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Global Views

Weekly commentary on economic and financial market developments

June 21, 2013

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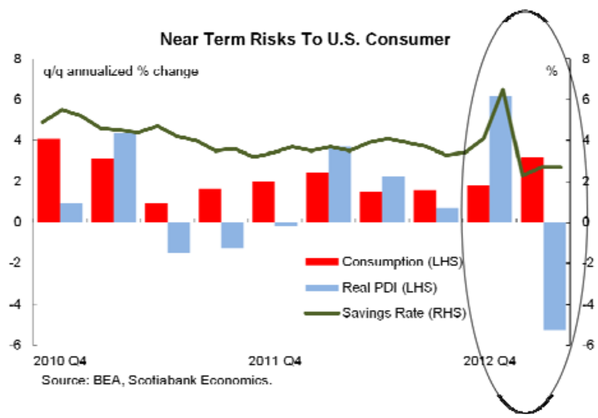
What The Fed Hath Wrought

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

If you thought the last week was a wild ride for **US** (and global) markets, then the pace of developments stateside is hardly about to let up. Key data starts to land next week and particularly the week after, while the Federal Reserve rolls out an army of speakers to try to mend fences with markets distraught over exactly what the Fed was trying to say. We're expecting a large gain in Tuesday's durable goods orders partly driven by a strong rise in aircraft orders during the month, but the key may be expected weakness in core orders following a large gain the prior month and a drop in ISM new orders. No revisions are expected to Q1 GDP in the third crack at it next Wednesday. Housing markets will be shooting for the thirteenth consecutive monthly rise in S&P/Case Shiller house prices that are up by about 10% on year-ago levels. Rising investor-driven house prices and soaring mortgage rates that are up by almost a full percentage point over the past six weeks due to the impact of Fed communications on bond markets put the US housing recovery in jeopardy in the short-term in our view and largely related to volatility surrounding Federal Reserve policy. Thursday's pending home sales may be instructive in this regard since two months of gains might begin to be challenged going forward. It might be too soon to say that for the May figures since the lagged effects of much of the run up in mortgage rates through mortgage pre-approvals will impact pending sales only later in the summer and completed resales into the Fall. The same applies for new home sales for May in that next week's print won't react as yet to higher mortgage rates but will begin to do so along the same timing as pending resale transactions. We are therefore in an environment whereby markets should discount backward data including consumer confidence on Tuesday since it all reflects the state of conditions prior to when the Fed began to really shake up markets.

Thursday's consumer spending figures, however, will be more useful. Given the flat print for inflation adjusted consumer spending that has already been booked for April over March and barring revisions, we would need to see fairly hefty volume gains of a half percentage point per month in May and June in order for consumption growth in Q2 to roughly match Q1's 3.4% annualized rate of growth. We think that's unlikely. As the accompanying chart shows, the acceleration in Q1 consumption growth was driven by taking the unanticipated positive income shock in Q4 that was partly due to accelerated dividend payments related to fiscal cliff tax policy uncertainty. The first response to this unanticipated positive income shock was to hoard it, so the saving rate soared in Q4; the second response was to go to the mall in Q1. That brought the saving rate crashing back down to pre-crisis levels, just as income growth has disappeared over recent months. This is part of our reasoning behind why we think a soft consumer is in the cards for the summer months and why the Fed was in our opinion overly hasty in stating that downside risks had diminished. For more on our Fed views and why we think its actions added to downside risks that may well delay the threat of tapering, see our article on this week's edition of Global Views.



The US week is rounded out by more regional surveys that will help us firm up what may be an improved ISM reading the following week. The line-up for Fed speak primarily consists of nonvoters in 2013 but still contains some key speakers. An important example will be Governor Jerome Powell's speech on the benefits and costs of monetary policy on Thursday. Given that this is a Governor speaking, it may be instructive in terms of whether one reason the Fed took a less dovish turn lately is due to concern over market distortions related to its policies. I think the benefits still outweigh the costs to QE, but am prepared to hear more from the Fed and open to changing my mind as conditions evolve. NY Fed President William Dudley (always voting) also delivers a speech on the important topic of labour markets, and Governor Jeremy Stein speaks on monetary policy. All other speakers do not vote this year including Dallas Fed President Richard Fisher (alternate 2013, voting 2014), Atlanta Fed President Dennis Lockhart (nonvoting 2013, alternate 2014), Richmond Fed President Jeffrey Lacker (nonvoting 2013, alternate 2014), Cleveland Fed President Sandra Pianalto (alternate 2013, voting 2014) and San Francisco Fed President John Williams (nonvoting 2013, alternate 2014). The US also

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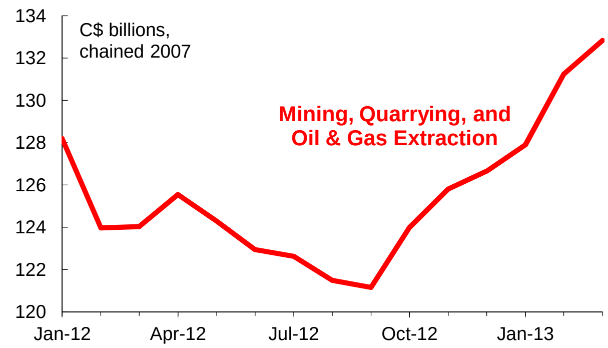
auctions 2s, 5s and 7s into a notably less hospitable environment such that auction appetite will test whether market participants think the sell-off has provided an opportunity to jump back in.

Was Q1 **Canadian** GDP growth just a fluke that will witness a sharply curtailed pace of growth in Q2? We will obtain a first hint at this on Friday when monthly GDP is released for April and therefore kicks off the second quarter tracking. Recall that of the 2.4% annualized growth rate in Q1, over half was attributable to just one sector — mining, oil and gas extraction. This sector has gone vertical since last Fall after shaking off technical problems that dragged output lower as the accompanying chart demonstrates. This sector's growth rate will likely be curtailed and expose broader weakness in the economy just as higher mortgage rates add to housing downsides. After removing the annualized 20% growth rate in this sector since last September, the rest of the economy grew by just over 1% in Q1 at annualized rates. We're expecting a small gain in April GDP that, if true, would put down the very early Q2 annualized growth tracking at about 1.1% over Q1. A risk is revisions to Q1 GDP growth that could wind up putting upside risk to the April print in the wake of sharp downward revisions to Q1 retail sales volume growth that turned from a quarterly gain of 1.8% to a drop of 1.6% q/q in Q1. As for the April print, what we know about how the economy performed is fairly mixed and has us netting out to a relatively flat call. Positives included higher hours worked that would suggest an output gain assuming constant or higher productivity, a fair gain in the volume of wholesale sales and retail sales volumes, and a small gain in home resales that would suggest mild gains for ancillary services. The negatives are fairly hefty, however, in that housing starts fell (though mostly for lower value added and volatile multiples), as did manufacturing sales that dropped a hefty 1.6%, and net international trade was a drag on growth as imports outpaced exports. A cool month probably also depressed utilities. The rest of the Canadian week should be quiet with a speech by BoC Deputy Governor Timothy Lane on shadow banking, and a 10 year note auction.

One Sector Distorting Canadian Growth



Source: Statistics Canada, Scotiabank Economics.

Asia-Pacific markets should be spending most of the week ahead watching developments abroad with one important exception: Japan. The country's monthly data dump occurs on Thursday. Household spending, the jobless rate, CPI, industrial production, retail sales, housing starts and vehicle production all land that day and consensus expects moderate further improvements in growth indicators amidst persistent deflationary trends. China reports industrial profits for May on Wednesday but it will be June and July figures that will be watched more carefully in the context of downsides to growth and pressures upon funding and liquidity that are captured in sharp increases to short-term borrowing costs. Regional trade figures will land for countries like New Zealand, Thailand, Philippines, South Korea and Hong Kong.

Much of next week's **European** market focus will be upon the spillover of Fed actions as sovereign borrowing costs soar particularly for the relatively more strained governments in Italy, Portugal, Spain, and Greece (amid intensifying political turmoil), among others. This may well be a topic of discussion for the EU Leaders Summit at the end of the week in Brussels. European risks may be coming back into the spotlight through Fed actions combined with stalled out progress toward fiscal repair and regulatory reforms. Data risks will be focused upon Germany. A recent gain in the ZEW investor confidence survey may point to a lift in business confidence within next week's IFO survey while consumer confidence is expected to be flat. The improvements in German unemployment seem to have stalled out over recent weeks, so June data will add to the understanding of trends. Following a dip in retail sales in April, May is expected to register an upside gain. Markets will be hoping that CPI figures for individual states in June cooled from the monthly gains in May. Eurozone confidence readings on Thursday may begin to capture more recent influences of market volatility, but that probably lies in future releases. French GDP revisions and consumer spending, UK GDP revisions and service sector data, and Italian retail sales round out the less significant releases. Also note that the ECB announces the next wave of LTRO repayments on Friday. They have contributed toward an 18% or over €500 billion reduction in the size of the ECB's balance sheet since mid-2012 which takes the balance sheet back to December 2011 levels.

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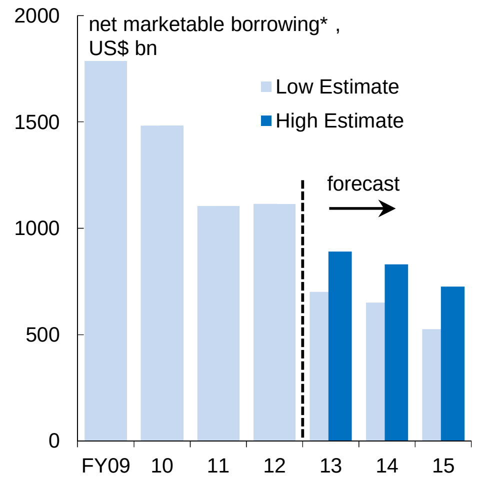
Treasury Supply Tapering Offsets Fed Tapering

Markets should be paying much more attention to the rapidly falling issuance of Treasuries and not just prospects for reduced Treasury purchases by the Federal Reserve. In fact, the two can offset one another. We have updated our net issuance forecasts for US marketable debt and strengthened the conviction we have toward this argument.

Issuance Projected to Decline



* Fiscal yr-end: Sept. 30. Source: Scotiabank Economics.

Witness the accompanying chart. Net issuance has already plummeted compared to the earliest days of Treasury buying activity by the Fed, and the numbers are about to go much lower yet. In FY2009 net issuance was about US$1.8 trillion and then fell to about $1.5 trillion in FY2010. The figures then fell to the $1.1 trillion range by FY2011 and FY2012. With the faster than expected pace of progress in reducing US budget deficits, we think net issuance will come down to around $800 billion in FY2013 bracketed within a $700-$890 billion range. By FY2014 a further $50 billion drop in net new borrowing will occur and we bracket our borrowing assumptions between $650-830 billion. By FY2015 we think net issuance declines to $630 billion bracketed within a $525-725 billion range. In other words, issuance this year over last will drop by $225-$415 billion and will drop by about a further $170 billion over the next two fiscal years for a cumulative reduction of about $400-600 billion by FY2015 over FY2012. In formulating these estimates we recognize the high degree of uncertainty but feel we are being conservative with the bracketed assumptions particularly by mid-decade.

