

Global Views

Weekly commentary on economic and financial market developments

February 4, 2011

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Will Global Trade Continue To Grow And Put Pressure On Central Banks?

- ***Global trade and central banks in the spotlight. See Calendars on pp.28-34.***

If you thought the past week wasn't so bad, then next week should be a relative walk in the park. That's not to say that key developments are not on tap, but the breadth of the risks will reflect a lighter calendar.

The question of whether or not the recovery in global trade is continuing, and several important central bank developments will dominate the week's attention. A number of countries will provide updates on their trade accounts, including China, the US, Canada, Germany, France, the UK, and Japan. Some analysts are pointing to the collapse in the Baltic Dry index since November as portending gloom for lagged trade statistics. We don't buy that, and explore the issue further on page 15.

On global central banks, risks cut across many markets. Rate decisions are due from the Bank of England, South Korea, Philippines, and Peru. The Bank of Korea and Peru's central bank are both expected to hike by 25bps. Bangko Sentral ng Pilipinas is expected to remain on hold, but the tail risk of a hike lies in the fact that it is the only regional central bank to continue to resist tightening monetary policy after Indonesia just surprised markets with a hike. We explore whether central banks in developing economies should be raising rates in response to a food and energy price shock on pages 7-8.

The Bank of England is not expected to adjust rates or its asset purchase program, but the risk lies in the commentary. We think Governor King will stick to his guns in arguing that inflation will rise further to 5% y/y before waning into next year once temporary distortions like the VAT adjustment and the surge in commodity prices over the past year level off. That would suggest no rationale to support those arguing for early rate hikes. What is also key is that King's support of Prime Minister Cameron's fiscal austerity is central bank talk for giving a green light to press on with applying fiscal drag while the BoE remains accommodative.

The ECB will remain in the spotlight during the week following its recent interest rate decision and the ensuing press conference that was taken by markets to be more dovish than expected. Look for a range of opinions to feed the concern over dissenters, as each of Trichet, Weber, Mersch, Bini Smaghi, and Barnier speak. The speeches will occur alongside key updates on German trade, factory orders and CPI.

Bank of Japan Governor Shirakawa speaks this weekend at the Foreign Correspondent's Club of Japan in Tokyo. RBA Governor Glenn Stevens testifies before the House of Representatives Standing Committee on Economics next week, and key will be whether he sticks to his guidance that the RBA will look through the impact on GDP growth and inflation stemming from the lift provided through reconstruction following flooding in Queensland. Markets recently took upward forecast revisions from the RBA as a hawkish signal. Stevens' remarks will be sandwiched between updates on retail sales and jobs.

Canadian fixed income markets and CAD should generally follow the global tone next week as the release, auction, and speech calendars are all fairly light. There is a risk that clients intensify their bets on the BoC's first rate hike following a more bullish than expected jobs report, but our call remains that the BoC is on hold until October of this year (see our note on Canadian jobs in this issue). Equity markets will contend with a pick up in the Canadian earnings release schedule. On the fundamentals calendar, only housing starts and trade are the key releases. The Bank of Canada's Deputy Governor John Murray speaks on Thursday, but there is no disclosed topic. Only one auction is on tap via a \$3.2 billion 3 year note.

Fed speak will be the biggest risk on tap for US markets next week. No fewer than five speakers hit the road to deliver seven speeches. Three of them are voting voices, including speeches by Chairman Bernanke, Dallas Fed President Richard Fisher who just remarked that he would not have supported QE2 last year if he had a vote at that time, and Fed Governor Sarah Bloom Raskin. Data risk is low, focused mostly on international trade. The Treasury auctions 3s, 10s and 30s. Elsewhere, auction risk will be much lower next week, with no European peripherals set to tap markets.

Pumped Up Growth, For Now***Overview***

Global economic activity has proven to be quite resilient, notwithstanding recurring sovereign debt crises in Europe, the chronic housing-related and debt problems facing American households, and the potential destabilizing impact on the global economy and commodity markets from the reining in of credit conditions in the higher-growth and more inflation-prone emerging economies. Other important developments, such as geopolitical and weather-related problems, may temporarily dampen, but have not derailed the expansion. From an overall perspective, public policy remains quite accommodative, and along with improved business confidence and spending around the world, is supportive of global growth.

