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Global Views

Weekly commentary on economic and financial market developments

June 28, 2013

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Can The US Economy Withstand Higher Rates?

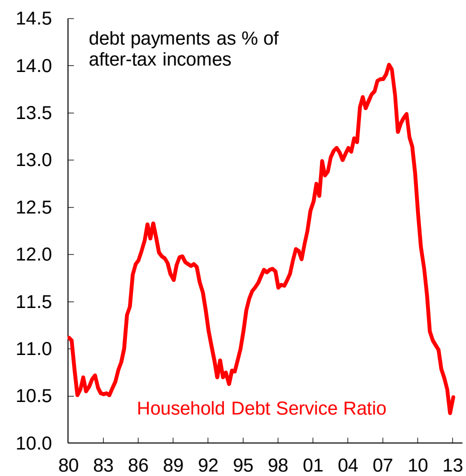
- **Please see our full indicator, central bank, auction and event calendars on pp. A3-A8.**

After a wave of attempts by FOMC officials to tamp down the bond market's reaction to the June 18th FOMC statement, we will see more such efforts as NY Federal Reserve President William Dudley and Governor Jerome Powell both speak on the economy and regulatory reform respectively. Fed speak is unlikely to dominate the week's attention, however, since we have already likely heard most of the relevant guidance for now. The next major event on the Fed calendar will be Chairman Bernanke's semi-annual testimony before the House and Senate in mid-July. Instead, US markets are digesting key releases in the context of the continued evolution of views regarding when the Federal Reserve may taper asset purchases. A downward revision to Q1 GDP growth to 1.8% on the final estimate softened the perspective that the private economy may be strong enough to withstand less Fed stimulus. So did annualized Q2 growth in real consumption that is tracking at only 1.3%, or half the Q1 pace. As such, data further reduced expectations of tapered asset purchases by the Federal Reserve at either the July 31st or September 18th FOMC meetings in support of our view that tapering doesn't land until the end of the year. Our view is that the Fed was likely somewhat dismayed by the market impact of its statement. We therefore expect the FOMC to continue to tamp down market pressures including those manifest through a sharp rise in the 30 year fixed mortgage rate that runs counter to the policy goal of continued improvement in US housing markets. It has been doing this by emphasizing its flexibility, the Fed's data dependency, and fewer reach for yield concerns following the rates sell-off while nonetheless carefully monitoring markets.

Next week's first tier data releases will be instructive in this debate, though they will continue to be somewhat stale readings. That's because the lagged effects of the rate shock since May that accelerated following the June 19th FOMC statement have not yet been given enough time to more fully impact economic indicators through downside risk that we think will evolve over the summer months. Regardless, the broad tone of the releases should start off constructively. Monday's ISM manufacturing print should follow the improvements in regional surveys like the Empire manufacturing gauge, the Philly Fed, Dallas Fed, and Richmond Fed surveys. A downside risk to ISM nevertheless concerns the fact that new orders tanked in May and this may carry enough momentum into June production levels to moderate the headline. That's nevertheless unlikely to impact Tuesday's factory orders print for May following the large gain in durable goods orders that was driven by a surge in airplane orders that masked some of the weakness in the rest of the report. ISM would not be as influenced by airplane orders as the total durables report. Monday's construction spending will add fresh perspectives on another major sector of the economy and while consensus is expecting a gain, the see-saw pattern this year coupled with the gain the prior month might not witness such hopes coming to fruition. US jobs numbers then take over with Wednesday's ADP and Friday's nonfarm payrolls report both expected to offer up subdued gains in line with the recent trend. Our calls are for gains of about 160k in ADP private payrolls and nonfarm private-and public-payrolls. Once again, watch hours worked within the payrolls report for the effects of sequester-related furloughs that have eliminated growth in hours worked since April but with possible added downside risk in future months.

Additional US developments will include updated household debt service ratios from the Federal Reserve on Friday after a massive improvement since 2007 that has dragged the share of after-tax incomes going toward debt payments toward the lowest ratio on record back to when the series began in 1980. This measure is very constructive to the longer-run consumer and housing market outlook, and is improving partly due to lower rates in keeping with the usual post-recession response, but also due to household deleveraging. The US household sector can probably withstand a modest backing up in rates while still retaining the vast majority of the improvement in the debt service burden and keep it below its long-run average, but a

US Household Finances On The Mend



Source: Federal Reserve, Scotiabank Economics.

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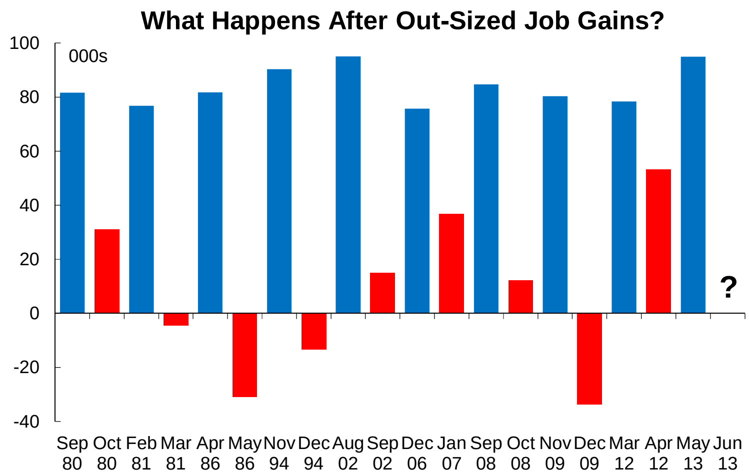
further rate shock would jeopardize this argument. Further to this, Wednesday's weekly mortgage applications will be monitored closely for further signs of the impact of the recent surge in mortgage rates that have crushed refi activity while nonetheless coinciding with firm purchase applications as households may respond to higher rates by first expediting applications in anticipation of potentially higher rates down the road. That may also explain the recent upside to pending home sales in May. The US trade deficit might narrow as crude oil prices slipped. Vehicle sales and ISM services round out the hits.

Canadian markets start off quietly by being shut on Monday for the annual July 1st Canada Day holiday, and Thursday is likely to be very quiet as the US 4th of July Independence Day will result in soft Canadian trading volumes and little to no issuance activity. The week may well end with a bang, however, as the jobs report for June lands on Friday. The issue is whether Canada will retain the out-sized gain that was registered in the last report for job growth in May. Recall that the country added 95,000 jobs in May, or equivalent to around one million US jobs using the standard multiplier. It is not a given that after such a massive gain the country will revert lower the next month simply by virtue of a distorted base effect. The accompanying chart makes this point. There have been nine other times since 1980 when the monthly job gain was a comparably massive 75,000 or more. In four of those cases, jobs fell the following month. In two of them, jobs grew marginally. In the other three, there was a fairly significant follow-up gain. We're playing it relatively neutral in expecting a -5,000 print for June but there is very high two tail risk to this guess, particularly in the absence of quality high frequency indicators we can use to firm up the call. A distant second place influence during the week may be international trade figures on Wednesday. We're expecting a slightly larger monthly trade deficit. This rarely impacts markets, but the quarterly tracking of trade's contributions to GDP growth can indirectly carry an influence. To that effect, it is encouraging that net trade has been contributing to GDP growth since 2012Q4 but more convincingly since 2013Q1. Last Q4, however, net trade added to GDP growth for the wrong reason as imports fell sharply. So far this year, export growth has been more positive and far outstripped import growth. That pattern appeared to be holding up into Q2 but we so far only have April data to go by and hence May's figures will be important in this regard. We continue to caution that the lift to exports coming through the resumption of more normal levels of output in the mining, oil and gas extraction sector may be getting exhausted following the sharp recovery in that sector's output after a panoply of technical problems dragged output lower until last September.



Source: Statistics Canada, Scotiabank Economics.

Asian economies and markets will help set the global market tone right off the bat as China releases both the state and private sector versions of manufacturing sector purchasing managers' indices on Sunday evening eastern time. The state version is expected to slip in sympathy to what we have already learned from the 'flash' preliminary sample for the private sector PMI which registered a contraction signal in June partly due to the central bank led financing squeeze that has since abated somewhat. China risks may continue into Tuesday when the country auctions bonds, in light of the recently weak bond auctions. Japan's Q2 Tankan survey of conditions affecting large manufacturers into the Monday open will also be closely watched against the back-drop of six consecutive quarterly readings signaling ongoing contraction that defy any optimism toward Abenomics. Other PMI surveys will land for India following a 50-month low in the May reading, as well as Thailand that has been contracting and South Korea that has recently witnessed slowing expansion in its manufacturing sector. In the wake of the latest bout of political turmoil in Australia and a massive 12% depreciation in the AUD against the USD, markets will watch key Australian developments next week. Only

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a minority of forecasters expect the RBA to cut its cash target rate on Tuesday with the majority projecting a pause in light of the sharp currency depreciation and some stability in the funding crunch that has hit the country's most important export market — China. Activity within broad swaths of the Australian economy will also be updated including new home sales, retail sales, and international trade. CPI inflation readings in South Korea, Indonesia, Thailand, and the Philippines as well as export growth in Malaysia, Indonesia and South Korea round out the regional market data risks that are of little consequence to the global market tone.

Was the Bank for International Settlements correct in assessing that central banks should move away from 'whatever it takes' language in guiding monetary policy? We'll see what the ECB and Bank of England have to say about that as **European** markets focus upon central bank stimulus expectations. The ECB has already largely provided its retort through comments by at least three high-ranking officials. ECB President Mario Draghi bluntly stated that the ECB "will stay accommodative for the foreseeable future. We have an open mind about all other possible instruments that we may consider proper to adopt." He went on to state that policy exit signals are "very distant." ECB Executive Board members Yves Mersch and Joerg Asmussen as well as Christian Noyer on the Governing Council repeated much of the same argument. Asmussen noted "It is clearly too early to exit now." Mersch was more outspoken, stating that "We'll continue with our accommodative monetary policy, which means there will be no exit in the foreseeable future" but also went on to note that anyone expecting the ECB to convert its OMT conditional bond buying program into an unconditional purchase program must "live in Alice in Wonderland." Literature and monetary policy don't always mix so well. Recall that the acronym for the name of the Federal Reserve's "System Open Market Account" that reflects QE purchases coincides with the Soma pill that was imbibed daily by citizens in Aldous Huxley's *Brave New World*.

Mark Carney leads his first policy meeting as Governor of the Bank of England on Thursday. The full consensus of economists does not expect any changes to the asset purchase program or the official bank rate at £375 billion and 0.5% respectively. This reflects a consensus view that Carney is unlikely to be any more persuasive over the perceived need for increasing stimulus, or that Carney may well put an end to the pattern set by ex-Governor King in dissenting in favour of additional stimulus. If the former, then King's remark that "He's a very persuasive man — but even he is just one vote out of nine" will ring true. If the latter, then many would support a pause period in light of generally improving UK economic growth compared to earlier in the year when 'triple dip' fears were being bandied about. The whole thing could turn out to be rather anti-climactic. What is possible is that forward guidance from the Bank of England may be strengthened but Carney is likely fully cognizant of how his conditional rate commitment that persisted until June 2010 when inflation upsides led him to abort the rate hold promise slightly ahead of schedule may not translate to the UK situation as effectively. In contrast to when Carney put in place his commitment at the BoC, the global term structure of interest rates has moved more aggressively in favour of the view that rates are not going anywhere for a long time anyway. Even with the rate sell-off until recently, the gilts curve is only attaching about a one percentage point premium to the policy rate out to the 5 year bucket on the curve. Talking that down further would be difficult and would carry little benefit to the UK economy. In any event, volatility at the front end of the Canada curve during the period of Carney's conditional commitment made the policy a muted success in our opinion. Rate guidance has also had a very checkered past at the Riksbank and RBNZ, two of the regionally significant central banks that have the longest experience in terms of experimenting with rate guidance. The Riksbank makes an interest rate announcement next week which is expected to extend the pause that has been in place since the end of last year.

Insofar as key European data is concerned, the UK will be focused upon PMI readings for the manufacturing, construction and services sectors. I would also pay attention to German factory orders on Friday following an erratic pattern that has consisted of a sharp drop in January, two strong gains over the next two months, and a sharp drop in April. In fact, German factory orders have been treading water ever since late 2011 through a volatile mixture of ups and downs amid no real trend growth and its factories have not recovered the lost order book since the Eurozone crisis intensified in 2011. Lagged eurozone add-ups for CPI, the unemployment rate and retail sales round out the hits, alongside French trade, Italy's manufacturing PMI, unemployment rate and monthly budget update. Auction risk will be focused upon France, Germany and the UK.

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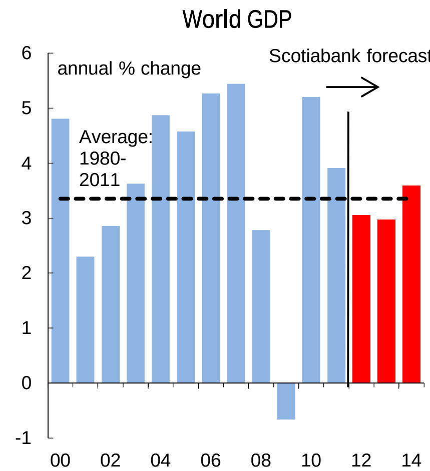
Uneven Growth, Uneven Policy Responses

The global outlook continues to be characterized by uneven and generally subpar growth performances as we enter the fifth year of recovery. The U.S. economy is gaining traction, albeit slowly, with American consumers and businesses in an improving mood to spend and invest. Output growth in China, however, has lost momentum, with comparatively solid domestic demand unable to overcome the drag from increasing credit restraint, reduced exports and a strengthening currency. Other emerging market economies such as India are implementing structural adjustments that are temporarily moderating growth prospects. Among other developed nations, Canada is expected to piggyback on improving U.S. conditions, though strained household balance sheets and the slowdown in commodity-related prospects will moderate output gains. Real GDP is expected to improve modestly in Japan and to some extent in the U.K. as pent-up demand is unlocked, though the lingering recession in the euro zone will persist. Output growth in Mexico, Latin America and many countries in the Asia-Pacific region has slowed against the backdrop of reduced international demand.