Now compare this to the math involved in Federal Reserve purchases. At the current pace of buying equal to $45 billion in Treasuries each month, annualized Fed purchases equal over a half trillion dollars. There is eventually no need for such an aggressive pace of buying given the slower pace of growth of the debt stock. Fed buying could simply go to zero by mid-2014 as guided by Chairman Bernanke's press conference and that we have forecast since QE3 was introduced, and the impact of reducing net marketable borrowing since QE3 started would offset most of the effects from the standpoint of both the stock and flow perspectives. As the pace of new supply is curtailed even further into 2015, the effects could also serve to stabilize Treasury markets without playing to fears over abrupt rate shocks emanating from the Fed's departure as a major source of incremental demand. We also expect the Federal Reserve to retain an element of conditionality to its purchases such that an improved economy and progress toward Fed policy thresholds will remain as criteria toward managing risks facing the Treasury market. It is unlikely that the Federal Reserve will make explicit reference to the arguments we are making here because of the fine line between monetary policy and fiscal policy and the sensitive debt monetization or financial repression linkage, but we feel that the Fed has room to acknowledge progress toward deficit repair as an indirect way of hinting at its awareness of the issue from the standpoint of Treasury market influences. What the Fed must nonetheless accomplish is to calm down financial markets before greater downside risks to the economy and deficits are triggered. Regardless, we think markets should not be handicapped by such sensitivities in the debate and as such they are underweighting this thesis.

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Canadian Household Indebtedness Is Peaking

- **A scaled-back pace of borrowing alongside moderate income gains put Canadian household finances in a better light.**

Canadians appear to have taken repeated debt warnings to heart. Household indebtedness — measured by the ratio of credit market debt to disposable income — edged down for a second consecutive quarter in Q1 (chart 1). Granted, at almost 162%, it is still near record levels, leaving households exposed to potentially weaker income growth, higher interest rates or lower home prices.

The turnaround reflects the combination of slowing credit growth and steady, if moderate, income gains (chart 2). Household credit demand increased just 4½% y/y in Q1, the slowest advance in over a decade, mirroring the softening in housing activity and consumer durables spending. Borrowing trends are now more closely aligned with underlying income growth of around 3½% y/y, suggesting the debt ratio may have peaked.

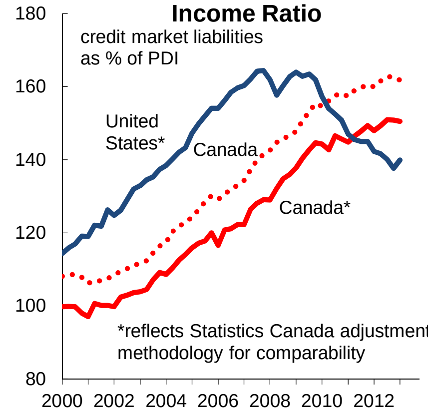
The still elevated level of household debt in Canada inevitably draws comparisons to the United States, especially in light of the considerable deleveraging among American households over the past four years. We caution however on extrapolating implications for Canada based on simple comparisons of debt ratios. Importantly, Canadian debt accumulation, driven in large part by mortgage borrowing, has much stronger financial underpinnings compared with the subprime-fuelled debt run-up in the United States.

There are also significant methodological differences in the calculation of the debt-to-income ratio for the two countries. When estimated on a comparable basis, Canada's debt ratio is still above that in the United States but is well below the late-2007 U.S. peak (chart 1), prior to the subsequent U.S. housing market correction. Moreover, factors such as tax policies, social welfare programs, homeownership rates and demographics can influence debt-to-income ratios, further complicating cross-country comparisons.

From an asset perspective, Canadian household finances look reasonably solid, underpinned by stable house prices and relatively healthy equity valuations, notwithstanding the market's recent retracement. Net worth relative to disposable income — which takes into account both debts and assets — has risen to 686%, just shy of the record reached in 2007. The aggregate debt-to-asset ratio is stable (chart 3). Canadians also continue to have a high level of equity in their homes. CAAMP estimates only 4% of homeowners have less that 10% home equity, including 1% with negative equity.

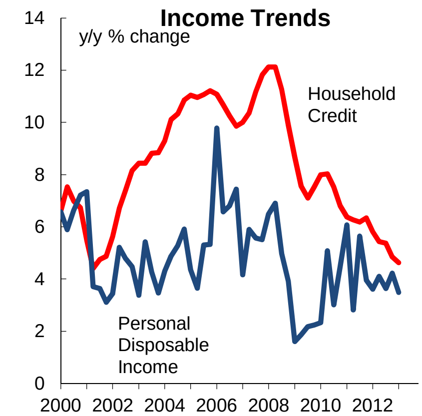
The aggregate debt-to-income ratio is unlikely to move sharply lower in the near term. Even assuming a further modest deceleration in credit demand, income gains are constrained by moderate job growth and public sector restraint. Meanwhile, other measures of balance sheet strength could soften given the potential for some weakening in asset prices (housing and/or equity markets).

Chart 1: Household Debt-to-Income Ratio



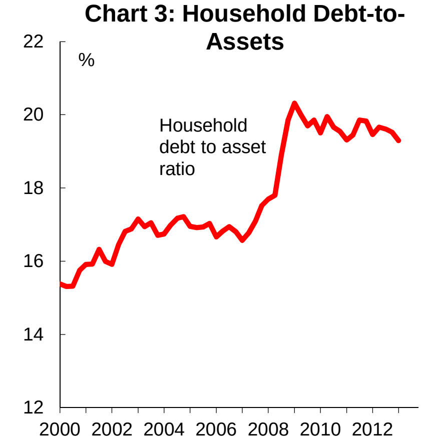
Source: Statistics Canada, U.S. Federal Reserve, Scotiabank Economics

Chart 2: Household Credit and Income Trends



Source: Bank of Canada, Statistics Canada, Scotiabank Economics

Chart 3: Household Debt-to-Assets



Source: Statistics Canada, Scotiabank Economics

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Uncertain Outlook For France

- **Euro zone's second largest economy faces a challenging fiscal course impaired by rising unemployment and an uncompetitive external position.**

The growth outlook for France is weak; the recession is expected to extend into the second quarter, with a cumulative anticipated output loss of 0.4% this year. A very subdued recovery should emerge through the turn of the year, assuming a stabilization in the unemployment rate (currently 11% and above 26% for youth), gradual return of confidence and pick-up in external demand. A real GDP expansion of roughly 0.5% in 2014 will be the first yearly advance since 2011.

Widespread fragility in the first quarter saw contractions in household consumption, investment and exports. Public spending growth remained firm in spite of the ongoing fiscal tightening campaign (the consolidation plan relies primarily on revenue gains as opposed to expenditure restraint). The share of government expenditure in GDP remains above 55%, among the highest of OECD countries. Declining export competitiveness (i.e., rising unit labour costs and slowing productivity growth) has impeded the recovery in recent years. The government recently introduced measures which will begin to address these shortcomings.

Inflationary pressures will remain muted throughout the forecast period. The EU-harmonized headline rate fell to a 41-month low of 0.8% y/y in April on account of base effects in energy prices and increasing competition in the communication sector. Price growth will accelerate slightly by year-end, with inflation expected to average 1.3% y/y in 2013-14. The European Central Bank lowered the policy rate by 25 basis points to 0.50% in May and maintains a vigilant focus on inflation and credit conditions around the euro area. Monetary authorities have emphasized their willingness and ability to react to deteriorating conditions through further rate cuts (both the main refinancing and deposit rates) and/or other non-standard measures.

Some progress has been made on the fiscal front; from a peak of 7.5% of GDP in 2009, the general government deficit declined to 4.8% in 2012. However, given the already high tax burden, without a shift in focus toward expenditure restraint and structural reforms to boost job creation and productivity, the scope for further improvement is limited over the medium term. In May, the European Commission (EC) approved a request to extend the timeline for deficit reduction, allowing the government two extra years (until 2015) to reach the 3% of GDP threshold. Both the IMF and EC have underscored the necessity of reforming the pension and tax systems, improving the efficiency of social transfers, liberalizing service sectors and boosting workforce participation at both ends of the age spectrum. Gross public debt measured 90% of GDP in 2012 and is expected to rise toward 96% by 2014. The current account fell into deficit in 2005 and has continued to deteriorate, reaching a high of 2.3% of GDP in 2012 on account of a deterioration in the trade balance. The situation will improve modestly in 2013-14, with the shortfall averaging roughly 2% of GDP.

France is no longer a member of the increasingly exclusive group of triple-A rated sovereigns. Last November Moody's downgraded the nation's long-term foreign-currency rating to "Aa1" following a similar move by Standard & Poor's in January 2012, leaving Fitch as the only major rating agency holding a top rating. All three agencies maintain a "negative" outlook on their ratings, implying a possibility of further downgrade revisions. Nevertheless, the government continues to enjoy historically favourable borrowing costs, with long-term sovereign bond yields hovering around record lows largely due to abundant liquidity in global financial markets seeking perceived safe-haven assets.

The resilience of the banking sector has improved considerably since the global financial crisis. Thanks to steady balance sheet deleveraging, banks are well positioned to meet Basel III capital requirements ahead of schedule (the Tier 1 ratio was 13.2% in 2012 Q2). The non-performing loans ratio is low, at 4.4%, though it has crept up in recent years. Notable vulnerabilities remain, however, given the sector's large size (banks assets are valued at around 400% of GDP), reliance on wholesale funding and outstanding exposures to the peripheral countries (with combined claims on Greece, Ireland, Italy, Portugal and Spain of US$503 billion at end-2012, down from a peak of US$947 billion in mid-2008 according to the BIS).

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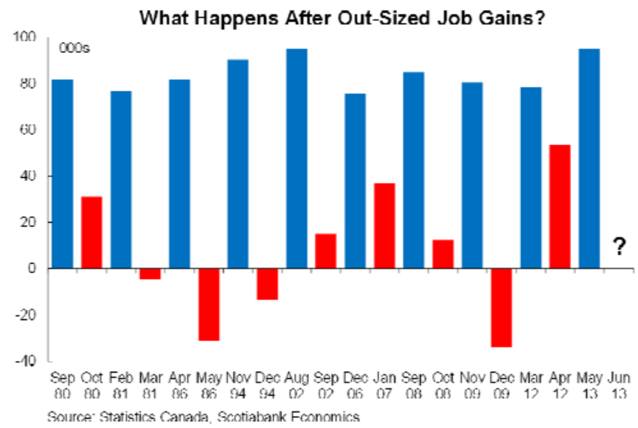
Bank Of Canada Governor Poloz Remains Dovish Post-Jobs Bonanza

- **We continue to expect the BoC to be on hold into 2015.**

Our broad takeaway stemming from Bank of Canada Governor Poloz's speech on June 19th further reinforces our prolonged pause forecast into 2015 which rejects both the mild tightening bias that is still priced into the front end of the Canada curve and also fails to support the cut camp.

One of the more interesting things about Governor Poloz's speech concerned what was not included. There was zero reference to the recent out-sized job print for May and so the dovish messages that we took away from Poloz's recent testimony to a Parliamentary committee stand intact. Not that this surprised us since the BoC is looking more toward moderate trend job growth of 16k jobs a month on average this year and was unlikely to be swayed by one print. That could be because that may give way to renewed softness in the next report as the accompanying chart suggests by looking at what happens in months following large historical gains. Regardless, the absence of any such reference was a knock against that segment of the market that felt the BoC might be more encouraged after the jobs print in justification of a front-end tightening bias.



