
France (CAC40)	3739	4143	4260	4292
Japan (Nikkei)	13677	14456	14087	15166
Hong Kong (Hang Seng)	20803	22860	22744	23032
South Korea (Composite)	1863	1997	1985	2006

Commodity Prices (end of period)

	13Q2	13Q3	Nov/08	Nov/15*
Pulp (US$/tonne)	950	945	970	970
Newsprint (US$/tonne)	605	605	605	605
Lumber (US$/mfbm)	292	359	381	385
WTI Oil (US$/bbl)	96.56	102.33	94.60	93.70
Natural Gas (US$/mmbtu)	3.57	3.56	3.56	3.63
Copper (US$/lb)	3.06	3.31	3.23	3.16
Zinc (US$/lb)	0.83	0.85	0.85	0.84
Gold (US$/oz)	1192.00	1326.50	1285.50	1287.25
Silver (US$/oz)	18.86	21.68	21.70	20.64
CRB (index)	275.62	285.54	274.39	274.39

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

Fixed Income Strategy (London)

www.gbm.scotiabank.com

Fixed Income Strategy (Paris)

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