Source: IMF, Scotiabank Economics.

The U.S. Fed has indicated that by year-end it will begin to reduce its bond-buying program needed to kick-start stronger growth and buffer against the tightening in fiscal policy through tax hikes and spending cuts. Even with an eventual end to non-conventional monetary accommodation in mid-2014 that is conditional on further progress in reducing chronically high unemployment, Fed policy will remain quite easy and pro-growth with short-term interest rates anchored close to zero through next year.

Monetary policymakers around the world are not in synch with the U.S. shift to a less accommodative monetary posture. A large number of countries have eased monetary conditions in recent months in support of stronger growth in an environment of minimal inflation pressures and increased regulatory constraints on financial institutions. This has taken the form of lower interest rates, increased quantitative easing (e.g. financial asset purchases), and in some cases intervention in foreign exchange markets to limit export-dampening exchange rate appreciation. A few countries (e.g. Brazil) have raised interest rates to counter domestic imbalances, but even here offsetting fiscal adjustments have also been introduced for economic support.

Financial market volatility has increased alongside the shift in Fed policy. U.S. long-term interest rates have gapped higher from emergency-low levels to still historically low levels. The upward tilt in longer-term rates has taken the edge off very buoyant equity markets. Although much of the adjustment to the Fed's announced but yet-to-be-enacted policy shift has already occurred, bond yields and longer-term mortgage rates will move directionally higher as long as economic conditions remain supportive and indicators of financial sector stress are low.

The sharp rise in U.S. longer-term interest rates highlights a number of constructive factors domestically. Increasing U.S. economic momentum appears to be self-sustaining. Continuing job and confidence gains, improving household balance sheets, and rising home values are helping consumers sate their pent-up demand. The rising trend in capital goods orders points to increased industrial activity and output. And the rapidly improving short-term budgetary outlook underscores the favourable fiscal conditions that are now helping to reinforce investor expectations.

However, a number of potential issues could undermine the progress to date, not only in the United States, but globally as well if bond yields grind even higher. First, housing affordability will become increasingly strained if the current run-up in mortgage rates persists. Second, the renewed strengthening in the U.S. dollar could jeopardize exports if it were to continue in the absence of a sustained improvement in global growth. Third, the back-up in bond yields and increasing credit risks around the world will have a disproportionate impact on countries with less favourable fundamentals. And fourth, the slowdown in China's economic growth, and actions to moderate excessive credit demands, may lead to a softer global growth trajectory.

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US Dollar To Remain Favoured Given Continued Economic Improvement

A period of heightened volatility has returned to global foreign exchange markets. The US dollar (USD) is in high demand, triggered by the combined effect of rising long-term interest rates and widening economic growth differentials favouring USD-denominated financial assets. The US Federal Reserve's (Fed) shifts are at the core of such clear directional changes in market sentiment. Emerging-market assets are subject to severe stress and correction waves, prompting official intervention in the core group of most developing countries. Moreover, selective commodity price adjustments also anticipate a period of lower global demand from the traditional growth engines in the developing world. On a positive note, the sharp moves in currency markets have not been accompanied by evidence of systemic stress in the global financial sector, suggesting a shift in cyclical economic conditions rather than a nascent phase of banking sector instability.

The USD has once again become a favourite against most core currencies in high-income and developing-market economies. The trade-weighted US currency, as measured by the DXY and Fed's indices, has appreciated by over 5% since the beginning of the year. The US economic outlook remains promising as shown by trends in housing markets, industrial production and employment indicators. Nevertheless, the fiscal restraint has been more severe than originally discounted, prompting a modest downward adjustment to our estimated GDP growth for the US economy in 2013 (to be followed by a sharp rebound in 2014). The NAFTA zone as a whole will benefit from relatively stronger growth fundamentals over the next 18 months; however, clear market preference for US securities has ignited a weakening phase in both non-USD NAFTA currencies. The depreciation of the Mexican peso (MXN) has been more pronounced as a result of higher US rates (the 10-year UST bond yield edged 2.6% at the end of June). The Canadian dollar (CAD) has also been subject to temporary sell-off momentum, yet more modest as compared to the MXN. The CAD's outlook has weakened as policy dynamics and the relative growth outlook have shifted against it. We expect CAD to weaken against the USD in the near-term but retrace some of these losses in 2014 as we move closer to a period of higher rates in Canada and the domestic fundamentals improve. However, CAD is expected to outperform EUR, GBP and JPY.

The Latin American (excluding MXN) currency context is also experiencing a fragile trading environment as the USD regains prominence. The Brazilian real (BRL) has been subject to sharp depreciation (somewhat moderated by hefty central bank intervention) in line with other core currencies (excluding CNY) within the extended BRICS group. Commodity price adjustments (primarily in metal markets) have also weighed on the values of the Chilean (CLP) and Peruvian (PEN) currencies, whereas the Colombian peso (COP) remains in weakening mode aided by explicit central bank policy intervention. Despite this synchronized currency weakness and risk repricing activity, several countries in Latin America (Peru, Chile, Colombia and Mexico) remain in high-growth gear, increasing the chances of value recovery once the latest wave of emerging-market correction subside.

The EUR enters a defensive phase in line with still weak economic fundamentals as well as unattractive interest rate differentials. We retain our view that the single European currency should depreciate further reflecting poor growth prospects and still lingering financial systemic vulnerabilities, especially as the ECB introduces a more dovish bias. In addition, the market is likely to have only a limited tolerance of the slow progress on reforms and the banking union. We have maintained our bearish EUR forecast, calling for year-end rates of 1.25 and 1.23, respectively. The British Pound (GBP) has been in range-trading mode subject to movements in both Europe and the US. More recently, Sterling has suffered some losses as rising US Treasury (UST) bond yields have increased the attractiveness of the USD. We expect GBP to weaken into year-end as relative growth, a dovish central bank and negative sentiment weigh on the British currency. There has been a shift away from emerging markets and towards well-established developed markets, temporarily supporting EUR and GBP; however we ultimately expect both of these currencies to weaken. Finally, EURCHF continues to trade above the intervention floor set by the Swiss authorities, with a bias towards modest weakness. Within the regional emerging-market currencies, the Turkish lira (TRY) has suffered acute sell-off pressure aggravated by heightened socio-political instability.

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The Asian currency outlook continues to be influenced by the exchange rate direction of both the Japanese yen (JPY) and the Chinese renminbi (CNY). Explicit government intervention remains the norm in both countries. Significant depreciation of the JPY versus the USD has triggered regional competitive alignments in currencies such as the South Korean won (KRW) and the Taiwanese dollar (TWD), yet the Thai baht (THB) has become more resilient to regional currency swings on the grounds of a robust macroeconomic growth environment. The Indian rupee (INR) has been a major casualty during the recent phase of global risk aversion and asset allocation shifts away from emerging markets. India's twin deficit position, deteriorating sovereign credit fundamentals, high inflationary environment, decelerating economic activity and counter-cyclical monetary policy moves have weighed heavily on the INR, which has lost 8.4% against the USD over the last month. Finally, the outlook for Australia has deteriorated, in part due to a lower growth profile for China, but also due to a dovish central bank who appears increasingly focused on exchange rate competitiveness.

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Crossover Utility Vehicles Drive Global Auto Sales Higher

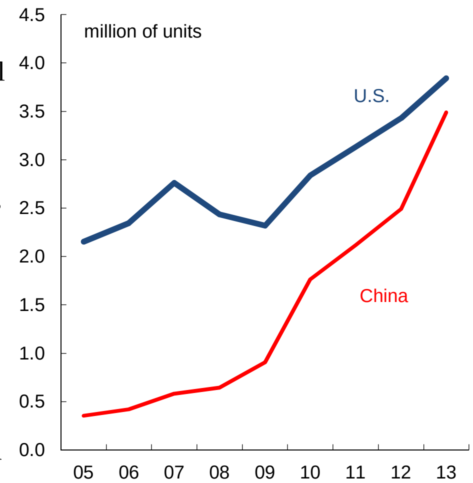
- **CUV volumes are surging across the world, especially in China. However, Canadian assembly plants are not benefitting.**

Global vehicle sales continued to move higher in May, but the pace of growth moderated to 3.5% y/y from an average of 5% during the previous four months. Slower sales gains reflect a recent softening in purchases in Eastern Europe — especially Russia — and India, as well as ongoing declines in the euro zone.

Outside of these regions, activity remains strong led by double-digit gains in South America — particularly Brazil — and China. However, the pace of growth in Brazil is likely to moderate in coming months, constrained by the 75 basis point increase in interest rates since late last year and high inflation. Auto loan rates in Brazil have climbed by more than a percentage point since March and now exceed 20%.

The global auto market is undergoing significant changes, including the escalating popularity of crossover utility vehicles (CUVs). According to data from IHS Automotive, global sales of CUVs surged by more than 35% between 2007 and 2012 and exceed 13 million per annum — 18% of the global auto market.

CUV Popularity Soars In China



2013 is year-to-date annualized.
Source: Scotiabank Economics.

This rising popularity of SUVs and CUVs first emerged several decades ago in North America — with these models accounting for at least 20% of the U.S. market since the new millennium. These vehicles now garner one-third of the Canadian and U.S. market, but the trend has recently become a global phenomenon. In particular, IHS indicates that CUV sales in China have been posting explosive growth in recent years, including a 20% surge in 2012 — triple the increase in car sales. The introduction of new models has lifted the growth rate of CUV sales in China to more than 50% so far this year. In fact, CUV purchases in China are rapidly approaching current sales levels in the United States (see chart).

While a Chinese brand is the best-selling CUV in China, several popular models sold in North America — the VW Tiguan, Honda CR-V and Audi Q5 — are among the top-selling vehicles in China. In fact, purchases of these three models were 20% higher in China than in the United States last month.

Estimates suggest that CUVs will account for one-quarter of the passenger vehicle market in China by 2020, as consumers are increasingly attracted to the practicality and fuel economy of these all-wheel-drive vehicles. In India, this segment is still small by global standards, with sales of 360,000 units last year —15% of the market. However, volumes could exceed 1 million units by the end of the decade, enabling India to become the third largest CUV market, behind the United States and China.

Canada would seem to be well positioned to benefit from the rising popularity of crossover utility vehicles. These models account for 40% of Canadian vehicle production and their share will increase further as Toyota continues to ramp up RAV4 output in Woodstock. However, with the exception of the Ford Edge assembled in Oakville, almost all of the crossovers produced in Canada remain in North America — either in Canada or exported to the United States. Instead, most automakers are opting to build new plants to assemble these popular models in the jurisdiction where these vehicles are sold, and are not considering Canada — the premier CUV manufacturing nation in North America — as an export base from which to ship these vehicles overseas. As result, Canadian CUV production is flat so far this year, while global demand for these products has soared in excess of 20% y/y through May.

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Alberta's Extensive Flooding … And The Accelerated Response

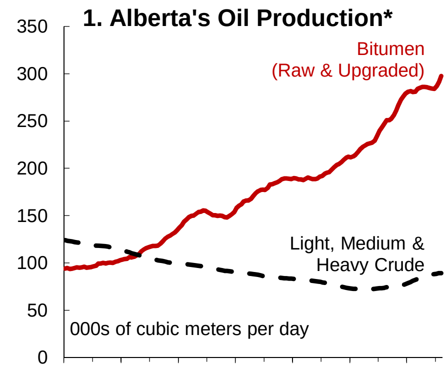
- **Stronger growth, but the FY15 balanced budget target may be deferred.**

As central and southern Alberta grapple with the worst flooding in the Province's history, collaboration among stakeholders has fast-tracked the emergency response. This effort is helping to limit the near-term economic impact, though an extended period of softness likely faces a number of industries, such as tourism and other discretionary services, even with the Calgary Stampede proceeding on July 5th.

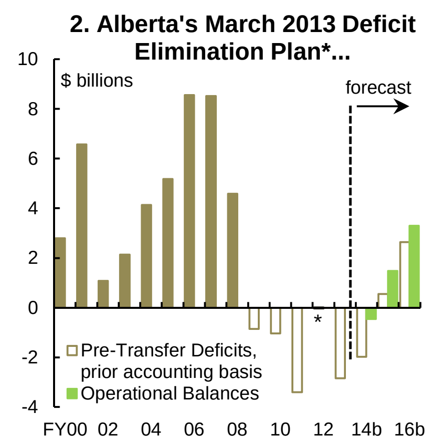
With estimates of the damage running up to $5 billion, intensive repair activity is expected to add to Alberta's real GDP, beginning in the second half of 2013.[1] Prior to the flooding, an upward revision to Alberta's growth was under consideration given the strength in its oil production *(chart 1)* and its domestic demand. With the added boost of extensive repair activity, Alberta's real GDP growth has been raised from 2.5% to 2.9% for 2013 and from 3.1% to 3.6% for 2014, alongside job creation topping 2.0% each year.

The Alberta government has already approved $1 billion for the first phase of emergency recovery and reconstruction. It is intended to cover flood-relief centres, immediate infrastructure repairs and assistance for displaced families. The latter will be delivered through pre-loaded cards of $1,250 per adult and $500 per child for evacuated families not able to return to their homes for at least seven days. For High River, the town hardest hit, the Province has advanced $50 million with funding to be finalized shortly for other municipalities. For uninsurable property damage suffered by communities, residents, small business and farmers, provincial assistance plus federal funding is available.