On balance, the dovish message from two weeks ago was reinforced by this more recent speech in our opinion. Poloz stated that "the structural damage caused by the crisis lingers" and expressed concern that Canada's recovery was so reliant upon household spending while his reference to Schumpeterian creative destruction is scantly in evidence thus far. Note: "We've certainly had the destruction. But the creation side of the equation has been delayed by numerous unusual risks, heightened uncertainty, and a lack of confidence." He went on to repeat that household contributions to growth have been welcome, but that "its limits are clear." In other words, we think the tone to the speech expressed concern about the future drivers of growth and the hand-off to businesses that the BoC is so heavily hoping for to drive export and investment upsides in a way that accommodates a soft household sector.

Poloz nevertheless ended his speech stating that "I am optimistic that the signs are there that the process is under way. Right now, what we need most is stability and patience." This too counsels a prolonged pause as the BoC is suggesting it sees the nascent stages of a positive process that will take a long time to unfold in a more significant manner.

One example of the 'signs' that this process is underway was that Poloz observed that homeowners are already "do[ing] the arithmetic to ensure that they will be able to manage their debts at more normal interest rates" and have cooled down their debt growth. In short, household-sector-related macroprudential concerns — and hawkish rhetoric to try to deal with them — seem to be in the rear-view mirror.

Poloz very sensibly noted that "When inflation falls below the target and interest rates are correspondingly low, there is little room for conventional monetary policy to respond to negative shocks." That was a signal that the BoC thinks any modest rate cut from an already low 1% overnight rate would be of little consequence.

Finally, Poloz again emphasized how the BoC's 2% inflation target is "sacrosanct" and that "we care just as much about inflation falling below as we do about it rising above the target" but that "flexible inflation targeting framework is the best contribution" the BoC can make. The full speech is available here.

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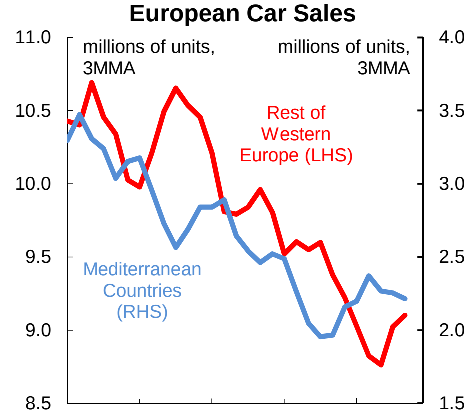
Car Sales Weaken Further In Western Europe

- **Despite the latest monthly fall-off, purchases appear to have bottomed and sales of luxury brands have edged higher this year.**



Source: Scotiabank Economics.

After advancing year-over-year in April for the first time since September 2012, car sales in Western Europe shifted back into reverse, falling 6% below a year ago in May. However, despite last month's weak data, seasonally adjusted volumes totalled an annualized 11.5 million units and remained above the recent trough of just under 11 million reported in the opening month of early 2013. Going forward, sales are likely to remain below a year earlier through most of 2013, but the pace of decline will moderate from the 7% year-to-date slide through May. For all of 2013, we expect car sales in Western Europe to total 11.2 million units, 5% below last year's 11.8 million and 25% below the pre-recession high of 14.8 million reached in 2007.

Last month's decline was broad-based with volumes falling in fourteen of the eighteen Western European countries, including the four Mediterranean nations — Portugal, Spain, Italy and Greece — that have been at the epicentre of the economic and financial difficulties facing Europe in recent years. However, the year-over-year sales decline for the nations bordering the Mediterranean has moderated to single digits in each of the past three months, a significant improvement from double-digit fall-offs from November 2011 through February 2013.

Most of the stabilization in volumes for the Mediterranean nations has occurred on the Iberian Peninsula — Portugal and Spain. This reflects the Spanish government's vehicle scrapping program introduced in February, for vehicles that are at least 10 years old and are replaced with new, more fuel-efficient models that emit less carbon dioxide. Since the program was introduced, the decline in auto purchases in Spain has moderated to 5% year-over-year — half the 10% slump reported in Italy in recent months. The moderation in Spain is occurring despite ongoing increases in the unemployment rate, which is approaching 27%, more than double the 12% level prevailing in Italy. In contrast, there appears to be no end in sight to the double-digit contraction in Italian sales, as households continue to refrain from non-essential spending.

German households and businesses are also avoiding auto dealerships despite low unemployment and ongoing employment and income gains, economic trends that most other Europeans can only hope for and normally drive vehicle sales higher. This likely reflects uncertainty ahead of the German national election on September 22. As a result, the contraction in German car sales accelerated last month to a 10% y/y fall-off, from an 8% slide between January and April.

In contrast to Germans, U.K. households are driving auto sales higher. Car sales in the U.K. advanced 11% y/y in May, led by a 21% surge in household purchases. The improvement reflects a strengthening labour market and a six-month high in consumer confidence. Employment in the U.K. has increased 1.5% y/y through April, a sharp contrast to developments across much of the euro zone where job losses are still the norm. As a result, U.K. consumer confidence bottomed a year ago and has been on a steadier upward trend than in the rest of Western Europe.

French and Italian mass-market automakers posted the largest sales declines last month, while German brands continue to outperform. Purchases of luxury models have actually advanced 1% across Western Europe this year, following a flat performance in 2012.

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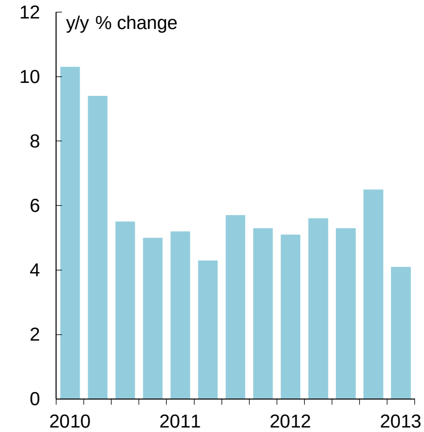
Malaysia — Economic Outlook 2013-14

- **Malaysia faces healthy economic growth prospects and a low inflationary outlook.**

Malaysia's economic performance remains relatively healthy despite moderate cooling in activity. Output growth slowed in the first quarter of 2013 as real GDP expanded by 4.1% y/y compared with a 6.5% gain in the final quarter of 2012. We expect the Malaysian economy to advance by 4½% this year and 5.0% in 2014. Activity continues to be driven by domestic demand, particularly household spending and investment that counterbalance some of the adverse export sector impacts stemming from still-weak growth conditions in advanced economies. Private consumption is underpinned by higher incomes, supportive labour market conditions, low interest rates, and government subsidies to several socioeconomic groups. Investment activity is supported by outlays in infrastructure as well as the oil and gas industry together with capital spending in the domestically oriented manufacturing and consumer-related services sectors. With China being the most important export destination, its revival will be significant for Malaysian exporters; nevertheless, net exports will continue to be a drag on overall economic performance given the strength of import demand.

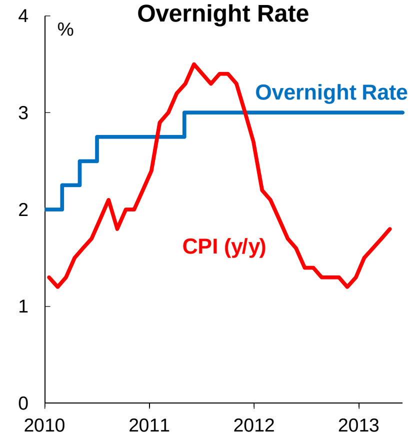
Malaysian Real GDP Growth



Source: Bloomberg.

Malaysia's inflation outlook is favourable. Consumer price inflation has decelerated from the mid-2011 peak of 3.5% y/y, recording a 1.8% y/y gain in May, the lowest rate among Asian developing economies. Given that we do not anticipate changes to government subsidies in the near term combined with the administration's recent decision to delay the planned implementation of a goods and services tax, the headline inflation rate will likely close the year at a manageable level of around 2½% y/y. Inflationary pressures will likely build only moderately in 2014, with the annual inflation rate remaining below 3%. We expect the Malaysian central bank to maintain the overnight policy rate unchanged at the current level of 3.0% in the coming months; the most recent shift in the policy rate was an increase in May 2011. Policymakers will likely refrain from loosening monetary conditions despite the favourable inflation context as they consider the current policy stance to be appropriate in the context of strong domestic demand.

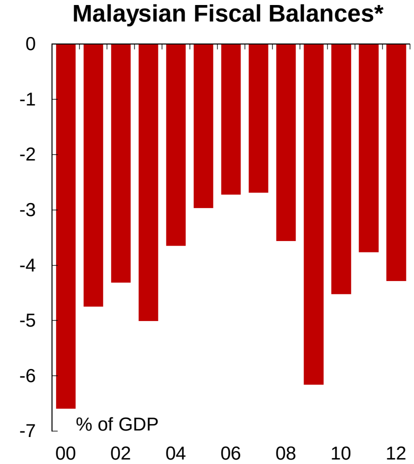
Malaysian Inflation & Overnight Rate



Source: Bloomberg.

Government finances are Malaysia's weakest link, with the fiscal deficit likely to hover around 4% of GDP through 2014. High subsidies, a dependence on petroleum-related revenues, and the postponement of the introduction of the goods and services tax are maintaining pressure on public finances and delaying any fiscal consolidation. Despite the fact that Malaysia's trade surplus will continue to narrow in the near term, reflecting weak exports and strong imports, the country will enjoy a solid external position with current account surpluses averaging 6% of GDP through 2014.

Malaysian Fiscal Balances*



* General government basis. Source: IMF.

For further information about the Malaysian economic outlook, please refer to the *Malaysia Executive Briefing* report, published on June 19, 2013 at www.scotiabank.com/economics.

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U.S. FY14 State Budgets — Moderate Expenditure Plans With Good Reason

- **Although State tax receipts continue to climb, State administrations remain cautious.**

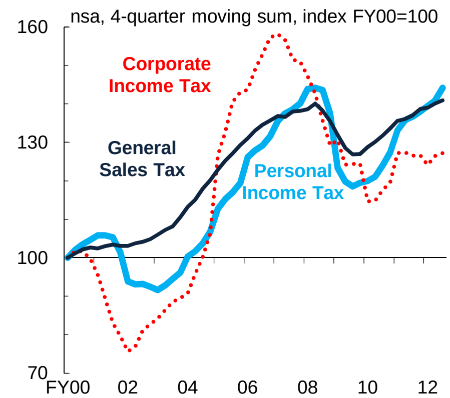
The recovery in State tax revenues continues, with tax receipts in fiscal 2013 (FY13)[1] surpassing the FY08 pre-recession peak on a nominal basis, though not after inflation is taken into account *(top chart)*. Lifting general fund tax receipts in FY13 an estimated 4.2% above FY12 is a pick-up in personal income taxes this past winter and spring as taxpayers shifted capital gains, dividends and other personal income into calendar 2012 to avoid the higher federal taxes implemented in January 2013. The recent upswing in tax revenues has helped to limit mid-year State expenditure cuts to date in FY13 to just over $1 billion on a general fund basis, and spurred additional spending of almost $10 billion by 16 States, led by Minnesota and Texas. Yet for FY14[2], though 42 States plan higher outlays, multiple factors are restraining the overall projected increase in general fund spending to the 4% range witnessed in FY13, dampening potential state and local government employment gains *(middle and bottom charts)*.