The sustainability of global growth is being reinforced by the continuing gains in manufacturing activity, improving credit conditions, and expanding international trade. In Europe, Germany's economy has continued to gain momentum, with its highly competitive export-oriented transportation and equipment sectors piggybacking on accelerating industrial growth around the world, and more recently, increased domestic business and consumer activity. This strong performance has provided important support to the region's peripheral nations undergoing unprecedented fiscal compression. On the other side of the Atlantic, another round of fiscal stimulus has pumped up U.S. consumer spending, reinforcing the cyclical dynamics of increasing business activity, including expanded production, investment, and profitability. And while many of the high-powered economic locomotives of the emerging nations — China, India, and Brazil for example — are gradually tightening policy conditions, there is a considerable backlog of production, construction, and development activity that is reinforcing consistently strong growth performances.

Canada & United States

- We have raised our forecast of U.S. GDP growth for 2011 by 0.4 percentage points to 3.1%, reflecting the strengthening momentum in both consumer and manufacturing activity. We continue to anticipate some moderation in growth next year, as pent-up consumer demand is unwound and fiscal stimulus gradually reined in, with GDP growth pegged at a below-consensus 2.7%.
- Canada is expected to piggyback on the improved U.S. performance. We have raised our forecast for domestic GDP growth for 2011 by 0.3 percentage points to 2.7%, primarily reflecting a stronger export profile compared with our early January *Update*. Growth is expected to moderate slightly to 2.6% in 2012, with continuing strength in business investment and resource-related activity tempered by fiscal belt-tightening and restrained consumer spending.
- A wider U.S. federal deficit is now expected for fiscal 2011, given the bottom-line cost of the December *Tax Act* and the absence this year of several sizeable items that reduced expenditures in fiscal 2010. Ottawa, with fiscal 2011-12 (FY12) the first year of a multi-year deficit reduction plan, will be aided by the stronger U.S. expansion now expected.

Mexico

- We have raised our 2011 forecast for the Mexican economy to 4.0% from 3.5% on the back of an improved U.S. outlook, solid Mexican industrial sector and rising domestic demand. The Mexican construction sector started to show some signs of recovery after lagging economic activity for the past 12 months. In addition, the extension of the IMF's Flexible Credit Line approved for Mexico early in 2011 has given support to healthy public finances and rewards the positive measures taken in 2009-2010. We expect the current account deficit to widen in the coming years. However, it will remain in controllable low levels.

International

- According to preliminary estimates, U.K.'s real GDP contracted by 0.5% q/q (+1.7% y/y) in the final quarter of 2010 partly reflecting adverse weather conditions. While a rebound is likely in the January-March period, we assess that aggressive fiscal consolidation and slower export sector momentum will limit the nation's economic growth to 1.4% in 2011, before picking up to around 1.7% in 2012.
- Asian economies will surge ahead in 2011-12, when growth will no longer be based on an economic rebound but on expansions over an already solid base. While inflationary pressures remain of concern, as the latest global food and fuel cost upsurge has provoked a rebound in annual inflation rates in some

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countries, we have yet to observe a clear dissemination to inflation expectations and labour costs. In order for this transmission not to materialize, regional central banks are likely to remain on the defensive at least through 2011.

Commodities

- Most commodity prices are starting 2011 on a strong note. LME copper prices climbed to a new record high of US\$4.51 per pound on February 3, boosted by a jump in the U.S. ISM Manufacturing Index to the highest level since May 2004. Strong U.S. factory orders as well as a positive Purchasing Manager Index for China in January point to robust demand in coming months.
- Oil prices have climbed in the wake of political developments in Egypt (Brent to US\$102 per barrel), though disruption of tanker traffic through the Suez Canal appears unlikely and WTI has edged down again to just over US\$91. So far, shipments through the SuMed pipeline (which supplements shipments through the Canal) remain normal, with additional security in place to protect the pipeline. Oil prices are expected to move higher as 2011 unfolds, boosted by the strength of Chinese demand (up 12% in 2010), a second round of strategic stockpiling by China and only a slow return to development drilling in the deepwater U.S. Gulf.