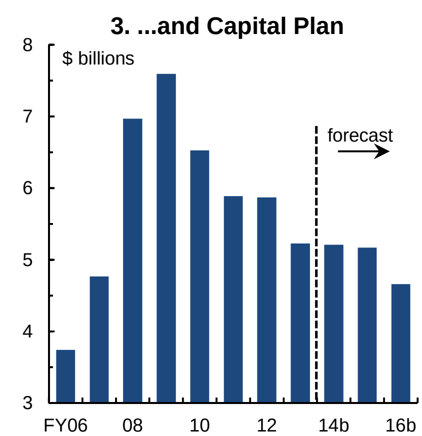
Alberta's *Budget* in March retains the Province's positive net financial asset position, reinforcing it with a Savings Plan slated for mid-decade, but it delays by one year its deficit elimination target to fiscal 2014-15 (FY15). The Province now has announced that it may forego balanced books for several years *(chart 2)*. Although the higher growth should benefit the bottom line, factors such as Western Canadian Select oil prices will be critical.[2] Fortuitously, final FY13 results indicated a $2.8 billion deficit, $1.1 billion narrower than the government's forecast this past March. As the Province balances multiple priorities, the gradual slowing of its Capital Plan outlined in March *(chart 3)* will have to be revisited. Ottawa's eventual share of the costs will not be known for some time. Its portion of Manitoba's costs from the flooding in 2011 was close to 50%. Alberta's borrowing requirements, projected at $7.3 billion for FY14 and $7.1 billion for FY15 in its March *Budget*, could well rise, particularly in light of anticipated delays in receiving federal funding assistance.



* 12-month moving average. December 2012 to March 2013 data are projected. Source: National Energy Board.



* Fiscal Plan basis. FY12 -$23 million.



Source for Charts 2 & 3: Alberta Finance, *2013 Budget, 2012-13 Annual Report.*

[1] GDP, measuring only the goods & services produced during a specified time period, will include the repair activity but not the property loss. [2] Alberta estimates a positive revenue impact of about $140 million for a US$1/barrel increase in WTI oil prices, approximately equivalent to a one percentage point narrowing in the WCT/WTI differential.

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Effect On Local Latam Financing Markets

The following article was published on June 25, 2013.

While emerging market issuance in the global USD market stopped in May, local markets issuance continues albeit at a slowing pace. The latest sign came yesterday, when the Mexican Finance ministry announced the new auction calendar for the third quarter, replacing long-term bonds with shorter-term Cetes. They cut the issuance of long-term bonds (20Y and 30Y tenors) by 1,500mn MXN per week each, such that they will issue one-third less than in the previous quarter. The government is also reducing, by smaller amounts, issuance of 10Y nominal bonds, as well as of 10Y and 30Y inflation-linked bonds. In contrast, the government is increasing the amount of 3-year bonds, of 364-day Cetes, and especially of 182-day Cetes.

Colombia announced a similar move a week ago, reducing the volume of auctions of TES bonds to the private sector by $1.5bn, a small amount relative to the $30bn planned for the year. The lower amount of private sector financing will be made possible through higher purchases by public agencies, as well as a slightly lower than expected deficit and other savings. The official press release was explicit in pledging that the government was not going to substitute other types of funding, whether more multilateral lending or other types of external debt, for internal borrowing. Nevertheless, Minister Cardenas told the press that the reduction in local issuance should provide some comfort to a market that has overreacted.

If current conditions persist, we doubt the change in Mexico will be sufficient. Consider that from January to mid-May, there was 201bn MXN in net issuance of Mbonos of which 78% was purchased by foreigners. In contrast, during the last two weeks of May, foreigners not only stopped purchasing bonds, but actually reduced their holdings by 1%. These figures suggest a change in foreign sentiment could cause a still larger modification of issuance plans. In contrast, despite the large reaction in TES markets, foreigners play less of a role there. Not including exposure through structured transactions, foreigners only held 5% of the country's fixed-rate bonds as of the end of May. This year, the government issued around 12tn COP of new fixed rate bonds of which 3tn were purchased by pension funds, 5tn by banks, 2tn by public entities, and only 2tn by foreigners. Although the Colombian bond market has had disproportionately large difficulties in digesting recent market volatility, the relatively smaller role of foreigners suggests that the country should be able to better withstand longer-term foreign outflows, once local market players work out their positioning.

Another market we are monitoring is the local corporate issuance market. In Mexico, short-term notes are not much of a concern and have not been significantly affected. On the other hand, issuance of long-term local bonds has become more difficult, even though we did see four such issuances last week: Alsea, BBVA Bancomer, ConCredito and Pemex. Pemex reopened a floating rate bond in the amount of 2.5bn MXN at a spread of 18bp, higher than the 5bp we had seen one week earlier. Meanwhile, the company had to postpone a much larger, long-term fixed-rate issue. We also saw the spread on local CFE bonds rise to 50bp on the secondary market. Anecdotally, many local investors are waiting for the volatility to pass before adding exposure in long-term fixed rates. Nevertheless, the Mexican corporate sector is much better able to withstand a drying up of financing conditions than it was in 2008. In contrast to the Sofoles of 2008, banks are well-capitalized and funded by deposits; in addition, corporates do not have the massive derivatives exposure that caused problems earlier.

In Peru, the government has not announced any changes so far, but its bond market is relatively smaller. We have not seen any long-term corporate issuance there recently, and suspect that investors will similarly prefer to wait.

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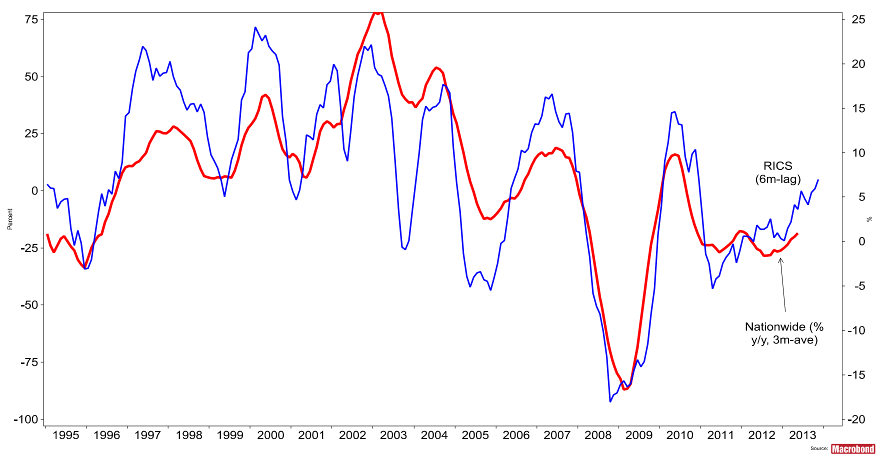
UK: Obsessed With Housing

Housing Indicators on the Up

Recent UK housing data have been robust of late — hardly surprising given the support of the various Government schemes. New mortgage rates have fallen, helped by the Bank of England's 'Funding for Lending Scheme' which has just celebrated its first birthday. More recently the 'Help to Buy' scheme has helped the housing market to change up a gear. The first phase of that scheme provides buyers of newly built properties a leg-up via a low interest equity loan facility (the scheme aims to help around 70k households over 3 years). The second phase of the scheme which comes into effect from next January (and is much bigger — available to over 500k households) is intended to assist high loan-to-value borrowers. This part of the scheme provides insurance for such loans, helping borrowers to gain access to the more attractive lending rates that are available to less leveraged home buyers.

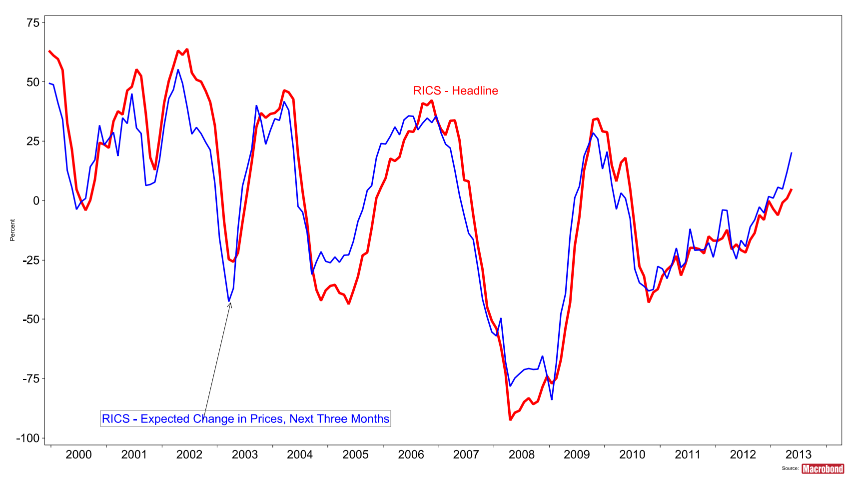
The strongest signal that the housing market is responding to these schemes has come from the latest RICS survey which points to house price inflation in the 5-10% y/y bracket over the next 6 months or so (Chart 1).

Chart 1: RICS vs Nationwide House Price Index



Furthermore, the rise in the 'price expectations' component of the RICS survey suggests that there is yet further upside for the headline RICS index (Chart 2). In turn, that would suggest that house price inflation should err towards the top of that 5-10% y/y bracket.

Chart 2: RICS vs Price Expectations



So what? There is an argument that says the rise in house prices should not affect the growth outlook. That view is that house price movements do not create nor destroy wealth — they just shift wealth between richer / older households and poorer / younger households.

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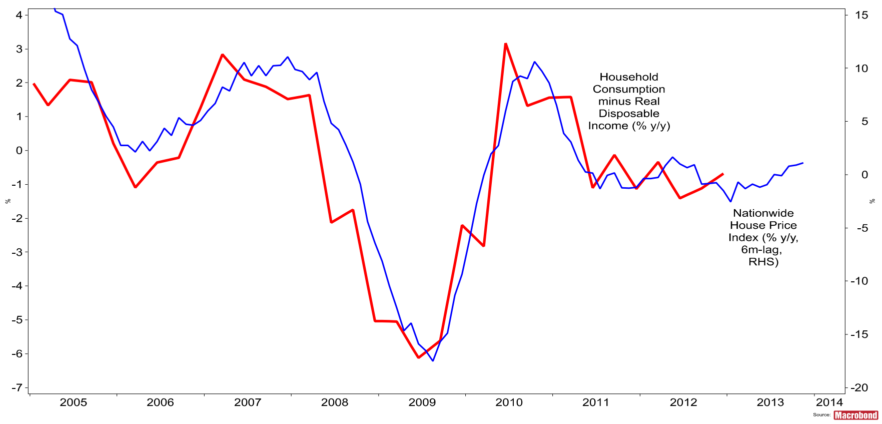
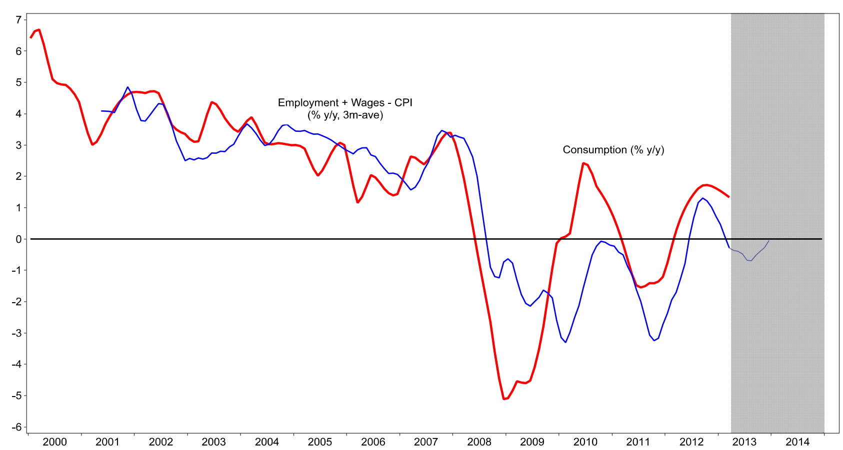
However, this overlooks the wider influences of housing. Consumer confidence tends to benefit when the housing market is accelerating. Homebuyers tend to purchase furniture and other associated goods when moving house. In the current environment, the Help to Buy scheme is partly intended to boost the construction sector which has been a drag on GDP growth over the past year. Last but not least, household consumption tends to outpace real disposable income growth during periods of rapid house price inflation (Chart 3). If we do see house price inflation in the 5-10% y/y bracket then it would be reasonable to see consumption growth outpacing real disposable income growth by as much as 2 percentage points.

Chart 3: Household Consumption minus RPDI and House Price Inflation



This is crucial in the current situation where the headwinds to household real disposable income are rising (as employment growth and wage inflation have slowed and CPI inflation is reaccelerating). In isolation, the latter would point to a slowdown in consumer spending growth into negative territory (Chart 4). That contraction may well be averted thanks to the recent buoyancy of the housing market.

Chart 4: Household Consumption vs Disposable Income Proxy



All in all, we judge that the recent buoyancy of the UK housing market is good for growth and likely to contribute to the recovery belatedly gaining some traction this year and next. This development is also a source of support for the RPI measure of inflation which captures house prices. If the indication from the RICS survey is correct and house price inflation accelerates to the 5-10% y/y bracket then this could add between 0.2 and 0.5 percentage points to headline RPI inflation.

While the boost to growth from housing may be welcome, it shows that old habits die hard — the UK is not rebalancing. Rather, housing-induced, consumer-driven growth is likely to remain in place for the time being.

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Eurozone: Getting Sentimental

Three encouraging bits of German and Eurozone data were released this week:

- **German Ifo** up by 0.2 points to 105.9. Essentially unchanged but pointing to 1% y/y GDP growth
- **German GfK** rose by 0.3 points to 6.8 suggesting consumption could approach 1% y/y during H2
- **Eurozone economic sentiment** rose by 1.9 points to 91.3 consistent with ECB recovery scenario

The improvement in business and consumer confidence indicators are good news for activity in the immediate month or two. It will be crucial to see whether the sharp increase in bond yields over the last week or so derails this recent improvement in mood. Combined with labour market conditions remaining weak, we expect ECB to remain dovish at next week's press conference.