For projected general fund tax revenue growth of 2.8% for FY14, uncertainty stems from the risk of slower economic growth as well as the extent to which the upswing in personal income declared in 2012 decreases reported income in 2013. Lower property taxes, responding with a lag to reduced valuations, have a relatively modest direct impact on State coffers, but a larger indirect impact through the squeeze on local governments. As States consider their own tax reforms, the frequently proposed overhaul of federal income taxes would raise many issues, including the continued deductibility of State taxes. The future of Washington's sequestration also is critical, influencing both State receipts from federal programs and the service gaps emerging as federal discretionary outlays are constrained.

On the expenditure side, the uneven economic recovery has left expenditure demands high across several programs such as Medicaid. Complicating State budgets, both near- and mid-term, are Washington's extensive health care changes entering 2014. And finally, large unfunded pension and benefit liabilities remain an ongoing pressure for a number of States.

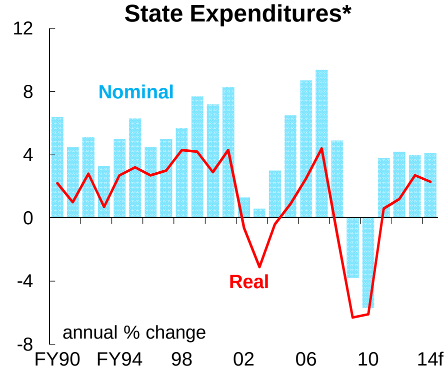
State governments have rebuilt their "rainy day" reserves from a low of $32.5 billion, or 5.2% of general fund expenditures, at the end of FY10 to an estimated $57.7 billion, or 8.3% of outlays, by FY13. However, current reserves remain well below FY06 year-end balances that represented 11.5% of spending. The States' FY14 Budgets indicate an aggregate reserve reduction to $54 billion, or 7.4% of spending, but elevated uncertainty may encourage higher reserves if revenues again exceed expectations.

State Tax Receipts' Subdued Rebound



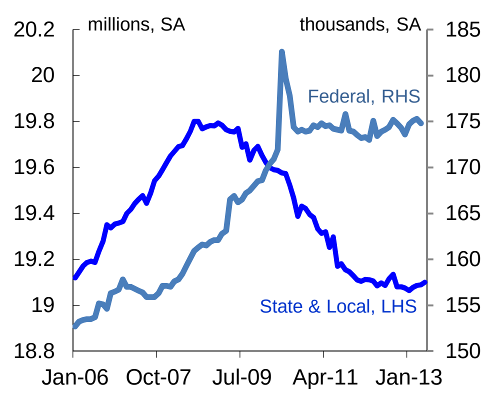
Source: U.S. Census Bureau.

State Expenditures*



* General fund. *Source: National Association of State Budget Officers, Scotiabank Economics.*

U.S. Government Employment



Source: Bureau of Labor Statistics.

[1] Data in US dollars. Fiscal year-end is June 30 for 46 States and 21 States have a biennial budget cycle. [2] Survey by the National Association of State Budget Officers was conducted from February through April, 2013.

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Who Buys When Foreigners Sell?

Most observers have attributed the recent decline in the prices of emerging market local currency bonds to the prospect of foreign (non-resident) withdrawals from those markets. Local investors (those based in Latin America) have received much less attention, despite the fact that anecdotally it was local investors that sold their positions first. Consider the case of the Colombian market, which performed even worse than other Latin American local markets, despite the fact that it has one of the lower exposures to foreign investors in the region. That underperformance has been attributed to selling by pension funds in anticipation of new regulations, as well as the positioning of primary dealers prior to the sell-off.

In Mexico, we are just starting to get data on the change in holdings for Mbonos for the relevant period. In the second half of May, foreigners sold $15bn MXN, but then repurchased $8bn through June 11th in line with some new issuance such that net change was only $7bn, representing a 0.6% decrease in their holdings. Some local investors sold just as much, however, with retail investors selling $8bn (4% of their holdings) by June 11th and mutual funds decreasing their positions by $3bn (3% of holdings). Sales were initially absorbed by local banks, which increased their holdings by $36bn in the first half of May, and then resold them to pension funds and repoed them to the central bank. That short-term data can be deceptive, however, as holdings of all investors tend to fluctuate in the short-term for a variety of reasons. Moreover, as financial intermediaries, banks may act first in anticipation of transactions from other parties. Thus, the long-term pattern can be quite different.

On one hand, investors based in Latin America may be just as tempted by rising yields in the US as US investors are. We estimate, for example, that Mexican pension funds — the 2nd largest holders of Mbonos — could replace 77bn in Mbonos with international debt before they reached the limits on international exposure set by their regulator. On the other hand, over the past three and a half years, foreigners increased their exposure by around 800bn MXN, absorbing the entire net issuance from the government and increasing their share of Mbonos to 56%, while local holdings over that period did not change much. Thus, there is reason to expect that the greatest risk to the pattern of demand for local bonds would come from foreigners. If foreigners continued to sell some of the holdings they have accumulated over the past few years, who would they sell them to?

The history of the prior sell-off provides some guidance, although it occurred under very different circumstances. From the period covering September 2008 to March 2009, foreign investors sold 58bn MXN, representing 20% of their holdings. In the same period, pension funds increased their holdings by 28bn, mutual funds by another 28bn, and retail clients by an impressive 62bn. Importantly, the amount of new net issuance by the government during that period was 73bn; in other words, there was more pressure on prices from new supply by the government than from selling by foreigners. In projecting from that period to the current environment, that factor provides for an important distinction. Since the current sell-off by foreigners is caused by an improvement in the US rather than a deterioration, there should be positive spillovers to Mexico, such that the fiscal situation benefits, resulting in lower financing needs. At the same time, financing options expand. Mexico could decide, for example, to issue more in dollars and less in pesos, on the hope that the currency recovers from the recent depreciation by the time the bonds amortize.

The good news is that resident institutional investor assets (pension funds, mutual funds, and insurance companies) have doubled since 2009 to 4,318bn MXN, creating additional space to absorb selling by foreigners. The problem is that many of these funds are already invested in debt, much of it government debt. As of the end of April, 77% of pension fund assets, 81% of mutual funds, and 89% of insurance assets were already in fixed income. Pension funds held only 21% of their assets in Mbonos, but had an additional 32% in a variety of other government bonds, with inflation linked Udibonos playing a significant role. The implication is that retail investors would once again have to step up as the buyer for foreign holdings.

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The relatively smaller bond market in Peru makes accommodating foreign withdrawals easier. In the same period of 2008-2009, the withdrawal by non-residents amounted to only 2.2bn soles, though it did represent a significant 33% of foreign holdings. That entire amount was absorbed by local banks, for whom that sum represented only 10% of their holdings of negotiable securities. That absorption was also made easier by the fact that net issuance during that period was only 0.2bn soles. As of the end of April, Peruvian banks had again very low exposure to soberanos, suggesting that they would have space to absorb foreign selling if yields proved attractive.

The outflows from foreigners of 1% of holdings over the last two weeks of May is not in itself that large, especially since they reversed shortly afterwards. If yesterday's Fed news were to cause outflows to continue at that rate for the remainder of the year, however, then the question of where those foreign holdings can go will become more critical.

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Key Data Preview

CANADA

GDP figures for April are due out on June 28, and we're looking for a 0.2% m/m print. The indicators for GDP are a mixed bag: on the positive side, retail sales volumes were strong (+0.5% m/m) while hours worked overall were up by 0.3% m/m. Trade volumes showed decent momentum although with exports up by 0.5% m/m and imports by 1.5% m/m, overall trade will drag on expenditure-approach GDP when it's released for Q2. On the negative part of the ledger, manufacturing sales volumes slipped (-1.6% m/m) and housing starts were down as well. Key questions revolve around the natural resource sector and housing resales. The latter seemed to stabilize in April suggesting some upside to the Finance, Insurance, and Real Estate industry subsector. A bounce in natural resources-related production has somewhat skewed GDP figures over the past four quarters too, and so developments here — and concerns regarding potential mean reversion — weigh on our outlook.

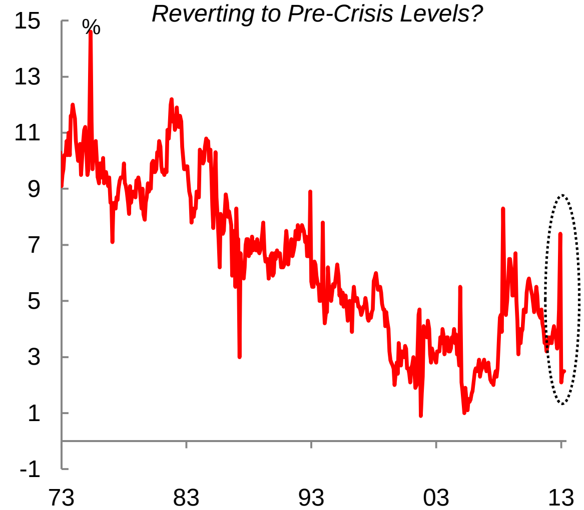
UNITED STATES

We see strong upside potential for May **durable goods** (June 25) due to a huge increase in orders at Boeing, which jumped to 232 planes from 51 in April. That massive jump implies a surge in aircraft orders that could push their dollar value to the USD 20bn level — or higher. That one variable alone is why we see upside to headline durable goods orders that could bring the number to 5% m/m. The rest of the durable goods orders picture is less optimistic: we think that new orders of motor vehicles will be a small positive, but the ISM manufacturing survey — and its new orders component — were both fairly bleak, implying weakness on 'core'.

Numbers on **personal consumption and expenditure** for May (June 27) are expected to show a modest increase in both spending (we're looking for a +0.3% m/m number) and income (+0.2% m/m). The concern here is that another increase in spending in the context of weaker income growth would mean further downside for the savings rate (see chart). Our call on spending is driven by a decent nominal retail sales print on the month combined with wage growth that mirrors our call for a 0.2% m/m increase in incomes. Watch out for the PCE deflator — the Fed's preferred inflation metric — which we expect to remain well below the FOMC's 2% inflation target (our 0.2% m/m forecast translates into a 1.1% y/y number).

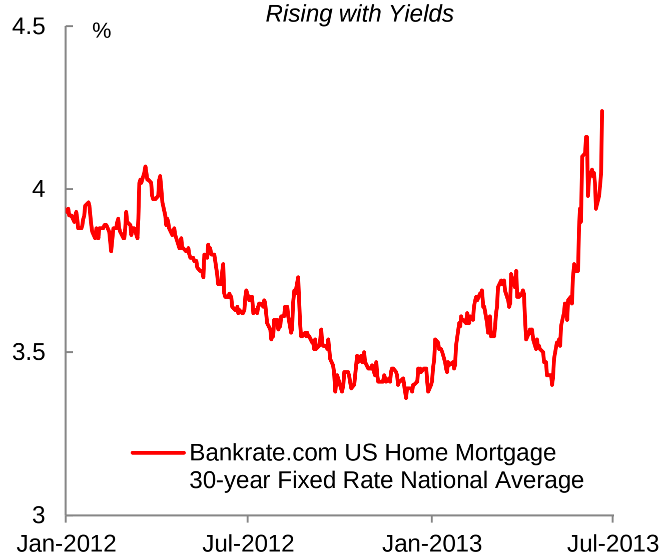
Can the **Case Shiller home price index** keep its winning streak alive in April (June 25)? US home prices as measured by the seasonally adjusted Case Shiller index have been up for 13 consecutive months, and markets are betting that decent existing home sales for the April period (+0.6% m/m) and low mortgage rates brought with them higher prices. As far as we're concerned, an important question is whether or not the reversal of the latter phenomenon in May and more extremely in June will have an impact on home prices through the summer (see chart).