Provincial

- Our real GDP estimates for 2010 are unchanged with the exception of Ontario and Quebec. Recent revisions to the quarterly economic accounts prepared by the Quebec and Ontario governments indicate stronger growth in the former province. In Ontario, more moderate gains in early 2010 point to overall growth for the year just below 3.0%.
- With improved prospects in global markets, including the U.S., the outlook for Ontario and Quebec in 2011 is slightly more optimistic. An increase in American manufacturing activity will generate additional demand in Central Canada through production and trade flows.
- The outlook for the resource-rich provinces is also revised higher in 2011 reflecting buoyant global demand for oil, potash, coal and base metals.
- Recent revisions to the *Labour Force Survey* data have resulted in mostly minor adjustments to our employment and unemployment rate outlooks. For New Brunswick and Nova Scotia, weak job growth in 2010 and 2011 is expected to lead to slightly higher unemployment.
- While surging commodity prices will benefit the fiscal position of the resource-rich provinces, government job growth through the forecast period is still expected to be constrained across most regions reflecting, at the least, some attrition.

The revised global forecast table can be viewed on page 35, with more detailed projections available by linking to http://www.scotiacapital.com/English/bns_econ/forecast.pdf.

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Egypt Is Just The Tip Of The Iceberg

- ***There is no easy way out for many EMs in addressing a global food and energy price shock. Expect political risk to rise and broaden out across the global economy.***

Egypt's protests have thrust three intertwined risks onto the radar screens of world markets, but the small sampling of countries to witness political upheaval thus far are likely just the tip of the iceberg in terms of a global phenomena that will likely play out much further this year and next.

At the heart of it all is a global commodity shock that has raised global food prices to a record high, at the same time that oil prices have returned to the highs last seen just before the global downturn. There have been many global food riots in recent years, but in Egypt's case, a nearly 70% rise in global wheat prices since last June has been particularly painful since Egypt is a large importer of wheat. This challenge was compounded by government plans to cut fuel subsidies as the market price of oil has risen. Such pressures on food prices could well worsen further as tight crop supplies will take at least one or two growing seasons to address after disappointing production in key producing countries, and as governments have made it worse by strategically stockpiling grain inventories and imposing export bans. Throw in budgetary constraints that limit the ability to offset the impact of higher prices, and then add in under-developed political institutions, and a dangerous combination exists that may have made premature the sharp narrowing in EM spreads over recent days.

As the x-axis in chart 1 depicts, Egypt has among the richest fuel subsidies as a share of economy-wide output, or GDP. That said, chart 1 also demonstrates that Egypt is by no means alone in addressing the increasingly unaffordable nature of such subsidies in the context of rising oil prices. That's because while we can't label all of them, there is a cluster of global economies dealing with relatively large deficits and significant fuel subsidies, including Iraq, Egypt, Ukraine, Venezuela, Algeria, Bangladesh, Pakistan, Ecuador, Russia, Malaysia, Indonesia, Kazakhstan, Argentina, India, Vietnam, Thailand, and South Africa. Even countries with fiscal surpluses or balanced books may be increasingly pressured by the enormously high energy subsidies they provide to their populations, including Saudi Arabia, Turkmenistan, Iran, and Uzbekistan.

In this regard, what compounds the problem is a lack of democratic institutions. One is reminded of the initial catalyst to the American Revolution in that it was a tax on tea that stained the waters of Boston harbour. But it was taxation without representation that was the deeper issue, as it is now, but

Chart 1

Subsidies and Fiscal Deficits Don't Mix

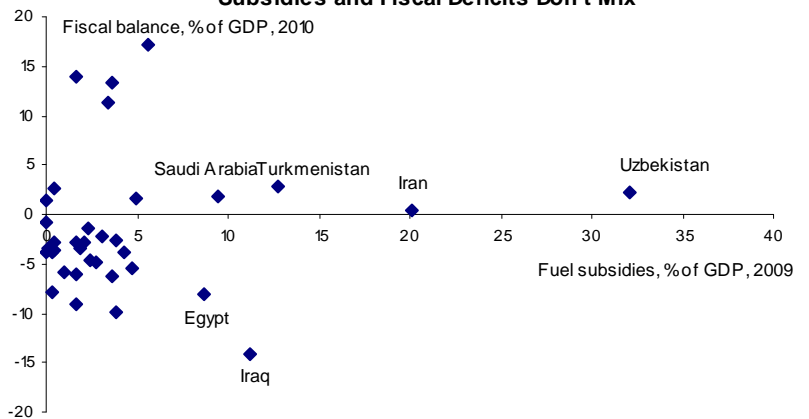
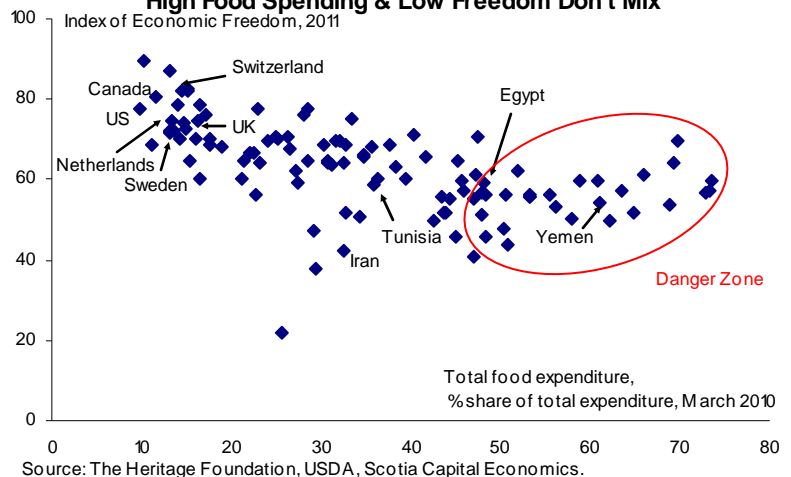