German Ifo:

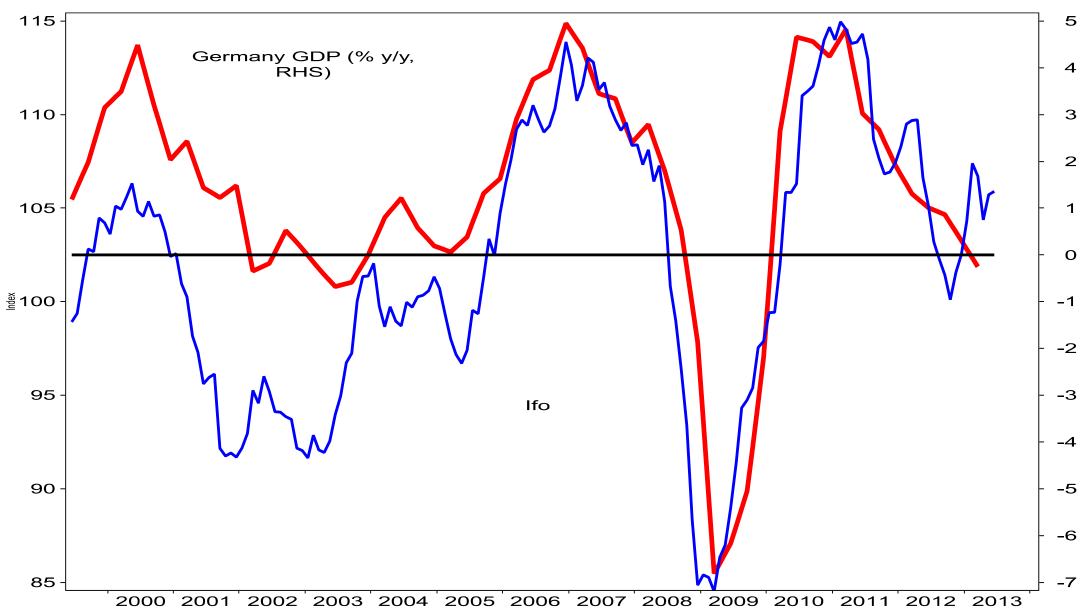
The headline Ifo for June was essentially unchanged — up by 0.2 points to 105.9 and in line with consensus (105.9)

As expected, the current conditions index fell following last month's jump — down by 0.6 points to 109.4. The series has been oscillating in a range between 110 and 107 since last September. That is contrary to its far more variable expectations sibling which has swung around violently as the mood on financial markets and the peripheral situation has evolved.

This month the expectations component rose by 0.9 points to 102.5 — likely reflecting the latest firming in sentiment. However, next month will be a crucial test of whether or not the recent swing in financial markets has derailed the buoyancy of sentiment indicators. More specifically, equities have dived, yields have risen strongly and peripheral spreads have widened. This is more likely to impact surveys such as the ZEW which is a poll of financial sector analysts than the Ifo which is a better gauge of real businesses. Nonetheless, if the Ifo (or indeed the PMI) does suffer a setback it will be a clear sign of how easily the early signs of recovery can be choked off by adverse market movements.

As things stand, at the current level, the Ifo is pointing to a turnaround in the % y/y pace of German GDP growth — around 1% y/y towards the end of the year (Chart 1). Let's hope that stays on track!

Chart 1: German Ifo vs. Germany GDP % y/y



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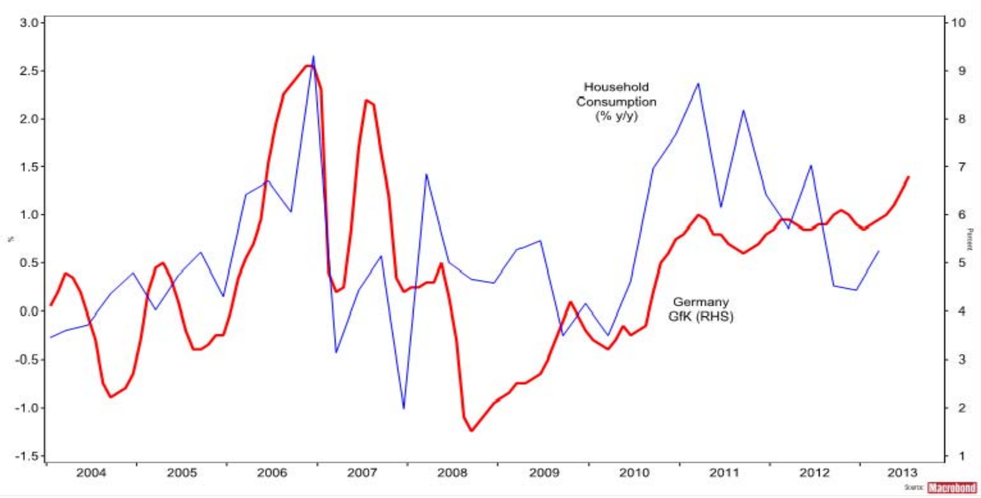
German GfK:

The headline GfK consumer confidence index rose by 0.3 points to 6.8 in July (consensus 6.5)

This survey has been on a steady upward trend since the beginning of the year and despite some headwinds this month (rising food prices, weaker employment and the inclement weather in Germany) that upward trend was sustained this month.

Given the relationship between consumer sentiment and German retail sales / household consumption there is good reason to expect firmer consumer demand in the months ahead. Consumption could approach 1% y/y during H2 having been virtually stagnant around the turn of the year (Chart 2).

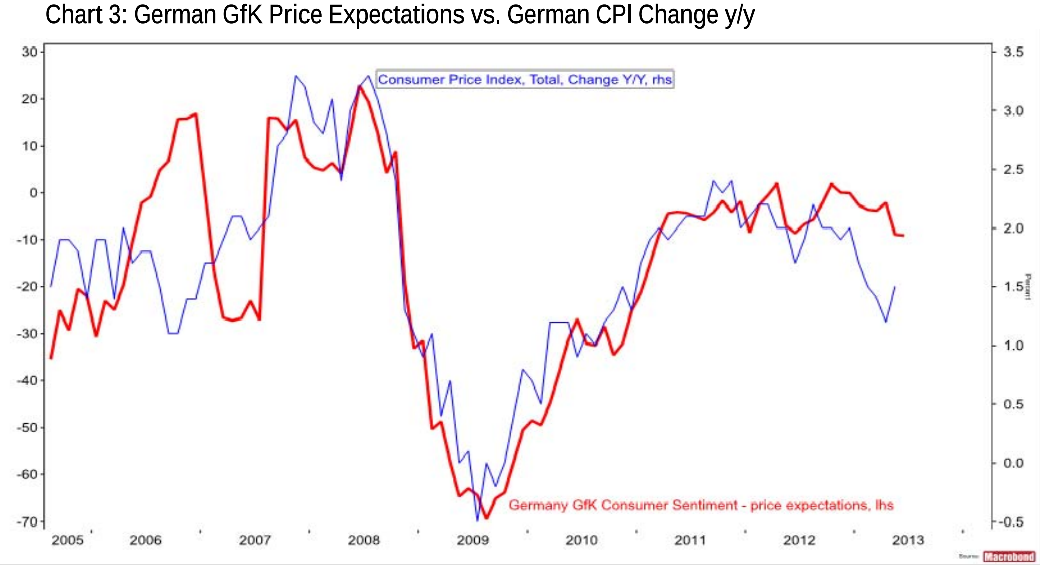
Chart 2: German GfK vs. Household Consumption % y/y



A number of things stand out from the breakdown:

- **Price expectations** have fallen for 2 consecutive months (Chart 3). There is probably more downside to come given that headline inflation has dipped. If that does push inflation expectations lower then at the margins it is helpful for the ECB if it does get to a situation where it wants to loosen policy again.

Chart 3: German GfK Price Expectations vs. German CPI Change y/y



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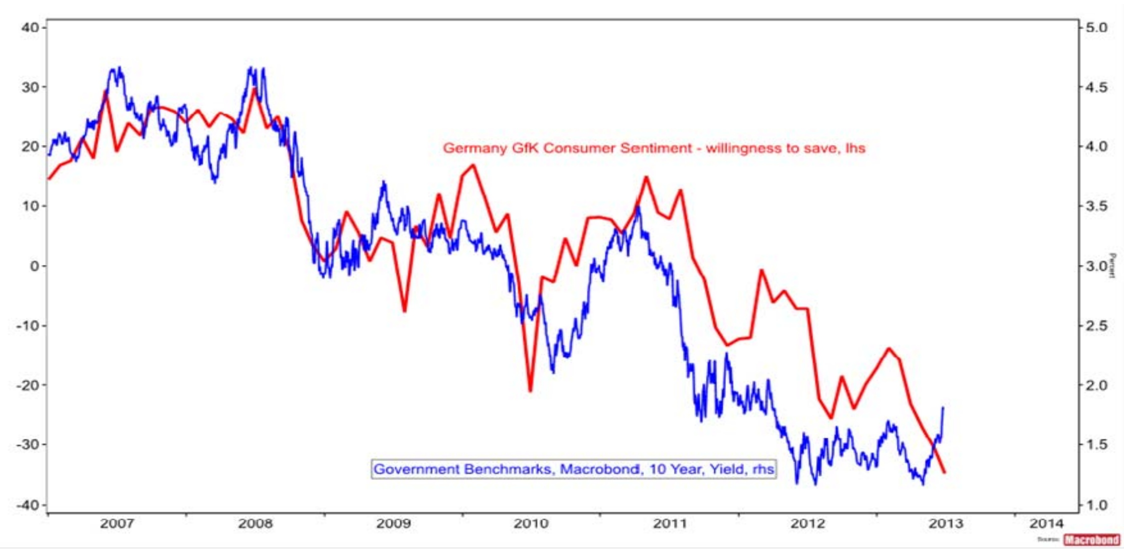
- **Willingness to save** down for 5 consecutive months (Chart 4). There are a number of things going on here. Firstly, with interest rates very low, there hasn't been much incentive to leave cash in the bank. Hence there has been a clear downward trend in this series. The big drops in this balance have tended to come at times when financial stresses have been at their most intense. Again, these periods have been associated with sharply falling German yields but this could have been exacerbated if savers have had their doubts about the banking system.

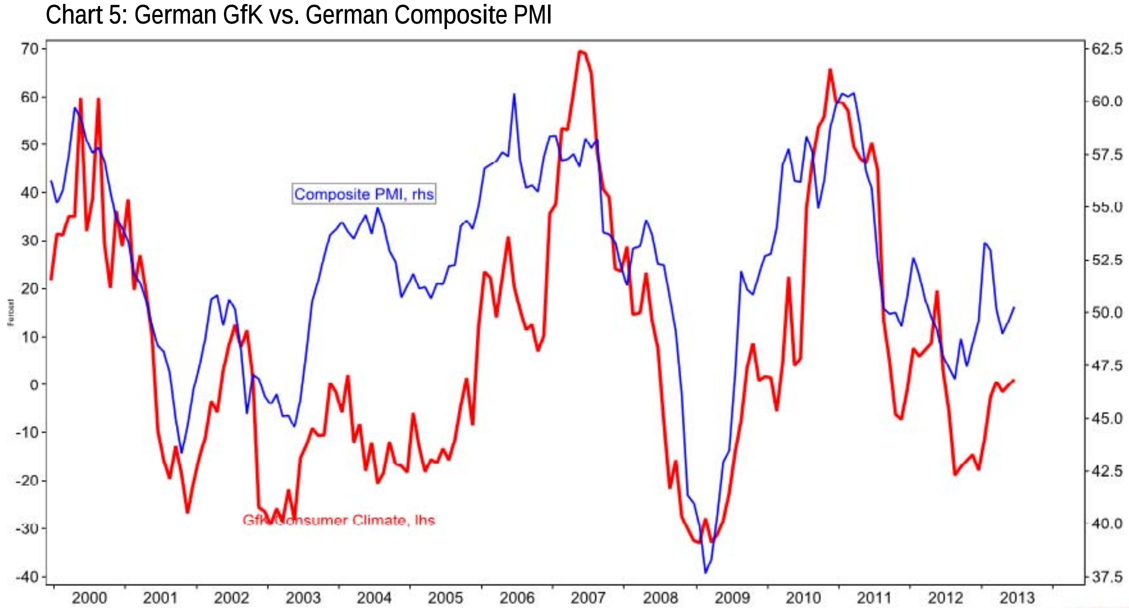
If people are saving less — presumably this supports the case for them spending more and consumption helping to drive German consumption growth higher.

Chart 4: German GfK Price Willingness to Save vs. 10y Bund Yield



- **Business expectations** up for 2 consecutive months — reasonable correlation with the PMIs and Ifo — hence more upside likely in the months ahead (Chart 5).

Chart 5: German GfK vs. German Composite PMI



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- **Income expectations** up for 3 consecutive months.

Overall, an encouraging survey from a number of perspectives. The eurozone growth outlook is heavily dependent on Germany since robust domestic demand there is likely to filter through into stronger exports elsewhere in the eurozone (since Germany is the number 1 or 2 trading partner for most eurozone economies). The German consumer has shown signs of improvement of late and this latest GfK survey points to more to come.