US: Personal Savings as a % of Personal Income
Reverting to Pre-Crisis Levels?



Source: BEA, Scotiabank Economics

U.S. 30-Year Fixed Rate Mortgage
Rising with Yields



Source: Bloomberg, Bankrate.com, Scotiabank Economics

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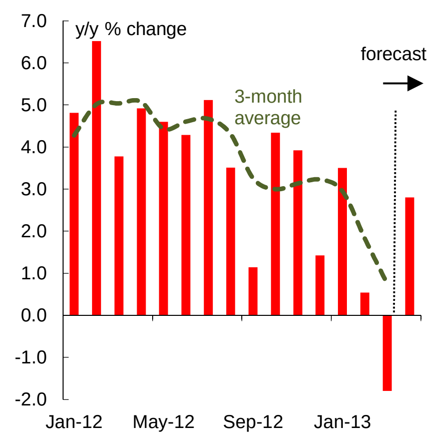
EUROPE

While the Ifo is not the first survey indicator to be released each month, it is a reliable measure that has proven to be a better predictor of hard economic activity data than some of the surveys released earlier in the month. The headline Ifo index proved much stronger than expected in May, rising from 104.4 to 105.7. While the expectations component was unchanged, the current conditions bounced by 2.7 points to 110 which in retrospect looked like an overreaction that we think should be corrected for in the June reading. German PMIs for June were not encouraging, with the manufacturing index moving lower below the neutral-50 line. Furthermore, the recent weakness in the US ISM opens the door for a slight downward bias. However, the fall in fuel prices and the improvement in the German ZEW expectations index might provide an upward offset. That said, we expect the current conditions to fall by 1 point to 109 while the expectations component should show a slight improvement rising by 0.5 point to 102.1. That sums up to a 0.2 point fall in the headline index to 105.5 (consensus expects a gain of the same magnitude, to 105.9).

LATIN AMERICA

After a very disappointing first-quarter GDP report in Mexico, high frequency economic indicators for the second quarter will attract investors' attention to indicate whether the deceleration will be temporary or not. April's economic activity indicator (IGAE) will be released on June 25th, and we expect the economy to have regained strength, expanding by 2.9% y/y after the 1.8% y/y contraction observed in March. In the first three months of the year, the IGAE expanded by 0.8% y/y, significantly less than the 3.2% y/y average gain in the previous quarter, with the industrial sector as the main contributor to the slowdown. Nonetheless, industrial production grew by 3.3% y/y in April and retail sales by 2.6% y/y — after both indicators recorded two consecutive months of contractions — signaling a stronger performance in April, which we expect to be mimicked by the IGAE. The pace of the recovery will remain subject to international economic conditions, local government spending and household consumption.

Mexican Economic Activity Indicator

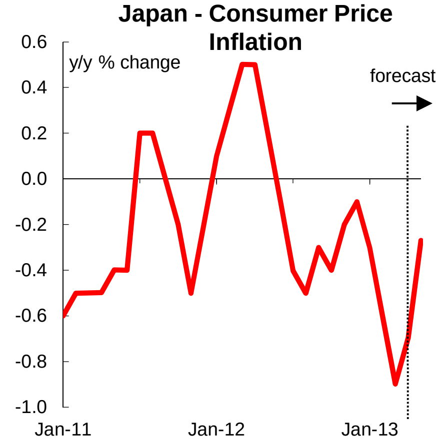


Source: Thomson Reuters, Scotiabank Economics.

ASIA

The coming week will see a substantial amount of data releases from Japan for the month of May, ranging from the consumer side of the economy (household spending, retail sales) to the industrial sector (industrial and vehicle production, construction orders, housing starts, etc.). While recent indicators point to a modest revival in Japan's economic activity on the back of policymakers' aggressive stimulus efforts, deflationary pressures persist in the economy. May consumer price inflation will be released on June 27th; we assess that inflation remained in negative territory, with the CPI recording a contraction of 0.3% y/y. The period of deflation will likely come to an end within the next couple of months, with inflation creeping gradually higher towards 0.7% y/y by the end of the year, and reaching 1.4% by end-2014.

Japan - Consumer Price Inflation



Source: Bloomberg, Scotiabank Economics.

Key Indicators for the week of June 24 - 28

North America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
MX	06/24	09:00	Bi-Weekly Core CPI (% change)	Jun 15	--	--	0.1
MX	06/24	09:00	Bi-Weekly CPI (% change)	Jun 15	0.15	--	0.02
MX	06/24	09:00	Unemployment Rate (%)	May	4.8	--	5.0
US	06/24	10:30	Dallas Fed. Manufacturing Activity	Jun	0.0	-1.8	-10.5
US	06/25	08:30	Durable Goods Orders (m/m)	May	5.0	3.0	3.5
US	06/25	08:30	Durable Goods Orders ex. Trans. (m/m)	May	0.0	0.0	1.5
MX	06/25	09:00	Global Economic Indicator IGAE (y/y)	Apr	2.9	--	-1.8
US	06/25	09:00	S&P/Case-Shiller Home Price Index (m/m)	Apr	1.0	1.2	1.1
US	06/25	09:00	S&P/Case-Shiller Home Price Index (y/y)	Apr	--	10.6	10.9
US	06/25	10:00	Consumer Confidence Index	Jun	74.5	75.5	76.2
US	06/25	10:00	New Home Sales (000s a.r.)	May	460.0	460.0	454.0
US	06/25	10:00	Richmond Fed Manufacturing Index	Jun	5.0	0.0	-2.0
US	06/26	07:00	MBA Mortgage Applications (w/w)	JUN 21	--	--	-3.3
US	06/26	08:30	GDP (q/q a.r.)	1Q T	2.4	2.4	2.4
US	06/26	08:30	GDP Deflator (q/q a.r.)	1Q T	--	1.1	1.1
MX	06/26	09:00	Trade Balance (US$ mn)	May P	--	--	-1226.9
US	06/27	08:30	Initial Jobless Claims (000s)	JUN 22	350	345	354
US	06/27	08:30	Continuing Claims (000s)	JUN 15	2950	2964	2951
US	06/27	08:30	PCE Deflator (m/m)	May	0.2	0.1	-0.3
US	06/27	08:30	PCE Deflator (y/y)	May	--	1.1	0.7
US	06/27	08:30	PCE ex. Food & Energy (m/m)	May	--	0.1	0.0
US	06/27	08:30	PCE ex. Food & Energy (y/y)	May	--	1.1	1.1
US	06/27	08:30	Personal Spending (m/m)	May	0.3	0.3	-0.2
US	06/27	08:30	Personal Income (m/m)	May	0.2	0.2	0.0
US	06/27	10:00	Pending Home Sales (m/m)	May	0.7	1.0	0.3
CA	06/28	08:30	IPPI (m/m)	May	--	0.2	-0.8
CA	06/28	08:30	Raw Materials Price Index (m/m)	May	--	0.7	-2.2
CA	06/28	08:30	Real GDP (m/m)	Apr	0.2	0.1	0.2
US	06/28	09:45	Chicago PMI	Jun	--	55.0	58.7
US	06/28	09:55	U. of Michigan Consumer Sentiment	Jun F	82.2	83.0	82.7

Europe

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
GE	06/24	04:00	IFO Business Climate Survey	Jun	105.5	105.9	105.7
GE	06/24	04:00	IFO Current Assessment Survey	Jun	109.0	109.6	110.0
GE	06/24	04:00	IFO Expectations Survey	Jun	102.1	102.0	101.6
HU	06/25	08:00	**Base Rate (%)**	Jun 25	**4.25**	**4.25**	**4.50**
GE	06/26	02:00	GfK Consumer Confidence Survey	Jul	6.4	6.5	6.5
FR	06/26	02:45	GDP (q/q)	1Q F	-0.2	-0.2	-0.2
FR	06/26	12:00	Jobseekers Net Change (000s)	May	30.0	26.0	39.8
SP	06/27	03:00	CPI (y/y)	Jun P	--	1.8	1.7
SP	06/27	03:00	CPI - EU Harmonized (y/y)	Jun P	1.7	2.0	1.8
SP	06/27	03:00	Real Retail Sales (y/y)	May	--	--	-2.6
GE	06/27	03:55	Unemployment (000s)	Jun	10.0	8.0	21.0
GE	06/27	03:55	Unemployment Rate (%)	Jun	7.0	6.9	6.9
UK	06/27	04:30	Current Account (£ bn)	1Q	--	-12.0	-14.0
UK	06/27	04:30	GDP (q/q)	1Q F	0.3	0.3	0.3
EC	06/27	05:00	Economic Confidence	Jun	90.8	90.4	89.4
EC	06/27	05:00	Industrial Confidence	Jun	-12.5	-12.3	-13.0

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

Key Indicators for the week of June 24 - 28

Europe *(continued from previous page)*

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
IR	06/27	06:00	Real GDP (q/q)	1Q	0.2	0.3	0.0
UK	06/27	19:01	GfK Consumer Confidence Survey	Jun	--	-21.0	-22.0
GE	06/28	02:00	Retail Sales (m/m)	May	--	0.4	0.4
UK	06/28	02:00	Nationwide House Prices (m/m)	Jun	--	0.4	0.4
FR	06/28	02:45	Consumer Spending (m/m)	May	--	-0.1	-0.3
FR	06/28	02:45	Producer Prices (m/m)	May	--	-0.2	-0.9
UK	06/28	04:30	Index of Services (m/m)	Apr	--	0.1	0.2
IT	06/28	05:00	CPI (y/y)	Jun P	--	1.1	1.1
IT	06/28	05:00	CPI - EU Harmonized (m/m)	Jun P	0.2	0.2	0.0
IT	06/28	05:00	CPI - EU Harmonized (y/y)	Jun P	1.3	1.3	1.3
SP	06/28	07:59	Budget Balance YTD (€ mn)	May	--	--	-25010
SP	06/28	07:59	Current Account (€ bn)	Apr	--	--	1.4
GE	06/28	08:00	CPI (y/y)	Jun P	1.8	1.7	1.5
GE	06/28	08:00	CPI - EU Harmonized (m/m)	Jun P	0.0	0.1	0.3
GE	06/28	08:00	CPI - EU Harmonized (y/y)	Jun P	1.8	1.8	1.6