Eurozone economic sentiment

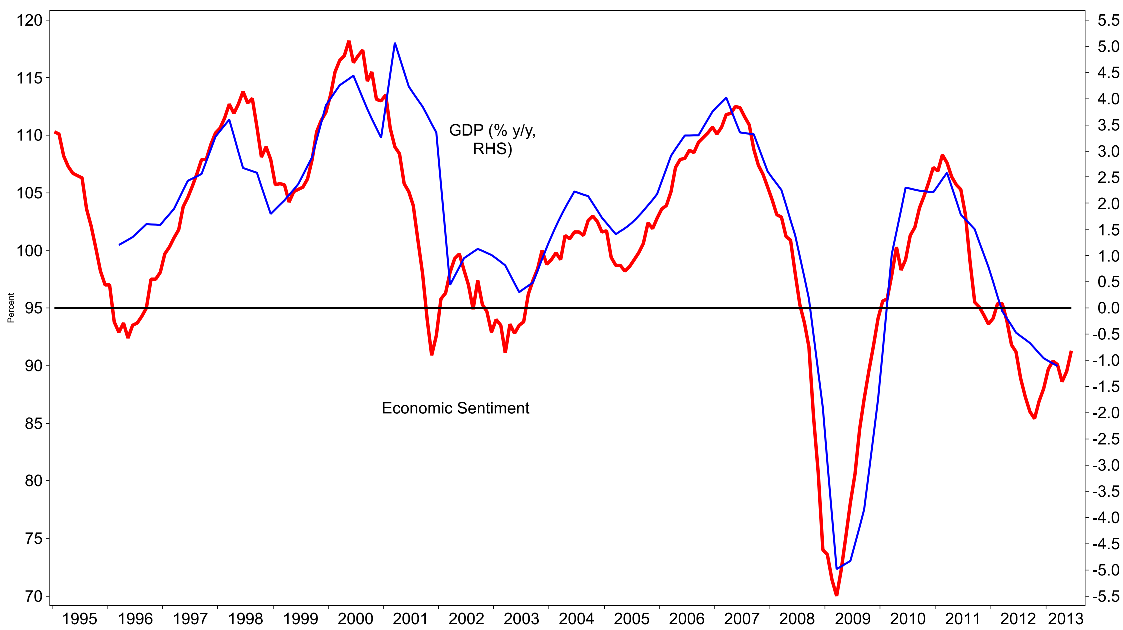
The headline eurozone economic sentiment index posted a rise of 1.9 points in June increasing from 89.4 to 91.3, even higher than our above-consensus forecast.

The improvement was mainly accounted for by the industrial sentiment indicator (which accounts for 40% of the overall weight) that rose by 1.8 points from -13 to -11.2; consistent with the rise in May's Ifo (the latter tends to lead industrial sentiment by around one month). Indeed, industrial confidence in Germany increased from -11.6 to -8.2. This suggests that the weakness in the manufacturing PMI in this country could have been a blip.

The services sentiment component (which has 30% of the overall weight) declined by 0.3 to -9.5; that was a tad weaker than expected given the relationship with the services sector PMI (which surprised positively).

Today's data were encouraging from the perspective that the falls registered earlier this year did not turn into a persistent downward trend. Given the steer from the economic sentiment indicator, this is good news for hard activity data in the months ahead and confirms that the pace of contraction is easing. To be clear, the thrust of the survey is 'less bad' not 'more good'. In other words, at this stage it merely points to a slower pace of contraction. As long as these surveys can shrug off the recent jump in bond yields then this theme should remain in place. Fingers crossed!

Chart 6: Eurozone Economic Sentiment vs. GDP % y/y



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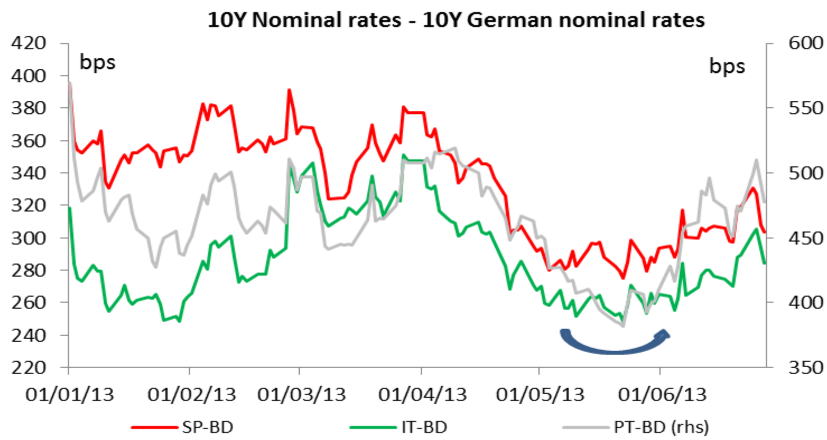
Reality To Catch Up With EMU Debt Market?

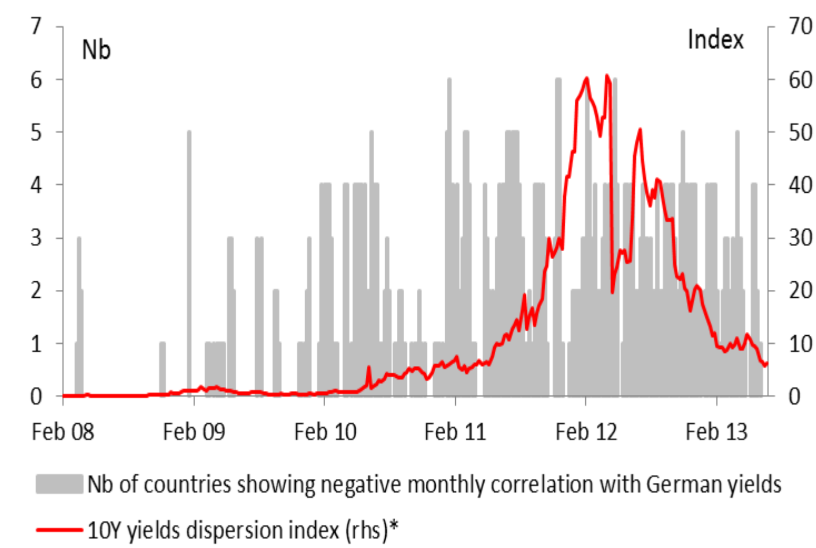
- The impact of the Fed's changing tone has been to remove support from asset markets across the world. Yields have moved higher while equity market took a hit. All in all, it has been equivalent to a global tightening in financial conditions. With this indication that the retreat from easy monetary policy and ample liquidity is about to begin, would the macroeconomic reality be more on the front side? This is especially key for the Euro debt market as the guarantee for unlimited liquidity has been one of the main drivers behind falling yields in all peripheral countries since last summer. This factor has been strong enough that debt markets have been able to absorb very easily the Italian and Cyprus political crises as well as the consistent downward revisions to the EMU GDP growth outlook.
- Over the past month, worries have risen that this macroeconomic reality could be back and catching up to EMU debt markets. As in the core countries, peripheral yields have of course risen but, they have also underperformed in this move. Indeed, spreads vs. Germany have widened by 150 bps for Greece, 85 bps for Portugal, 30 bps for Italy and 25 bps for Spain. For core countries like France, Austria or the Netherlands, there has some underperformance although spreads have only widened by 10 bps.

Chart 1: peripherals yields rewidening



- It is true that a trend of rising yield spreads at a time when German yields are moving higher and market volatility is increasing is not too surprising. Indeed, except at the peak of the debt crisis in 2011/2012, there is a positive correlation between all these elements. Also, it could be argued that after the strong rally and outperformance vs. Germany, there was scope for some correction. It is worth noting that, despite the recent pick up in yield spreads, the dispersion in yields between EMU countries has not risen significantly while at the same time the number of countries showing a negative correlation in yields vs. Germany is zero. So, all in all, it still suggests that there is less fragmentation in the EMU area compared to few months ago.
- However, at a time when there is a risk of liquidity drying up, there could be some concerns that this reconvergence in EMU debt markets could have been too great compared to macroeconomic or political uncertainties.
- This is the case when looking to the political uncertainty index. While the index has moved down since its peak at the end of 2011, it still remains at a high level. The popularity and the credibility of most of the governments in the area remains low, creating the risk of unstable outcomes.
- On the macroeconomic side, on-going downward revisions to the EMU growth recovery have once

Chart 2: EMU dispersion index in 10Y yields & correlation with Germany



* measured as weighted average of yield spread vs. Germany

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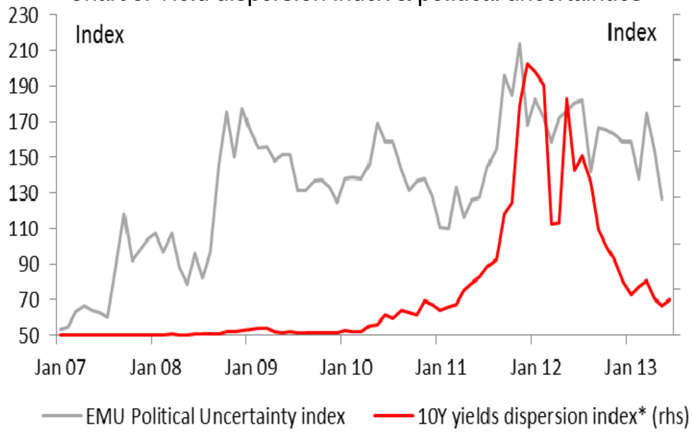
again put under stress the process of deficit and debt reductions in the area. With the EU Commission agreeing to offer more time for this process, there are signs of fatigue with respect to certain governments' agreed deficit reduction plans. Both the OECD and the EU Commission have revised upward their debt to GDP profile in their respective Spring 2013 forecasts compared to figures announced six months ago. For the EU Commission for example, the debt to GDP ratio for the EMU next year will reach 96%, close to 1 point higher than previously estimated. While in the case of Spain this ratio has been revised significantly down thanks to a better outcome than expected last year, it has been strongly adjusted higher in the case of Italy. Among core countries, while it has remained roughly unchanged in the case of Germany where the debt to GDP ratio is expected to decline, it has also been revised up by around 1 point for a number of core countries like France, the Netherlands and Belgium. So, there are signs of rising dispersion between peripheral countries but also among the core.

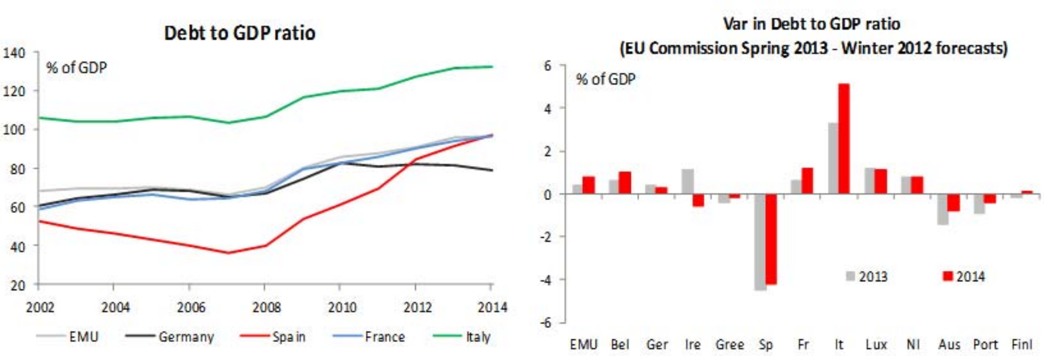
Chart 3: Yield dispersion index & political uncertainties



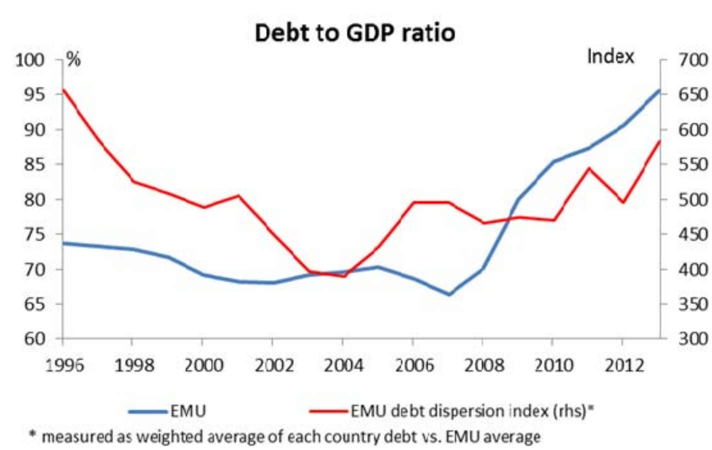
* measured as weighted average of yield spread vs. Germany

Source: Economic Policy Uncertainty, Scotiabank

Chart 4: EMU debt to GDP ratios revised higher and with growing dispersion



- So, there could be a increased risk that debt markets reconnect with these realities at a time when the commitment and the consensus among central banks at the global level appear to be receding. The changing tone of the Fed leaves the ECB as the sole actor in place and, in the short term, increases the pressure on the central bank. Mr. Draghi could have therefore no choice for the time being than to strengthen his argument that the ECB is ready to do "whatever it takes" and that the monetary policy will remain "accommodative for as long as needed". That is likely one of the key focal points for next week's ECB meeting.



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Latin America Week Ahead: For The Week Of July 1 - 5

Friday's US non-farm payrolls release should be the week's main event for the region, particularly as markets focus on US employment for guidance regarding Fed tapering. Since the start of May, US yield curve steepening has left investors in local currency LATAM fixed income markets scrambling to hedge or unwind their exposures, putting pressure on regional currencies. Accordingly, over the same period, local yield curve behavior has served as a good indicator of local market stress in LATAM, with the region's currencies stabilizing once curves' steepening/widening moves have subsided. Besides non-farm payrolls, US activity indicators, particularly auto-sector/manufacturing activity, should be monitored due to their importance for the Mexican economy. On the other hand, although Chinese services PMIs are usually less important for LATAM than their manufacturing counterparts, which more closely relate to commodity price moves, under the current environment where high Chinese rates are seen as threatening economic activity, we believe they should be watched as they could factor into PBoC (People's Bank of China) policy decisions, which should be LATAM relevant (particularly for Chile).

Country highlights:

Brazil: This is scheduled to be an important week for Brazil in terms of data, with IPCA inflation, industrial production, and both PMIs all being relevant parts of the monetary policy puzzle (local interest rate swaps' — DI rates — moves over the past month suggest a degree of uncertainty, with 1yr rates having traded +100bps / -50bps from current levels). However, although all of these indicators are likely to be watched for their implications on monetary policy (the DI curve is pricing +50bps for the next meeting, while the BCB just revised its 2013 inflation forecasts upwards to 6.0% from 5.7%, and its growth forecasts downwards to 2.7% from 3.1% in yesterday's Quarterly Inflation Report release), our view is that markets will remain focused on the policymaker response to the ongoing protests in the country. In particular, we have noted some rising concern about the possibility that protesters' demands could lead to additional fiscal loosening, coming in the heels of warnings for the country's ratings from S&Ps and Moody's.

Chile: Although the Chilean local yield curve has been a clear outperformer of its regional peers, CLP has been the third worst performing currency in the region since the start of May (behind the Brazilian real — BRL — and the Mexican peso — MXN), despite Chilean markets being relatively "lightly positioned" by foreigners. Our sense is that notwithstanding light foreign positioning in local markets (i.e. equities and fixed income), the FX market was more heavily positioned, as USD/CLP's tight 469-478 range for the first three months of the year, combined with the peso's 5% yield made it an attractive carry trade. The BCCh (the Central Bank of Chile) is releasing its Monetary Policy Report Monday, which should be relevant given the market is still split regarding the direction of the next move — although consensus appears to be shifting towards an easing bias.

Colombia: With a light data pipeline until Friday (when we expect the release of June inflation and vehicle sales data), today's decision by BanRep on whether to adjust the pace / timing / duration of the USD purchase program should be an important factor for COP's price action early in the week.

Mexico: This should be a busy week for the Mexican peso, with a heavy pipeline of US manufacturing activity indicators, as well as vehicle sales data all in the pipeline. US data will be relevant due to the heavy integration of the two country's industrial sectors, as a gauge of how deep Mexico's slowdown can be — with potential implications for monetary policy, after the latest statement by Banxico appeared to give slowing economic activity a greater importance. In addition, we are scheduled to get both IMEF PMIs (manufacturing and non-manufacturing) and the two major expectations surveys (Banxico and Banamex). On the political front, things could heat up as we approach the July 7th elections, which are a key factor for the balance of political forces among different parties (especially internally), and will be one of the relevant items for the outlook for the reform agenda in our opinion.

Peru: This looks set to be a quiet week for Peru on the data front, with the major expected release being CPI data on Monday. In terms of other drivers to look for, we believe it will be important to watch out for when the BCRP signals it feels the stress on the domestic markets due to USD scarcity has faded (i.e. for us this means when they stop selling USD linked CDs).

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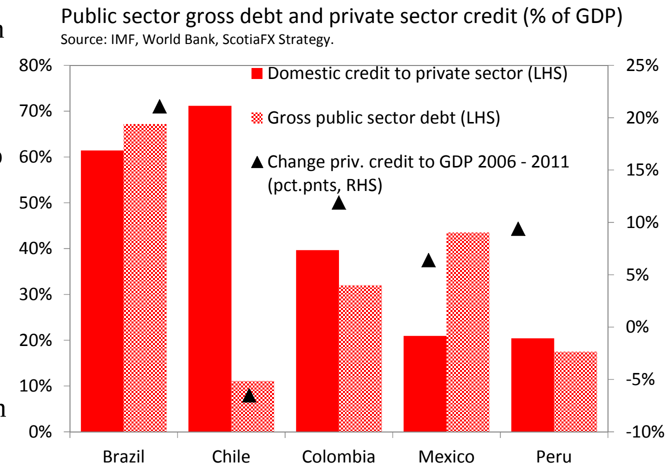
Latin America's Vulnerability To Rising Global Interest Rates

LATAM markets have over recent weeks been buffeted by an investor pullback driven by signs that the Fed is considering a reduction in the pace of stimulus provision, leading to steepening of global yield curves. The large impact on LATAM markets (in some cases >10% loses in currencies, and over 100bps in rate increases) of still relatively small out-flows in relation to the size of cumulative inflows over recent years is driving us to consider how well positioned the region's countries are to cope with the risk of DM (developed markets) simulative policy reduction and an eventual reversal. In our view, among the major angles to consider are: rising global interest rates, dependence on external financing in an environment where capital flows into EM (emerging markets) may be restricted, and the impact of a stronger USD. We plan to study these risks over the coming few weeks, starting with a look at which counties in the region are best positioned to cope with higher rates today.

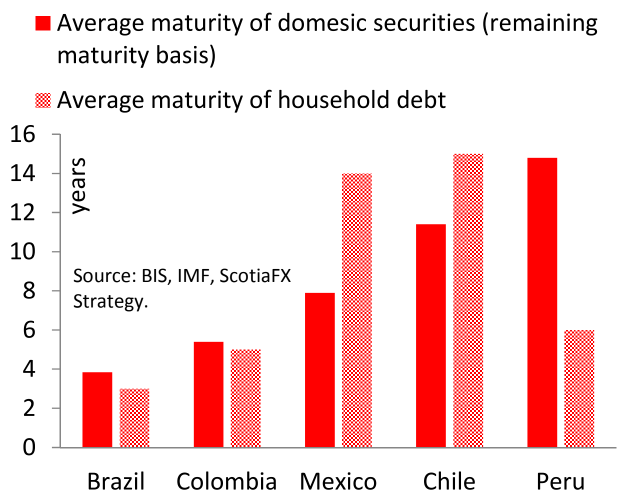
Graph 1: Although LATAM markets coped with higher rates "pre-capital inflow boom"… however in some countries rising debt burdens could be a problem if rates rise



The degree of risk LATAM countries face from rising interest rates is, in our view, driven by three major factors: 1) given the region survived with higher rates pre-capital inflow bonanza, we believe a key question is how much the lower rates of the past few years led to increases in leverage above those that were sustainable at higher pre-capital inflow interest rates (see "triangles" in graph 1 on the right side axis). Our sense is that outside Brazil, where household leverage had a significant increase, the investment grade LATAM economies look to be in good shape.

In this regard, a second factor to consider is 2) what is the maturity of the country's debt burden, as longer debt maturities should give borrowers time to reduce debt to where they are comfortable within a "higher rates" environment. On this front, Brazil once again looks most vulnerable in the region, followed by Colombia (see graph 2).

Graph 2: Countries with shorter term debt maturities could have less time to adjust to higher rates



An additional factor to consider is 3) how high a country's debt burden is relative to the size of the economy, as deeper markets could mean a larger share of the economy is sensitive to higher rates, with a larger "transmission mechanism" potentially leading to a sharper slowdown as interest rates rise (i.e. a larger share of the economy affected by rising interest rates).

Although we believe that rising rates could hit LATAM on the growth front (see argument above regarding the transmission channel), we believe this could be partly offset by a weaker currency, but we don't believe the FX weakness offset for a higher rates induced slowdown is completely straight forward, and would depend on: 1) what matters from an exchange rate perspective for growth is the "real exchange rate" (so cost inflation must be held in check so it does not eat away the weaker currency derived cost advantage gain), 2) the depth of the exchange rate transmission channel (how open the economy is, which determines the size of the potential export related boost), and 3) whether the stronger USD also hits exports through the "terms of trade channel" (we believe this is particularly relevant for commodity exporters i.e. much of LATAM). We will look at how much potential FX related relief each LATAM country can receive in coming weeks. Based on the above, we believe BRL (real) faces the largest headwinds from higher global rates among the 5 major investment grade LATAM economies.

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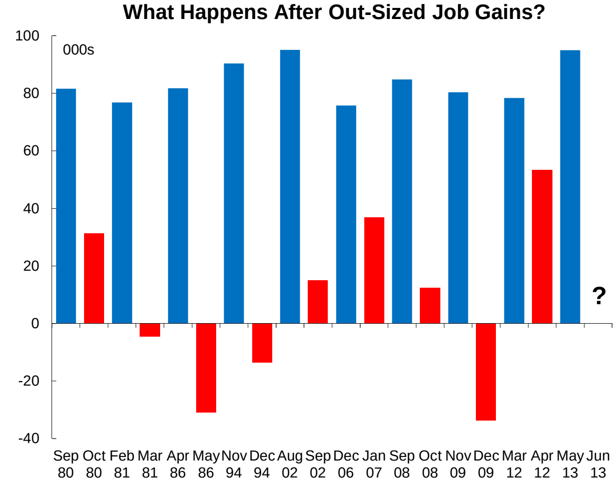
Key Data Preview

CANADA

How will the Canadian economy follow up the monster job gain of +95k seen in May? Our forecast is for a moderate cool-down in **Canadian jobs** (-5k) after May's pyrotechnics. There are 9 prior instances of job gains of 75k or more since 1980; those months have been followed up by contractions in jobs 4 times, modest growth in line with trend twice, and solid follow-ups three times. The conclusion that we draw is that when large job gains happen in a context of economic strength, the follow-up is strong; when the job gains come essentially 'out of the blue', there are much better than average odds that the gain will be followed by an employment loss. As the participation rate surged as well during the prior month, we're expecting some give-back that could paradoxically drop the unemployment rate to 7%.

What Happens After Out-Sized Job Gains?



Source: Statistics Canada, Scotiabank Economics.

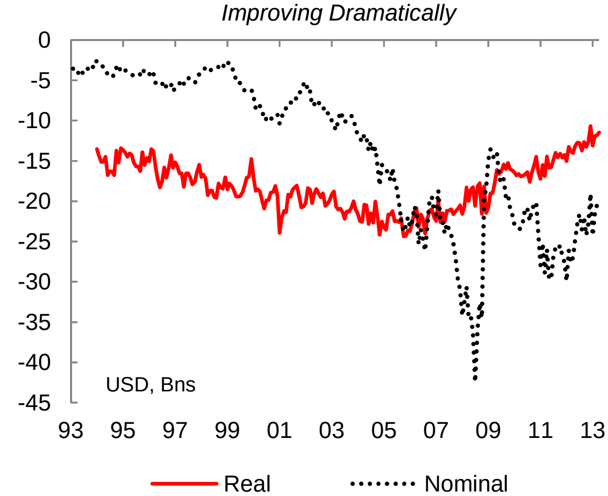
We're looking for the **Canadian trade balance** to deteriorate to CAD -850m when May figures are released on July 3 mainly on the basis of a weaker Canadian dollar (USDCAD was up moderately) and softer prices for the crude distillates that Canada exports (WCS was lower by 3.2% on the month) which came in concert with a less sharp -0.5% drop in the price of crude that Canada imports. Watch out for volatility in volumes of crude oil imports and exports as that has been one of the key swing factors for the real trade balance in recent months.

UNITED STATES

We're looking for U.S. **jobs numbers** to continue along their soft trend when June nonfarm payrolls figures are released on July 5. Our forecast for a 165k jobs print is based on the fairly stagnant pattern for initial jobless claims in June relative to May (the average in the first two weeks of June was 345k vs. 353k during the first two weeks of May). The risk that we would flag here is that jobless claims have been very low for most of 2013 (350k on average thus far vs. 375k during 2012) but hiring has not picked up in quite a commensurate fashion (189.2k on average thus far this year vs. 182.8k on average in 2012). Our interpretation of this phenomenon is that in the context of uncertainty surrounding the fiscal outlook (and now weaker than previously thought economic growth), U.S. firms are reticent to hire.

We're looking for improvement on the U.S. **trade balance** when the May numbers come out on July 3. Our forecast of a trade deficit of USD -38.5bn is premised on a stronger USD in May (the DXY was up by close to 1% on average) and a moderate drop in crude oil prices. We're also expecting strength in exports of capital goods and of cars after both showed solid numbers in May. Watch out for the U.S. petroleum products trade balance; while the improvements in the nominal petroleum products balance have been impressive of late, particularly as the balance has decoupled from crude prices somewhat, the surge in volumes has been even more significant (see chart). Indeed, the 'real' trade balance in petroleum products is tracking at the highest level that we can observe in our database, and is probably the single best illustration of the revival in U.S. oil production that can be observed in U.S. macroeconomic aggregates.

U.S. Petroleum Products Trade Balance
Improving Dramatically



Source: Census Bureau, Scotiabank Economics

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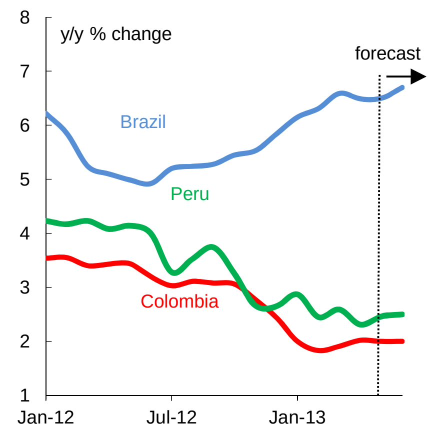
EUROPE

Economic data out of Sweden remains mixed, but the prospect for further monetary easing by the Riksbank has diminished as upward pressure on the krona and deflationary forces have moderated. The CPI contracted by 0.2% y/y in May following a 0.5% decline in April. Signaling a further potential improvement in price dynamics in June, the krona fell by more than 3% versus the euro over a period of three days earlier this month, though it has already partially recovered. We have revised our year-end EURSEK rate forecasts to 8.50 in 2013 and 8.20 in 2014 (from 8.20 and 8.10, respectively). The first-quarter GDP report was slightly better than anticipated, with the economy expanding 0.6% q/q (1.7% y/y) following an upwardly revised gain of 0.1% in the prior three months. The result was driven by strong household consumption (up 1.0% q/q) and an accumulation of inventories, while investment and exports detracted from growth. Output is expected to advance by 1¼-1½% this year, before accelerating to around 2½% in 2014. While there remain two dissenters on the central bank's executive board who continue to press for rate cuts, we do not expect any policy easing at this point given that domestic demand is relatively strong and the currency outlook is weaker. The benchmark repo rate will likely stay at its current level of 1.0% until the second half of 2014.

LATIN AMERICA

Price dynamics in Latin America remain wide-ranging. June inflation reports for Brazil, Colombia and Peru will be released next week. In Brazil, inflation remains elevated, hovering around the upper limit of the central bank's tolerance range (6.5% y/y in May), and although the monetary authorities have been fighting against higher prices by hiking the reference rate, 75 basis points (bps) in three months, inflation has persistently increased over the last 12 months. With the recent depreciation of the Brazilian real (6% year-to-date) consumer prices may prove sticky in the coming months. We continue to expect tighter monetary conditions — at least 75 bps more in cuts in the next three months. Conversely, in Peru and Colombia, inflation has been trending down. In Colombia, it remains close to or below the central bank's 2-4% tolerance range, while in Peru the headline rate is close to the mid-point of the official range. Recent currency depreciation in both countries may have an impact on price moves in the months ahead, particularly if volatility in the FX markets remains high. Nonetheless, the respective central banks have room to maneuver in terms of monetary adjustments.