Asia Pacific

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
TA	06/23	20:30	Unemployment Rate (%)	May	4.2	4.2	4.2
SI	06/24	01:00	CPI (m/m)	May	0.2	0.2	-1.5
SI	06/24	01:00	CPI (y/y)	May	1.4	1.5	1.5
TA	06/24	04:00	Commercial Sales (y/y)	May	--	-1.5	1.0
TA	06/24	04:00	Industrial Production (y/y)	May	--	-1.2	-0.9
HK	06/24	04:30	Bal of Paymts - Current A/C (HKD bns)	1Q	--	--	11.9
SK	06/24	17:00	Consumer Confidence Index	Jun	--	--	104.0
PH	06/24	21:00	Trade Balance (US$ mn)	Apr	--	--	-593.0
HK	06/25	04:30	Exports (y/y)	May	--	5.0	9.0
HK	06/25	04:30	Imports (y/y)	May	--	4.9	7.7
HK	06/25	04:30	Trade Balance (HKD bn)	May	--	-38.4	-42.7
SK	06/25	17:00	Business Survey- Manufacturing	Jul	--	--	82.0
SK	06/25	17:00	Business Survey- Non-Manufacturing	Jul	--	--	69.0
SI	06/26	01:00	Industrial Production (m/m)	May	--	-0.5	2.5
SI	06/26	01:00	Industrial Production (y/y)	May	--	0.1	4.7
TH	06/26	03:00	Customs Imports (y/y)	May	--	-3.6	8.9
TH	06/26	03:00	Customs Exports (y/y)	May	--	-4.0	10.5
TH	06/26	03:00	Customs Trade Balance (US$ mn)	May	--	-1700.0	-2851.7
NZ	06/26	18:45	Trade Balance (NZD mn)	May	--	427.0	156.9
NZ	06/26	18:45	Exports (NZD bn)	May	--	4.5	3953.0
NZ	06/26	18:45	Imports (NZD bn)	May	--	4.0	3796.1
SK	06/26	19:00	Current Account (US$ mn)	May	--	--	3972.2
CH	06/26	21:30	Industrial Profits YTD (y/y)	May	--	--	11.4
JN	06/27	00:30	All Industry Activity Index (m/m)	Apr	--	0.4	-0.3
TA	06/27	04:00	Leading Index (m/m)	May	--	--	0.5
TA	06/27	04:00	Coincident Index (m/m)	May	--	--	-0.2
TA	06/27	05:00	**Benchmark Interest Rate**	Jun 20	**1.88**	**1.88**	**1.88**
SK	06/27	19:00	Industrial Production (m/m)	May	--	1.4	0.8
SK	06/27	19:00	Industrial Production (y/y)	May	--	-1.0	1.7
SK	06/27	19:00	Cyclical Leading Index Change	May	--	--	0.1

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

Key Indicators for the week of June 24 - 28

Asia Pacific *(continued from previous page)*

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
JN	06/27	19:15	Markit/JMMA Manufacturing PMI	Jun	--	--	51.5
JN	06/27	19:30	Household Spending (y/y)	May	--	1.3	1.5
JN	06/27	19:30	Jobless Rate (%)	May	4.0	4.0	4.1
JN	06/27	19:30	National CPI (y/y)	May	-0.3	-0.4	-0.7
JN	06/27	19:30	Tokyo CPI (y/y)	Jun	--	0.1	-0.2
JN	06/27	19:50	Industrial Production (m/m)	May P	--	0.2	0.9
JN	06/27	19:50	Large Retailers' Sales (y/y)	May	--	0.2	-2.3
JN	06/27	19:50	Retail Trade (y/y)	May	--	0.0	-0.2
JN	06/27	19:50	Industrial Production (y/y)	May P	--	-2.3	-3.4
AU	06/27	21:30	Private Sector Credit (y/y)	May	--	2.9	3.1
JN	06/28	00:00	Vehicle Production (y/y)	May	--	--	-6.5
JN	06/28	01:00	Housing Starts (y/y)	May	--	6.2	5.8
JN	06/28	01:00	Construction Orders (y/y)	May	--	--	2.0
TH	06/28	03:30	Exports (y/y)	May	--	--	3.7
TH	06/28	03:30	Imports (y/y)	May	--	--	8.5
TH	06/28	03:30	Trade Balance (US$ mn)	May	--	--	-1620.0
TH	06/28	03:30	Current Account Balance (US$ mn)	May	--	-2561.0	-3361.0
TH	06/28	03:30	Business Sentiment Index	May	--	--	48.8
IN	06/28	07:30	Current Account Balance	1Q	--	-21.0	-32.6
CH	06/28	07:59	Leading Index	May	--	--	99.8

Latin America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CO	06/28	06:59	**Overnight Lending Rate (%)**	Jun 28	**3.25**	**3.25**	**3.25**
CL	06/28	09:00	Industrial Production (y/y)	May	--	--	3.4
CL	06/28	09:00	Retail Sales (y/y)	May	--	--	11.17
CL	06/28	09:00	Unemployment Rate (%)	May	--	--	6.4
CO	06/28	12:00	Urban Unemployment Rate (%)	May	--	--	10.7

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

Global Auctions for the week of June 24 - 28

North America

Country	Date	Time	Event
US	06/24	11:00	U.S. Fed to Purchase USD3.00-3.75 Bln Notes
US	06/24	11:30	U.S. to Sell USD30 Bln 3-Month Bills
US	06/24	11:30	U.S. to Sell USD25 Bln 6-Month Bills
US	06/25	11:00	U.S. Fed to Purchase USD1.25-1.75 Bln Notes
US	06/25	11:30	U.S. to Sell USD25 Bln 52-Week Bills
US	06/25	11:30	U.S. to Sell 4-Week Bills
MX	06/25	12:30	1M T-Bill Yield
MX	06/25	12:30	1M T-Bill Bid/Cover Ratio
MX	06/25	12:30	3M T-Bill Yield
MX	06/25	12:30	3M T-Bill Bid/Cover Ratio
MX	06/25	12:30	6M T-Bill Yield
MX	06/25	12:30	6M T-Bill Bid/Cover Ratio
MX	06/25	12:30	1Y T-Bill Yield
MX	06/25	12:30	1Y T-Bill Bid/Cover Ratio
MX	06/25	12:30	30Y I/L Yield
MX	06/25	12:30	10Y Fixed Yield
US	06/25	13:00	U.S. to Sell USD35 Bln 2-Year Notes
US	06/26	11:00	U.S. Fed to Purchase USD2.75-3.50 Bln Notes
CA	06/26	12:00	Canada to Sell 10 Year Notes
US	06/26	13:00	U.S. to Sell USD35 Bln 5-Year Notes
US	06/27	11:00	U.S. Fed to Purchase USD4.25-5.25 Bln Notes
US	06/27	13:00	U.S. to Sell USD29 Bln 7-Year Notes
US	06/28	11:00	U.S. Fed to Purchase USD1.25-1.75 Bln Notes
MX	06/28	12:30	Mexico to Sell MXN 6 Billion 1-Month Bills on June 4

Europe

Country	Date	Time	Event
GE	06/24	05:30	Germany to Sell EUR3 Bln 364-Day Bills
BE	06/24	06:00	Belgium to Sell Bonds
FR	06/24	08:50	France to Sell Bills
NE	06/25	04:00	Netherlands to Sell 5Y Bonds
SP	06/25	04:30	Spain to Sell 3-Month and 9-Month Bills
IT	06/25	05:00	Italy to Sell Up to EUR3.5 Bln Zero 2015 Bonds
IT	06/25	05:00	Italy to Sell 1.7% I/L 2018 Bonds
IT	06/25	05:00	Italy to Sell 3.1% I/L 2026 Bonds
SZ	06/25	05:30	Switzerland to Sell 92-Day Bills
NO	06/25	06:00	Norway to Sell NOK2 Bln 2% 2023 Bonds
IT	06/26	05:00	Italy to Sell 6-Month Bills
IT	06/27	05:00	Italy to Sell 5-Year and 10-Year Bonds
UK	06/28	06:10	U.K. to Sell Bills

Asia Pacific

Country	Date	Time	Event
JN	06/25	04:00	Japan Auction for Enhanced-Liquidity
JN	06/26	23:35	Japan to Sell 3-Month Bill
JN	06/26	23:45	Japan to Sell 2-Year Bonds

Latin America

Country	Date	Time	Event
BZ	06/25	12:00	Brazil to Sell I/L Bonds due 8/15/2018 - NTN-B
BZ	06/25	12:00	Brazil to Sell I/L Bonds due 8/15/2022 - NTN-B
CL	06/25	12:00	5Y Fixed Yield (Cen Bank)

Source: Bloomberg, Scotiabank Economics.

Events for the week of June 24 - 28

North America

Country	Date	Time	Event
UK	06/24	12:30	Fed's Fisher Speaks in London
US	06/25		U.S. Senate Seat Election for Massachusetts
US	06/26	10:00	Fed's Fisher, Lacker Testify on Financial Regulation in House
CA	06/26	12:00	Bank of Canada Deputy Governor Lane Speaks at CFA Society
CA	06/27	07:15	Ontario Premier Wynne Speaks at Mayor's Breakfast Series
US	06/27	10:00	Fed's Dudley Speaks on Labour Market
US	06/27	10:30	Fed's Powell Speaks on Monetary Policy in Washington
US	06/27	12:30	Fed's Lockhart Speaks on the Economy in Marietta, Georgia
CA	JUN 27-29		Conservative Party of Canada Convention
US	06/28	08:00	Fed's Stein Speaks on Monetary Policy
US	06/28	09:15	Fed's Lacker Speaks on Economic Outlook in West Virginia
US	06/28	12:00	Fed's Pianalto Speaks on Monetary Policy in Wheeling WV
US	06/28	15:30	Fed's Williams Speaks on Monetary Policy in Sonoma, CA

Europe

Country	Date	Time	Event
IR	06/22	06:00	Irish Central Bank Releases First-Quarter Arrears Figures
EC	06/23	04:00	ECB's Asmussen Speaks in Kiel
EC	06/24	03:30	EU Foreign Ministers Hold Meeting in Luxembourg
SP	06/24	03:30	Spain Deputy PM, Budget Minister Speak at Event in Madrid
GE	06/24	06:00	Merkel, Seehofer Present CDU-CSU Election Manifesto: Berlin
GE	06/24	12:45	Schaeuble Speaks at Security Policy Academy, Berlin
EC	06/24		STOXX Quarterly Reviews Become Effective
IT	06/24		Berlusconi Faces Verdict on Prostitution With a Minor Trial
PO	06/24		Technical Troika Mission Visits Portugal
SP	06/25	03:00	Economy Minister Guindos Speaks in Madrid
EC	06/25	03:10	ECB's Coeure Speaks in London
EC	06/25	04:00	EU General Affairs Ministers Hold Meeting in Luxembourg
SZ	06/25	07:30	Swiss National Bank Board Member Zurbruegg Speaks in Lugano
HU	06/25	08:00	**Hungary Base Rate Announcement**
AS	06/25	11:30	EU's Almunia Speaks at Vienna Panel Discussion
GE	06/25	12:00	Germany's Schaeuble Speaks on Transatlantic Partnership
GE	06/25	14:00	Merkel Gives Speech to CDU Party's Economic Council
PO	06/25		Portugal Releases Year-to-Date Budget Report
UK	06/26	05:30	Bank of England publishes financial stability report
GE	06/26	07:00	Schaeuble Briefs on 2013 Budget, Medium-Term Budget Plan
EC	06/26	08:15	ECB's Asmussen Speaks in Paris
EC	06/26	11:15	ECB's Mersch Speaks in Paris
PO	06/26	19:00	Portuguese State Workers Strike
UK	06/26		Osborne Announces U.K. Government Spending Review
GE	06/27	05:30	Germany's Schaeuble Speaks at FESE's 2013 Convention, Berlin
EC	06/27	06:00	EU's Rehn, Estonia's Ansip Attend Pre-Summit Liberal Meeting
SZ	06/27	09:00	SNB Quarterly Bulletin
EC	06/27	13:00	ECB's Mersch Speaks in Hachenburg, Germany
PO	06/27		Portuguese Labor Groups UGT, CGTP Hold General Strike
EC	JUN 27-28		EU Leaders Hold Summit in Brussels
PO	06/28	05:00	Bank of Portugal's Costa at Conference on Bank Regulation
EC	06/28	06:00	ECB Announces 3-Year LTRO Repayment
GE	06/28	09:00	Schaeuble Speaks at Finance Ministry Event on Estonia
PO	06/28	15:30	EU's Barroso, Ireland's Kenny, Spain's Rajoy Speak in Oporto
RU	06/28		Russian Central Bank to Publish 1Q 2013 Balance of Payments

Source: Bloomberg, Scotiabank Economics.