Inflation in Latin America



Source: Bloomberg and Scotiabank Economics.

Key Indicators for the week of July 1 - 5

North America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	07/01	10:00	Construction Spending (m/m)	May	0.5	0.6	0.4
US	07/01	10:00	ISM Manufacturing Index	Jun	51.0	50.5	49.0
US	07/02	10:00	Factory Orders (m/m)	May	1.8	2.0	1.0
US	07/02	17:00	Domestic Vehicle Sales (mn a.r.)	Jun	12.1	12.0	12.0
US	07/02	17:00	Total Vehicle Sales (mn a.r.)	Jun	15.5	15.4	15.2
US	07/03	07:00	MBA Mortgage Applications (w/w)	JUN 28	--	--	-3.0
US	07/03	08:15	ADP Employment Report (000s m/m)	Jun	160.0	160.0	135.3
CA	07/03	08:30	Merchandise Trade Balance (C$ bn)	May	-0.9	-0.7	-0.6
US	07/03	08:30	Trade Balance (US$ bn)	May	-38.5	-40.1	-40.3
US	07/03	10:00	ISM Non-Manufacturing Composite	Jun	54.5	54.1	53.7
US	07/04	08:30	Initial Jobless Claims (000s)	JUN 29	355	345	346
US	07/04	08:30	Continuing Claims (000s)	JUN 22	2950	--	2965
CA	07/05	08:30	Employment (000s m/m)	Jun	-5.0	-7.5	95.0
CA	07/05	08:30	Unemployment Rate (%)	Jun	7.0	7.1	7.1
US	07/05	08:30	Average Hourly Earnings (m/m)	Jun	--	0.2	0.0
US	07/05	08:30	Nonfarm Employment Report (000s m/m)	Jun	165.0	165.0	175.0
US	07/05	08:30	Unemployment Rate (%)	Jun	7.6	7.5	7.6

Europe

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
IT	07/01	03:45	Manufacturing PMI	Jun	--	47.7	47.3
FR	07/01	03:50	Manufacturing PMI	Jun F	48.3	48.3	48.3
GE	07/01	03:55	Manufacturing PMI	Jun F	48.7	48.7	48.7
EC	07/01	04:00	Manufacturing PMI	Jun F	48.7	48.7	48.7
UK	07/01	04:30	Manufacturing PMI	Jun	52.0	51.4	51.3
EC	07/01	05:00	Euro zone CPI Estimate (y/y)	Jun	1.4	1.6	1.4
EC	07/01	05:00	Unemployment Rate (%)	May	12.2	12.3	12.2
IT	07/01	06:59	Budget Balance (€ bn)	Jun	--	--	-8.8
UK	07/01	07:59	Halifax House Price (3 month, y/y)	Jun	3.7	3.6	2.6
UK	07/02	04:30	PMI Construction	Jun	--	51.2	50.8
EC	07/02	05:00	PPI (m/m)	May	--	-0.2	-0.6
SW	07/03	03:30	**Riksbank Interest Rate (%)**	Jul 3	**1.00**	**1.00**	**1.00**
IT	07/03	03:45	Services PMI	Jun	--	47.0	46.5
FR	07/03	03:50	Services PMI	Jun F	46.5	46.5	46.5
GE	07/03	03:55	Services PMI	Jun F	51.3	51.3	51.3
EC	07/03	04:00	Composite PMI	Jun F	48.9	48.9	48.9
EC	07/03	04:00	Services PMI	Jun F	48.6	48.6	48.6
UK	07/03	04:30	Official Reserves (£ bn)	Jun	--	--	-1559
UK	07/03	04:30	Services PMI	Jun	54.0	54.5	54.9
EC	07/03	05:00	Retail Trade (m/m)	May	--	0.3	-0.5
UK	07/04	07:00	BoE Asset Purchase Target (£ bn)	Jul	375	375	375
UK	07/04	07:00	**BoE Policy Announcement (%)**	Jul 4	**0.50**	**0.50**	**0.50**
EC	07/04	07:45	**ECB Announces Interest Rates (%)**	Jul 4	**0.50**	**0.50**	**0.50**
FR	07/05	02:45	Trade Balance (€ mn)	May	--	-4600	-4515
SP	07/05	03:00	Industrial Output NSA (y/y)	May	--	--	7.3
GE	07/05	06:00	Factory Orders (m/m)	May	--	1.2	-2.3

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

Key Indicators for the week of July 1 - 5

Asia Pacific

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
IN	06/30	06:30	Fiscal Deficit (INR Crore)	May	--	--	87079.0
SK	06/30	19:00	CPI (m/m)	Jun	0.0	0.0	0.0
SK	06/30	19:00	CPI (y/y)	Jun	1.1	1.1	1.0
JN	06/30	19:50	Tankan All Industries Index	2Q	--	2.9	-2.0
SK	06/30	20:00	Exports (y/y)	Jun	--	0.1	3.2
SK	06/30	20:00	Imports (y/y)	Jun	--	-0.5	-4.6
SK	06/30	20:00	Trade Balance (US$ mn)	Jun	--	5265	5916
CH	06/30	21:00	Manufacturing PMI	Jun	--	50.1	50.8
CH	06/30	21:45	HSBC Manufacturing PMI	Jun	--	48.3	49.2
ID	07/01	00:00	Exports (y/y)	May	--	-8.8	-9.1
ID	07/01	00:00	Imports (y/y)	May	--	-5.9	-3.7
ID	07/01	00:00	Trade Balance (US$ mn)	May	--	-606.8	-1616.4
ID	07/01	00:00	CPI (y/y)	Jun	5.6	6.0	5.5
JN	07/01	01:00	Vehicle Sales (y/y)	Jun	--	--	-7.3
ID	07/01	06:59	Consumer Confidence Index	Jun	--	--	111.7
JN	07/01	07:59	Official Reserve Assets (US$ bn)	Jun	--	--	1250.2
TH	07/01	07:59	CPI (y/y)	Jun	2.3	2.4	2.3
TH	07/01	07:59	CPI (m/m)	Jun	0.2	0.2	0.2
JN	07/01	19:50	Monetary Base (y/y)	Jun	--	--	31.6
AU	07/02	00:30	**RBA Cash Target Rate (%)**	Jul 2	**2.75**	**2.75**	**2.75**
HK	07/02	04:30	Retail Sales - Volume (y/y)	May	--	15.6	19.4
AU	07/02	21:00	HIA New Home Sales (m/m)	May	--	--	3.9
CH	07/02	21:00	Non-manufacturing PMI	Jun	--	--	54.3
AU	07/02	21:30	Retail Sales (m/m)	May	--	0.3	0.2
AU	07/02	21:30	Trade Balance (AUD mn)	May	--	53.0	28.0
CH	07/02	21:45	HSBC Services PMI	Jun	--	--	51.2
SI	07/03	09:30	Purchasing Managers Index	Jun	--	51.0	51.1
AU	07/03	21:30	Building Approvals (m/m)	May	--	-1.0	9.1
HK	07/03	22:30	Purchasing Managers Index	Jun	--	--	49.8
TH	07/03	23:30	Consumer Confidence Economic	Jun	--	--	72.8
TA	07/04	20:30	CPI (y/y)	Jun	--	0.6	0.7
PH	07/04	21:00	CPI (y/y)	Jun	--	2.6	2.6
PH	07/04	21:00	GDP (m/m)	Jun	--	0.5	0.1
MA	07/05	00:01	Exports (y/y)	May	--	-2.3	-3.3
MA	07/05	00:01	Imports (y/y)	May	--	3.5	9.2
MA	07/05	00:01	Trade Balance (MYR bn)	May	--	1.3	0.9
JN	07/05	01:00	Coincident Index CI	May P	--	96.2	95.3
JN	07/05	01:00	Leading Index CI	May P	--	101.2	99.0
AU	07/05	02:30	Foreign Reserves (AUD bn)	Jun	--	--	51.7

Latin America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
PE	07/01	06:59	Consumer Price Index (m/m)	Jun	--	--	0.2
PE	07/01	06:59	Consumer Price Index (y/y)	Jun	2.6	--	2.5
BZ	07/01	09:00	PMI Manufacturing Index	Jun	--	--	50.4
BZ	07/01	14:00	Trade Balance (FOB) - Monthly (US$ mn)	Jun	--	--	760.0
BZ	07/02	08:00	Industrial Production SA (m/m)	May	--	-1.1	1.8
BZ	07/02	08:00	Industrial Production (y/y)	May	--	1.9	8.4
BZ	07/05	08:00	IBGE Inflation IPCA (m/m)	Jun	--	0.3	0.4
BZ	07/05	08:00	IBGE Inflation IPCA (y/y)	Jun	6.7	6.8	6.5
CO	07/05	20:00	Consumer Price Index (m/m)	Jun	--	0.2	0.3
CO	07/05	20:00	Consumer Price Index (y/y)	Jun	2.0	2.1	2.0

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

Global Auctions for the week of July 1 - 5

North America

Country	Date	Time	Event
US	07/01	11:30	U.S. to Sell USD30 Bln 3-Month Bills
US	07/01	11:30	U.S. to Sell USD25 Bln 6-Month Bills
CA	07/02	10:30	Canada to Sell CAD9.2 Bln 98-Day Bills
CA	07/02	10:30	Canada to Sell CAD3.4 Bln 183-Day Bills
CA	07/02	10:30	Canada to Sell CAD3.4 Bln 364-Day Bills
US	07/02	11:30	U.S. to Sell 4-Week Bills
MX	07/02	12:30	3Y Fixed Yield
MX	07/02	12:30	3Y I/L Yield
MX	07/02	12:30	1M T-Bill Yield
MX	07/02	12:30	1M T-Bill Bid/Cover Ratio
MX	07/02	12:30	3M T-Bill Yield
MX	07/02	12:30	3M T-Bill Bid/Cover Ratio
MX	07/02	12:30	6M T-Bill Yield
MX	07/02	12:30	6M T-Bill Bid/Cover Ratio

Europe

Country	Date	Time	Event
NE	07/01	04:00	Netherlands to Sell Up to EUR2 Bln 362-Day Bills
NE	07/01	05:00	Netherlands to Sell Up to EUR2 Bln 89-Day Bills
FR	07/01	08:50	France to Sell Bills
BE	07/02	05:30	Belgium to Sell Bills
UK	07/02	05:30	UK to Sell Bonds
SZ	07/02	05:30	Switzerland to Sell 91-Day Bills
AS	07/02	05:30	Austria to Sell 2.4% 2034 Bonds
AS	07/02	05:30	Austria to Sell 4.65% 2018 Bonds
UK	07/02	05:30	U.K. to Sell GBP3.5 Bln 2.25% 2023 Bonds
GE	07/03	06:30	Germany to Sell EUR4 Bln 0.25% 2018 Bonds
SP	07/04	04:30	Spain to Sell Bonds
FR	07/04	04:50	France to Sell Bonds (OAT)
IC	07/05	06:00	Iceland to Sell Bonds
UK	07/05	06:10	UK to Sell Bills

Asia Pacific

Country	Date	Time	Event
CH	07/01	23:00	China Development Bank to Sell CNY4 Bln 1-Year Bonds
CH	07/01	23:00	China Development Bank to Sell CNY6 Bln 3-Year Bonds
CH	07/01	23:00	China Development Bank to Sell CNY6 Bln 5-Year Bonds
CH	07/01	23:00	China Development Bank to Sell CNY7 Bln 7-Year Bonds
CH	07/01	23:00	China Development Bank to Sell CNY7 Bln 10-Year Bonds
JN	07/01	23:45	Japan to Sell 10-Year Bonds
AU	07/02	21:00	Australia to Sell Bonds
CH	07/02	23:00	China to Sell CNY26 Bln 1-Year Bonds
NZ	07/03	22:05	New Zealand Plans to Sell Inflation Linked Bonds
JN	07/03	23:35	Japan to Sell 3-Month Bill
JN	07/03	23:45	Japan to Sell 30-Year Bonds

Source: Bloomberg, Scotiabank Economics.

Events for the week of July 1 - 5

North America

Country	Date	Time	Event
US	JUN 22-JUL 2		Secretary of State Kerry Visits India, Middle East, Brunei
US	JUN 26-JUL 3		Obama Visits Senegal, South Africa, Tanzania
US	06/30	19:30	U.S. Treasury Secretary Lew Talks Economy
CA	07/01		Canada's Carney Begins New Position as BOE Governor
US	07/02	12:30	Fed's Dudley Speaks on Economy in Stamford, Connecticut
US	07/02	17:45	Fed's Powell Speaks on Regulatory Reform in New York
US	07/05		Fed Deadline for U.S. Bank Stress Test Results

Europe

Country	Date	Time	Event
PO	07/01	05:00	ECB's Costa Speaks at Conference on Financing the Economy
AS	07/01	05:00	ECB's Nowotny, IMF's Detragiache Present IMF's Austria Review
GE	07/01	10:30	Germany's Schaeuble Speaks in Ueberlingen, Germany
RU	07/01	16:00	Russia Central Bank May Publish Prelim. 2Q Balance of Payments
CA	07/01		Canada's Carney Begins New Position as BOE Governor
HR	07/01		Croatia Become's EU's 28th Member
LN	07/01		Lithuania Takes Over European Union Presidency
UK	07/02	05:00	Bank of England's Paul Tucker, Andrew Bailey in Parliament
PO	07/02	07:10	Portugal's Economy Minister Speaks at Euronext Event
EC	07/02		EU's Van Rompuy, Barroso Meet Tunisia Premier in Brussels
SW	07/03	03:30	**Riksbank Interest Rate**
SW	07/03	05:00	Riksbank's Ingves Holds Press Conference After Rate Decision
IT	07/03		Italy's Letta Attends Youth Employment Conference in Berlin
IT	07/04	05:00	Italy Prime Minister Letta Meets Pope Francic in Vatican City
EC	07/04	05:00	NATO's Rasmussen Holds Monthly Press Conference
UK	07/04	07:00	Bank of England Monetary Policy Committee Decision
UK	07/04	07:00	**BOE ANNOUNCES RATES**
UK	07/04	07:00	BOE Asset Purchase Target
EC	07/04	07:45	**ECB Announces Interest Rates**
EC	07/04	07:45	ECB Deposit Facility Rate
EC	07/04	08:30	ECB'S Draghi Holds Press Conference After Rate Decision
EC	07/04	11:30	Germany's Bofinger Speaks at Brussels Think Tank
FI	07/05	03:00	EU's Rehn, ECB's Liikanen Speak in Mikkeli, Finland
IT	07/05	05:00	Bank of Italy to Release Reserves and Balance-Sheet for June
EC	07/05	05:45	ECB's Coeure Speaks in Aix en Provence
EC	07/05	06:00	ECB Announces 3-Year LTRO Repayment
EC	07/05	06:30	ECB's Coeure Speaks in Paris
GE	07/05	10:00	Germany's Schaeuble Holds Discussion With Voters, Stockach
FI	JUL 5-6		German President Joachim Gauck Visits Finland

Source: Bloomberg, Scotiabank Economics.