Events for the week of June 24 - 28

Asia Pacific

Country	Date	Time	Event
CH	JUN 17-26		UN Secretary General Ban Visits China
VN	JUN 18-25		Vietnam President Sang Visits China
US	JUN 20-26		Assistant Secretary of State Jones Visits Kazakhstan
IN	JUN 22-24		The 2013 Global India Business Meeting Takes Place in Ireland
NZ	06/23		New Zealand Minister English Visits Netherlands
SK	JUN 24-28		South Korea Financial Ministry Executive Board Meeting
AU	06/25	19:30	ABREE Release Resources & Energy Quarterly Report
NZ	06/26	23:00	RBNZ Publishes Monthly Assessment of Currency Flows
MN	06/26		Mongolian Presidential Elections
BM	06/26	00:00	ASEAN Foreign Ministers Meeting
TA	06/27	05:00	Benchmark Interest Rate

Latin America

Country	Date	Time	Event
CO	06/28		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	July 17, 2013	1.00	--
Federal Reserve – Federal Funds Target Rate	0.25	July 31, 2013	0.25	--
Banco de México – Overnight Rate	4.00	July 12, 2013	4.00	--

Fed: In light of Chairman Bernanke's recent statements, we anticipate that the Fed will continue purchasing Treasuries & MBS at its current pace until the December meeting at which point it will moderate the pace of asset purchases, ending purchases in June 2014 and leaving the Fed's balance sheet in the neighborhood of USD3.5-4tn. BoC: Gov. Poloz's initial policy remarks have emphasized that the BoC is undershooting its inflation mandate, a factor which leads us to anticipate a more dovish bent in the July 17 rate statement.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	0.50	July 4, 2013	0.50	--
Bank of England – Bank Rate	0.50	July 4, 2013	0.50	0.50
Swiss National Bank – Libor Target Rate	0.00	September 19, 2013	0.00	--
Central Bank of Russia – Refinancing Rate	8.25	July 12, 2013	8.25	--
Hungarian National Bank – Base Rate	4.50	June 25, 2013	4.25	4.25
Central Bank of the Republic of Turkey – 1 Wk Repo Rate	4.50	July 23, 2013	4.50	--
Sweden Riksbank – Repo Rate	1.00	July 3, 2013	1.00	--
Norges Bank – Deposit Rate	1.50	September 19, 2013	1.50	--

Hungary's monetary easing campaign is expected to continue next week; we anticipate a quarter-point reduction in the benchmark interest rate to bring the rate to 4.25%. Inflation remains below target (having edged up to 1.8% y/y in May from 1.7%), and although the economy posted a relatively robust 0.7% q/q gain in the first quarter (exiting the technical recession of 2012), the advance was driven by inventories accumulation while domestic demand continued to contract. The central bank has already reduced the policy rate by a cumulative 250 basis points since last August.

Asia Pacific

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Japan – Target Rate	0.10	July 11, 2013	0.10	--
Reserve Bank of Australia – Cash Target Rate	2.75	July 2, 2013	2.75	2.75
Reserve Bank of New Zealand – Cash Rate	2.50	July 24, 2013	2.50	--
People's Bank of China – Lending Rate	6.00	TBA	--	--
Reserve Bank of India – Repo Rate	7.25	July 30, 2013	7.00	--
Bank of Korea – Bank Rate	2.50	July 10, 2013	2.50	--
Bank of Thailand – Repo Rate	2.50	July 10, 2013	2.50	--
Bank Indonesia – Reference Interest Rate	6.00	July 11, 2013	6.00	--

Latin America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	8.00	July 10, 2013	8.50	--
Banco Central de Chile – Overnight Rate	5.00	July 11, 2013	5.00	--
Banco de la República de Colombia – Lending Rate	3.25	June 28, 2013	3.25	3.25
Banco Central de Reserva del Perú – Reference Rate	4.25	July 11, 2013	4.25	4.25

We do not anticipate any monetary policy action in Colombia at the upcoming meeting scheduled for June 28th. The central bank cut the reference rate by 200 basis points between August and March, as a response to weak economic conditions and lower inflation. However, after the government released its stimulus program and some signs of recovery have been observed, the authorities have signaled that the reference rate will remain unchanged at 3.25%. We expect economic activity to regain strength throughout the year, with stimulus measures filtering slowly through the economy.

Africa

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

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

Forecasts as at May 30, 2013*	2000-11	2012	2013f	2014f	2000-11	2012	2013f	2014f
Output and Inflation (annual % change)		Real GDP				Consumer Prices[2]		
World[1]	3.7	3.1	3.1	3.7				
Canada	2.2	1.7	1.7	2.3	2.1	1.5	1.1	1.8
United States	1.8	2.2	2.1	2.7	2.5	2.1	1.6	2.0
Mexico	2.2	3.9	3.0	4.2	4.8	3.6	4.2	4.1
United Kingdom	1.9	0.3	0.6	1.1	2.3	2.7	2.5	2.4
Euro Zone	1.4	-0.5	-0.7	0.7	2.1	2.2	1.4	1.6
Japan	0.8	2.0	1.4	1.5	-0.3	-0.1	0.7	1.2
Australia	3.0	3.6	2.6	3.0	3.1	2.2	2.5	3.0
China	9.4	7.8	7.9	8.0	2.4	2.5	3.3	3.9
India	7.4	5.0	5.4	5.9	6.6	7.3	5.6	6.5
South Korea	4.5	2.0	2.5	3.5	3.2	1.4	2.2	2.9
Thailand	4.0	6.5	4.5	4.2	2.6	3.6	2.5	3.2
Brazil	3.6	0.9	3.0	3.5	6.6	5.8	5.8	6.0
Chile	4.4	5.6	4.9	5.0	3.4	1.5	2.6	3.3
Peru	5.6	6.3	5.9	6.1	2.6	2.6	2.9	3.0
Central Bank Rates (%, end of period)	12Q4	13Q1	13Q2f	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f
Bank of Canada	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Federal Reserve	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
European Central Bank	0.75	0.75	0.50	0.50	0.50	0.50	0.50	0.50
Bank of England	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Swiss National Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bank of Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Reserve Bank of Australia	3.00	3.00	2.75	2.75	2.75	3.00	3.00	3.25
Exchange Rates (end of period)								
Canadian Dollar (USDCAD)	0.99	1.02	1.05	1.03	1.02	1.02	1.01	1.00
Canadian Dollar (CADUSD)	1.01	0.98	0.95	0.97	0.98	0.98	0.99	1.00
Euro (EURUSD)	1.32	1.28	1.27	1.26	1.25	1.25	1.24	1.24
Sterling (GBPUSD)	1.63	1.52	1.49	1.47	1.45	1.45	1.45	1.44
Yen (USDJPY)	87	94	102	104	105	106	107	109
Australian Dollar (AUDUSD)	1.04	1.04	0.96	0.98	1.02	1.04	1.06	1.08
Chinese Yuan (USDCNY)	6.2	6.2	6.1	6.1	6.1	6.1	6.1	6.1
Mexican Peso (USDMXN)	12.9	12.3	12.1	12.1	12.2	12.3	12.2	12.2
Brazilian Real (USDBRL)	2.05	2.02	2.01	2.01	2.00	2.01	2.02	2.04
Commodities (annual average)	2000-11	2012	2013f	2014f				
WTI Oil (US$/bbl)	57	94	94	96				
Brent Oil (US$/bbl)	58	112	108	110				
Nymex Natural Gas (US$/mmbtu)	5.67	2.83	4.00	4.50				
Copper (US$/lb)	2.10	3.61	3.40	3.20				
Zinc (US$/lb)	0.77	0.88	0.92	1.10				
Nickel (US$/lb)	7.62	7.95	7.25	8.15				
Gold, London PM Fix (US$/oz)	668	1,670	1,450	1,350				
Pulp (US$/tonne)	718	872	907	870				
Newsprint (US$/tonne)	581	640	620	660				
Lumber (US$/mfbm)	272	299	375	400				

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

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

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

North America

Canada

Canada	2012	12Q4	13Q1	Latest
Real GDP (annual rates)	1.7	0.9	2.5	
Current Acc. Bal. (C$B, ar)	-62.2	-58.5	-56.3	
Merch. Trade Bal. (C$B, ar)	-12.0	-8.6	-5.5	-6.8 (Apr)
Industrial Production	0.9	-0.6	1.0	2.1 (Mar)
Housing Starts (000s)	215	202	174	200 (May)
Employment	1.2	1.6	1.7	1.4 (May)
Unemployment Rate (%)	7.3	7.2	7.1	7.1 (May)
Retail Sales	2.5	1.0	0.9	1.5 (Apr)
Auto Sales (000s)	1673	1665	1680	1731 (Apr)
CPI	1.5	0.9	0.9	0.7 (May)
IPPI	0.6	-0.1	0.7	0.0 (Apr)
Pre-tax Corp. Profits	-4.9	-12.9	-10.6	

United States

United States	2012	12Q4	13Q1	Latest
Real GDP (annual rates)	2.2	0.4	2.4	
Current Acc. Bal. (US$B, ar)	-440	-409	-425	
Merch. Trade Bal. (US$B, ar)	-741	-730	-717	-703 (Apr)
Industrial Production	3.6	2.8	2.4	1.5 (May)
Housing Starts (millions)	0.78	0.90	0.96	0.91 (May)
Employment	1.7	1.6	1.6	1.6 (May)
Unemployment Rate (%)	8.1	7.8	7.7	7.6 (May)
Retail Sales	5.1	4.5	3.9	4.3 (May)
Auto Sales (millions)	14.4	15.0	15.3	15.2 (May)
CPI	2.1	1.9	1.7	1.4 (May)
PPI	1.9	1.7	1.4	1.7 (May)
Pre-tax Corp. Profits	16.6	14.7	2.2	

Mexico

Mexico	2012	12Q4	13Q1	Latest
Real GDP	3.9	3.2	0.8	
Current Acc. Bal. (US$B, ar)	-11.4	-28.1	-22.1	
Merch. Trade Bal. (US$B, ar)	0.0	-7.7	-4.1	-14.7 (Apr)
Industrial Production	3.6	1.8	-1.4	3.3 (Apr)
CPI	4.1	4.1	3.7	4.6 (May)

Europe

Euro Zone

Euro Zone	2012	12Q4	13Q1	Latest
Real GDP	-0.6	-1.0	-1.1	
Current Acc. Bal. (US$B, ar)	149	309	163	240 (Apr)
Merch. Trade Bal. (US$B, ar)	129.3	196.6	179.1	264.3 (Apr)
Industrial Production	-2.4	-3.1	-2.4	-0.6 (Apr)
Unemployment Rate (%)	11.3	11.8	12.0	12.1 (Apr)
CPI	2.5	2.3	1.9	3.9 (May)

Germany

Germany	2012	12Q4	13Q1	Latest
Real GDP	0.9	0.3	-0.3	
Current Acc. Bal. (US$B, ar)	238.6	278.0	237.7	274.3 (Apr)
Merch. Trade Bal. (US$B, ar)	243.2	243.3	270.1	275.0 (Apr)
Industrial Production	-0.4	-2.4	-2.2	1.0 (Apr)
Unemployment Rate (%)	6.8	6.9	6.9	6.9 (May)
CPI	2.0	2.0	1.5	3.4 (May)

France

France	2012	12Q4	13Q1	Latest
Real GDP	0.0	-0.3	-0.4	
Current Acc. Bal. (US$B, ar)	-60.2	-58.0	-79.3	-64.5 (Apr)
Merch. Trade Bal. (US$B, ar)	-52.1	-47.7	-47.4	-41.6 (Apr)
Industrial Production	-2.3	-3.4	-2.9	-0.5 (Apr)
Unemployment Rate (%)	10.2	10.5	10.8	11.0 (Apr)
CPI	2.0	1.5	1.1	2.7 (May)

United Kingdom

United Kingdom	2012	12Q4	13Q1	Latest
Real GDP	0.3	0.2	0.6	
Current Acc. Bal. (US$B, ar)	-91.4	-76.0		
Merch. Trade Bal. (US$B, ar)	-168.6	-174.3	-164.4	-151.0 (Apr)
Industrial Production	-2.4	-2.6	-2.3	-0.6 (Apr)
Unemployment Rate (%)	8.0	7.8	7.8	7.8 (Mar)
CPI	2.8	2.7	2.8	5.6 (May)

Italy

Italy	2012	12Q4	13Q1	Latest
Real GDP	-2.4	-2.8	-2.4	
Current Acc. Bal. (US$B, ar)	-11.3	25.2	-22.5	13.3 (Apr)
Merch. Trade Bal. (US$B, ar)	13.8	35.7	14.1	29.8 (Apr)
Industrial Production	-6.3	-6.6	-4.4	-4.3 (Apr)
CPI	3.1	2.5	1.9	4.3 (May)

Russia

Russia	2012	12Q4	13Q1	Latest
Real GDP	3.4	2.1		
Current Acc. Bal. (US$B, ar)	74.8	12.8		
Merch. Trade Bal. (US$B, ar)	16.1	15.5	16.6	14.2 (Apr)
Industrial Production	-5.3	1.7	-0.1	-1.4 (May)
CPI	5.1	6.5	7.1	7.4 (May)

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

Source: Bloomberg, Global Insight, Scotiabank Economics.

Asia Pacific

Australia	2012	12Q4	13Q1	Latest	
Real GDP	3.6	3.2	2.5		
Current Acc. Bal. (US$B, ar)	-56.9	-67.6	-38.9		
Merch. Trade Bal. (US$B, ar)	6.1	-6.4	16.9	27.7	(Apr)
Industrial Production	3.8	3.7	3.6		
Unemployment Rate (%)	5.2	5.4	5.5	5.5	(May)
CPI	1.8	2.2	2.5		

Japan	2012	12Q4	13Q1	Latest	
Real GDP	1.9	0.4	0.2		
Current Acc. Bal. (US$B, ar)	60.4	1.4	63.8	92.1	(Apr)
Merch. Trade Bal. (US$B, ar)	-85.8	-106.9	-116.2	-97.5	(May)
Industrial Production	0.2	-6.3	-6.5	-4.7	(Apr)
Unemployment Rate (%)	4.4	4.2	4.2	4.1	(Apr)
CPI	0.0	-0.2	-0.6	-0.7	(Apr)

South Korea	2012	12Q4	13Q1	Latest	
Real GDP	2.0	1.5	1.5		
Current Acc. Bal. (US$B, ar)	43.1	59.3	39.9	47.7	(Apr)
Merch. Trade Bal. (US$B, ar)	28.3	39.8	22.9	71.0	(May)
Industrial Production	1.2	1.9	-0.8	-1.1	(Apr)
CPI	2.2	1.7	1.4	3.4	(May)

China	2012	12Q4	13Q1	Latest	
Real GDP	10.4	7.9			
Current Acc. Bal. (US$B, ar)	290.0				
Merch. Trade Bal. (US$B, ar)	230.7	332.0	171.3	245.1	(May)
Industrial Production	10.3	10.3	8.9	9.2	(May)
CPI	2.5	2.5	2.1	2.1	(May)

Thailand	2012	12Q4	13Q1	Latest	
Real GDP	6.5	19.1			
Current Acc. Bal. (US$B, ar)	2.7	0.9	1.3		
Merch. Trade Bal. (US$B, ar)	0.7	0.3	-0.1	-1.6	(Apr)
Industrial Production	2.3	42.8	4.0	-4.8	(Apr)
CPI	3.0	3.2	3.1	2.3	(May)

India	2012	12Q4	13Q1	Latest	
Real GDP	5.1	4.7			
Current Acc. Bal. (US$B, ar)	-93.3	-32.6			
Merch. Trade Bal. (US$B, ar)	-16.3	-19.1	-14.8	-20.1	(May)
Industrial Production	0.7	2.1	2.1	2.3	(Apr)
WPI	7.5	7.3	6.7	4.7	(May)

Indonesia	2012	12Q4	13Q1	Latest	
Real GDP	6.2	6.1			
Current Acc. Bal. (US$B, ar)	-24.1	-7.6			
Merch. Trade Bal. (US$B, ar)	-0.1	-0.9	-0.1	-1.6	(Apr)
Industrial Production	4.1	11.0	8.9	10.4	(Mar)
CPI	4.3	4.4	5.3	5.5	(May)

Latin America

Brazil	2012	12Q4	13Q1	Latest	
Real GDP	0.8	1.1	1.8		
Current Acc. Bal. (US$B, ar)	-54.2	-80.4	-99.4		
Merch. Trade Bal. (US$B, ar)	19.5	14.9	-20.6	9.1	(May)
Industrial Production	-2.7	-0.5	1.1	3.5	(Apr)
CPI	5.4	5.6	6.4	11.7	(May)

Chile	2012	12Q4	13Q1	Latest	
Real GDP	5.6	5.7	4.1		
Current Acc. Bal. (US$B, ar)	0.5	-11.5	-6.8		
Merch. Trade Bal. (US$B, ar)	12.4	3.8	3.2	7.7	(May)
Industrial Production	2.9	1.4	3.3	1.5	(Apr)
CPI	3.0	2.2	1.5	0.9	(May)

Peru	2012	12Q4	13Q1	Latest	
Real GDP	9.2	5.9			
Current Acc. Bal. (US$B, ar)	-7.1	-1.9			
Merch. Trade Bal. (US$B, ar)	0.5	0.5	0.0	-0.4	(Apr)
Unemployment Rate (%)	7.0	5.9	6.3	5.7	(May)
CPI	3.7	2.8	2.6	2.5	(May)

Colombia	2012	12Q4	13Q1	Latest	
Real GDP	4.0	3.1			
Current Acc. Bal. (US$B, ar)	-11.4	-3.6			
Merch. Trade Bal. (US$B, ar)	0.4	0.4	0.2	0.0	(Apr)
Industrial Production	0.0	-1.9	-6.1	-11.5	(Mar)
CPI	3.2	2.8	1.9	2.0	(May)

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

Source: Bloomberg, Global Insight, Scotiabank Economics.

Interest Rates (%, end of period)

Canada	12Q4	13Q1	Jun/14	Jun/21*	United States	12Q4	13Q1	Jun/14	Jun/21*
BoC Overnight Rate	1.00	1.00	1.00	1.00	Fed Funds Target Rate	0.25	0.25	0.25	0.25
3-mo. T-bill	0.93	0.98	1.01	1.02	3-mo. T-bill	0.04	0.07	0.04	0.04
10-yr Gov't Bond	1.80	1.87	2.12	2.40	10-yr Gov't Bond	1.76	1.85	2.13	2.50
30-yr Gov't Bond	2.37	2.50	2.68	2.86	30-yr Gov't Bond	2.95	3.10	3.30	3.55
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US$B)	68.4	70.0	71.5	(Apr)	FX Reserves (US$B)	139.1	135.2	135.8	(Apr)
Germany					**France**				
3-mo. Interbank	0.10	0.11	0.10	0.15	3-mo. T-bill	-0.01	0.01	0.03	0.04
10-yr Gov't Bond	1.32	1.29	1.51	1.73	10-yr Gov't Bond	2.00	2.03	2.09	2.32
FX Reserves (US$B)	67.4	66.6	66.8	(Apr)	FX Reserves (US$B)	54.2	52.6	52.3	(Apr)
Euro Zone					**United Kingdom**				
Refinancing Rate	0.75	0.75	0.50	0.50	Repo Rate	0.50	0.50	0.50	0.50
Overnight Rate	0.13	0.11	0.08	0.08	3-mo. T-bill	0.36	0.39	0.39	0.38
FX Reserves (US$B)	332.5	326.7	327.1	(Apr)	10-yr Gov't Bond	1.83	1.77	2.06	2.41
					FX Reserves (US$B)	88.6	88.4	89.5	(Apr)
Japan					**Australia**				
Discount Rate	0.30	0.30	0.30	0.30	Cash Rate	3.00	3.00	2.75	2.75
3-mo. Libor	0.11	0.10	0.09	0.09	10-yr Gov't Bond	3.27	3.41	3.36	3.76
10-yr Gov't Bond	0.79	0.55	0.82	0.88	FX Reserves (US$B)	44.9		40.9	(Feb)
FX Reserves (US$B)	1227.2	1215.0	1221.8	(Apr)					

Exchange Rates (end of period)

USDCAD	0.99	1.02	1.02	1.05	¥/US$	86.75	94.22	94.31	97.43
CADUSD	1.01	0.98	0.98	0.96	US¢/Australian$	1.04	1.04	0.96	0.92
GBPUSD	1.626	1.520	1.571	1.538	Chinese Yuan/US$	6.23	6.21	6.13	6.13
EURUSD	1.319	1.282	1.335	1.312	South Korean Won/US$	1064	1111	1126	1154
JPYEUR	0.87	0.83	0.80	0.78	Mexican Peso/US$	12.853	12.331	12.713	13.431
USDCHF	0.92	0.95	0.92	0.93	Brazilian Real/US$	2.052	2.022	2.152	2.269

Equity Markets (index, end of period)

United States (DJIA)	13104	14579	15070	14724	U.K. (FT100)	5898	6412	6308	6133
United States (S&P500)	1426	1569	1627	1584	Germany (Dax)	7612	7795	8128	7836
Canada (S&P/TSX)	12434	12750	12187	12021	France (CAC40)	3641	3731	3805	3675
Mexico (IPC)	43706	44077	39269	37304	Japan (Nikkei)	10395	12398	12687	13230
Brazil (Bovespa)	60952	56352	49332	47172	Hong Kong (Hang Seng)	22657	22300	20969	20263
Italy (BCI)	873	851	886	865	South Korea (Composite)	1997	2005	1889	1823

Commodity Prices (end of period)

Pulp (US$/tonne)	870	900	930	930	Copper (US$/lb)	3.59	3.44	3.20	3.07
Newsprint (US$/tonne)	640	610	605	605	Zinc (US$/lb)	0.92	0.85	0.82	0.82
Lumber (US$/mfbm)	388	408	303	287	Gold (US$/oz)	1657.50	1598.25	1391.25	1295.25
WTI Oil (US$/bbl)	91.82	97.23	97.85	93.70	Silver (US$/oz)	29.95	28.64	21.69	19.87
Natural Gas (US$/mmbtu)	3.35	4.02	3.73	3.85	CRB (index)	295.01	296.39	286.18	278.29

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

Emerging Markets Strategy

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Scotiabank Economics

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