Events for the week of July 1 - 5

Asia Pacific

Country	Date	Time	Event
BM	JUN 26-JUL 2		ASEAN Foreign Ministers Meeting
SK	JUN 26-30		South Korean President Park Geun Hye Visits China
HK	JUN 26-29		Hong Kong Financial Secretary Tsang Visits Myanmar
MA	06/29	21:30	Malaysia's Securities Commission Retirement Exhibition
HK	JUN 29-30		Transport Department Auction Traditional Vehicle Marks
NZ	06/30	22:00	Treasury Publishes Monthly Economic Indicators
IN	06/30	00:00	India's SEB Lending and Borrowing Framework Effective Date
AU	06/30	00:00	ASIC Conflicted Remuneration Ban Compliance Date
CH	06/30	00:00	CSRC Risk Capital Reserves Effective Date
AU	07/01	02:30	RBA Commodity Index SDR YoY%
PH	07/01	05:00	Bancom Alumni Inc. Bancom Memoirs Book Launch
AU	07/02	00:30	RBA CASH TARGET
JN	07/03	20:30	BOJ Governor Kuroda Speech at Branch Managers Meeting
NZ	07/04	18:00	Government Financial Statements
AU	JUL 4-5		APRA Submission Deadline on Risk Management Consultation
AU	JUL 4-5		APRA Submission Deadline on Prudential Standards Consultation

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	--

U.S. Federal Reserve: With U.S. 10's trading near 2.5% as we go to print and U.S. 30-year fixed-rate mortgage rates at their highest level since the summer of 2011 (when the Fed started Operation Twist in order to reduce mortgage borrowing costs), we think that the FOMC has to be concerned that its latest policy shift threatens to destabilize fixed income markets and the housing recovery. We think that soft jobs numbers in the week ahead would defer tapering further. BoC: The new BoC Governor Poloz has tended to emphasize that the BoC is 'undershooting' its inflation target (a band between 1-3%) and that this undershooting is as material of a failure as an overshooting of the inflation target would be. The implication, as we see it, is a BoC that is marginally more dovish under Governor Poloz.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	0.50	July 4, 2013	0.50	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	8.25
Hungarian National Bank – Base Rate	4.25	July 23, 2013	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	1.00
Norges Bank – Deposit Rate	1.50	September 19, 2013	1.50	--

No policy changes are expected from either the European Central Bank (ECB) or the Bank of England (BoE) next week. Survey and hard data (excluding employment) continued to show modest improvement in the euro area this month, including the PMIs, industrial production, and the economic sentiment indicator. Nevertheless, given growth differentials relative to other advanced economies and freshly rising peripheral bond yields, the ECB will maintain a dovish bias, as indicated by recent comments from monetary officials in response to the latest bout of financial market volatility. This will be the first meeting for the new BoE governor, Mark Carney who replaces Mervyn King on July 1st. We do not anticipate any policy announcements during the initial transition period, although in his final days King did leave the door open to further quantitative easing down the road.

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	--

The Reserve Bank of Australia (RBA) assesses that the non-mining business sector remains subdued and further measures to support economic activity may therefore be warranted. Indeed, according to the minutes of the most recent policy meeting on June 4th, the authorities see that there is "some scope for further easing" if needed. Accordingly, we now anticipate an additional 25 basis point reduction in the cash rate to 2.50% in the third quarter of the year before the easing cycle reaches its bottom. However, it is unlikely that the RBA will cut rates at next week's meeting, as they will wait to assess the possible pass-through effects of the recent strong depreciation of the currency on prices.

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	July 26, 2013	3.25	--
Banco Central de Reserva del Perú – Reference Rate	4.25	July 11, 2013	4.25	4.25

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 June 27, 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	3.0	3.6				
Canada	2.2	1.7	1.6	2.2	2.1	1.5	1.1	1.8
United States	1.8	2.2	1.8	2.6	2.5	2.1	1.5	2.0
Mexico	2.2	3.9	3.0	4.2	4.8	3.6	4.1	4.0
United Kingdom	1.9	0.3	0.8	1.1	2.3	2.7	2.5	2.4
Euro Zone	1.4	-0.5	-0.7	0.5	2.1	2.2	1.4	1.6
Japan	0.8	1.9	1.4	1.5	-0.3	-0.1	0.7	1.2
Australia	3.0	3.6	2.5	3.0	3.1	2.2	2.5	3.0
China	9.4	7.8	7.8	7.8	2.4	2.5	3.3	3.9
India	7.4	5.1	5.5	6.0	6.6	7.3	5.6	6.5
South Korea	4.5	2.0	2.4	3.3	3.2	1.4	2.1	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	13Q2e	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f
Bank of Canada	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Federal Reserve	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
European Central Bank	0.75	0.75	0.50	0.50	0.50	0.50	0.50	0.50
Bank of England	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Swiss National Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bank of Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Reserve Bank of Australia	3.00	3.00	2.75	2.50	2.50	2.50	2.75	2.75
Exchange Rates (end of period)								
Canadian Dollar (USDCAD)	0.99	1.02	1.05	1.07	1.06	1.05	1.04	1.02
Canadian Dollar (CADUSD)	1.01	0.98	0.95	0.93	0.94	0.95	0.96	0.98
Euro (EURUSD)	1.32	1.28	1.30	1.26	1.25	1.25	1.24	1.24
Sterling (GBPUSD)	1.63	1.52	1.52	1.47	1.45	1.45	1.45	1.44
Yen (USDJPY)	87	94	98	104	105	106	107	109
Australian Dollar (AUDUSD)	1.04	1.04	0.93	0.92	0.90	0.90	0.91	0.92
Chinese Yuan (USDCNY)	6.2	6.2	6.1	6.1	6.1	6.1	6.1	6.1
Mexican Peso (USDMXN)	12.9	12.3	13.1	12.6	12.6	12.7	12.5	12.6
Brazilian Real (USDBRL)	2.05	2.02	2.19	2.15	2.10	2.10	2.10	2.15
Commodities (annual average)	2000-11	2012	2013f	2014f				
WTI Oil (US$/bbl)	57	94	95	98				
Brent Oil (US$/bbl)	58	112	106	108				
Nymex Natural Gas (US$/mmbtu)	5.67	2.83	4.00	4.50				
Copper (US$/lb)	2.10	3.61	3.27	3.15				
Zinc (US$/lb)	0.77	0.88	0.88	1.10				
Nickel (US$/lb)	7.62	7.95	7.00	8.15				
Gold, London PM Fix (US$/oz)	668	1,670	1,400	1,200				
Pulp (US$/tonne)	718	872	925	870				
Newsprint (US$/tonne)	581	640	615	645				
Lumber (US$/mfbm)	272	299	340	390				

[1] World GDP for 2000-11 are IMF PPP estimates; 2012-14f are Scotiabank Economics' estimates based on a 2011 PPP-weighted sample of 38 countries.
[2] CPI for Canada and the United States are annual averages. For other countries, CPI are year-end rates.

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

North America

Canada	2012	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	0.8	0.6	(Apr)
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	(May)
Pre-tax Corp. Profits	-4.9	-12.9	-10.6		

United States	2012	12Q4	13Q1	Latest	
Real GDP (annual rates)	2.2	0.4	1.8		
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	2.9		

Mexico					
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	-5.6	(May)
Industrial Production	3.6	1.8	-1.4	3.3	(Apr)
CPI	4.1	4.1	3.7	4.6	(May)

Europe

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	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	6.8	(Jun)
CPI	2.0	2.0	1.5	1.8	(Jun)

France					
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					
Real GDP	0.2	0.0	0.3		
Current Acc. Bal. (US$B, ar)	-93.8	-81.4	-97.5		
Merch. Trade Bal. (US$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					
Real GDP	-2.4	-2.8	-2.4		
Current Acc. Bal. (US$B, ar)	-11.3	25.2	-20.2	13.3	(Apr)
Merch. Trade Bal. (US$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					
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	5.7	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	0.3	(May)
Unemployment Rate (%)	4.4	4.2	4.2	4.1	(May)
CPI	0.0	-0.2	-0.6	0.1	(May)

South Korea	2012	12Q4	13Q1	Latest	
Real GDP	2.0	1.5	1.5		
Current Acc. Bal. (US$B, ar)	43.1	59.3	39.9	103.7	(May)
Merch. Trade Bal. (US$B, ar)	28.3	39.8	22.9	71.0	(May)
Industrial Production	1.2	1.9	-0.8	-2.9	(May)
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	169.2	245.1	(May)
Industrial Production	8.9	8.9	9.3	0.0	(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	0.5	(May)
Industrial Production	2.3	42.6	3.9	-8.3	(May)
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$B, ar)	-91.5	-31.9			
Merch. Trade Bal. (US$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$B, ar)	0.1	-11.5	-6.8		
Merch. Trade Bal. (US$B, ar)	12.4	3.8	3.2	7.7	(May)
Industrial Production	2.9	1.4	3.3	0.2	(May)
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$B, ar)	-11.9	-3.3			
Merch. Trade Bal. (US$B, ar)	0.4	0.4	0.2	0.0	(Apr)
Industrial Production	0.0	-1.9	-6.3	8.4	(Apr)
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/21	Jun/28*	United States	12Q4	13Q1	Jun/21	Jun/28*
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	1.02	1.03	3-mo. T-bill	0.04	0.07	0.04	0.05
10-yr Gov't Bond	1.80	1.87	2.45	2.48	10-yr Gov't Bond	1.76	1.85	2.53	2.52
30-yr Gov't Bond	2.37	2.50	2.91	2.93	30-yr Gov't Bond	2.95	3.10	3.58	3.56
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US$B)	68.4	70.0	70.6	(May)	FX Reserves (US$B)	139.1	135.2	133.0	(May)
Germany					**France**				
3-mo. Interbank	0.10	0.11	0.16	0.16	3-mo. T-bill	-0.01	0.01	0.04	0.04
10-yr Gov't Bond	1.32	1.29	1.73	1.75	10-yr Gov't Bond	2.00	2.03	2.32	2.37
FX Reserves (US$B)	67.4	66.6	66.2	(May)	FX Reserves (US$B)	54.2	52.6	51.7	(May)
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	0.09	3-mo. T-bill	0.36	0.39	0.39	0.38
FX Reserves (US$B)	332.5	326.7	324.6	(May)	10-yr Gov't Bond	1.83	1.77	2.40	2.45
					FX Reserves (US$B)	88.6	88.4	89.0	(May)
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	3.76	3.76
10-yr Gov't Bond	0.79	0.55	0.88	0.85	FX Reserves (US$B)	44.9	46.7	46.3	(May)
FX Reserves (US$B)	1227.2	1215.0	1215.9	(May)					

Exchange Rates (end of period)

USDCAD	0.99	1.02	1.05	1.05	¥/US$	86.75	94.22	97.90	99.11
CADUSD	1.01	0.98	0.96	0.95	US¢/Australian$	1.04	1.04	0.92	0.92
GBPUSD	1.626	1.520	1.542	1.521	Chinese Yuan/US$	6.23	6.21	6.13	6.14
EURUSD	1.319	1.282	1.312	1.302	South Korean Won/US$	1064	1111	1154	1142
JPYEUR	0.87	0.83	0.78	0.78	Mexican Peso/US$	12.853	12.331	13.305	13.066
USDCHF	0.92	0.95	0.93	0.94	Brazilian Real/US$	2.052	2.022	2.242	2.218

Equity Markets (index, end of period)

United States (DJIA)	13104	14579	14799	14921	U.K. (FT100)	5898	6412	6116	6221
United States (S&P500)	1426	1569	1592	1604	Germany (Dax)	7612	7795	7789	7925
Canada (S&P/TSX)	12434	12750	11996	12027	France (CAC40)	3641	3731	3658	3732
Mexico (IPC)	43706	44077	38036	39870	Japan (Nikkei)	10395	12398	13230	13677
Brazil (Bovespa)	60952	56352	47056	47307	Hong Kong (Hang Seng)	22657	22300	20263	20803
Italy (BCI)	873	851	854	853	South Korea (Composite)	1997	2005	1823	1863

Commodity Prices (end of period)

Pulp (US$/tonne)	900	930	930	930	Copper (US$/lb)	3.59	3.44	3.07	3.06
Newsprint (US$/tonne)	610	605	605	605	Zinc (US$/lb)	0.92	0.85	0.82	0.83
Lumber (US$/mfbm)	408	389	287	292	Gold (US$/oz)	1657.50	1598.25	1295.25	1192.00
WTI Oil (US$/bbl)	91.82	97.23	93.69	96.82	Silver (US$/oz)	29.95	28.64	19.87	18.86
Natural Gas (US$/mmbtu)	3.35	4.02	3.77	3.56	CRB (index)	295.01	296.39	278.08	276.35

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

Emerging Markets Strategy

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