Chart 2

High Food Spending & Low Freedom Don't Mix



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further compounded today by the organizing power of Facebook and Twitter compared to when the redcoats were the enemy. The same holds true across today's emerging markets, as the US was once considered. Chart 2 demonstrates that the most challenged economies are likely to be those that spend a lot on food and have less developed democratic institutions, or broader economic freedom as measured by the Heritage Foundation and the Wall Street Journal.

It is therefore unlikely that the political strife that has swept through countries like Jordan, Egypt, Tunisia, and Yemen will be confined to just these few countries. Some of these economies are key emerging markets, and some are not, but taken as a group they hold forth the potential for domestic politics to be disruptive to world markets. This great unknown relating to emerging market imbalances was one of the factors we cited as dividing the bulls from the bears on the 2011 outlook in our January 14th issue of *Global Views* (pp.2-4).

There is a critically important catch-22 here. Cutting subsidies may be key to reining in fiscal deficits that have markets increasingly anxious about funding profligate governments such that global bond curves likely face upward pressure over our forecast horizon. Cutting subsidies, however, risks destructive political backlash with harsh effects on the local economy and thus more concern about fiscal deficits. At the same time, quelling popular discontent with respect to high and rising food and energy prices by raising subsidies would only further impair the credit worthiness of those countries. Indeed, it is not even clear that higher subsidies would work since the result could only further aggravate pressures on food and energy prices in offsetting fashion — thereby only temporarily buying political peace. For some, it may clearly be a volatile no-win situation, but over the longer run, a new era of deficit constraints could put rising pressure on governments to reduce food and fuel subsidies. That will intensify pressures to secure greater political freedom, raising political risk to global markets.

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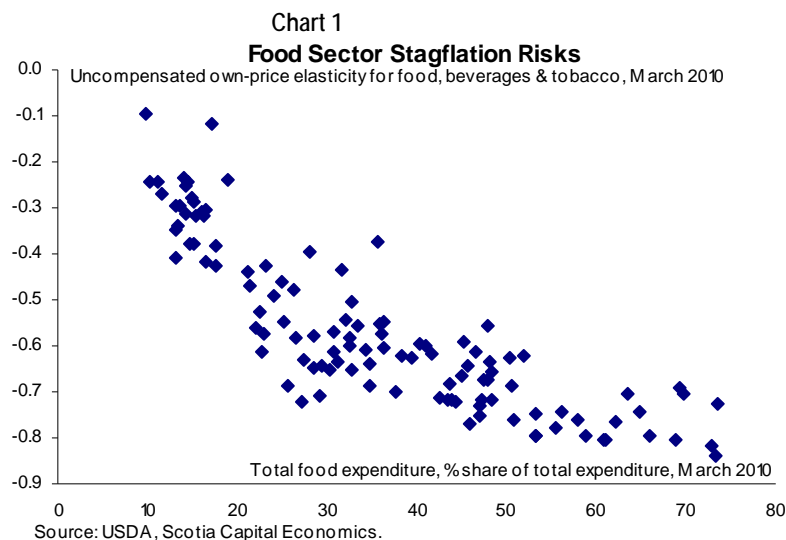
Is A Food Price Shock Ultimately Deflationary?

If central banks in some emerging economies respond to a food price shock by tightening monetary policy, they risk aggravating ultimately deflationary forces that get unleashed in response to the initial shock to food prices.

The first-round effect of a commodity price shock in a developing economy is likely inflationary as we are witnessing, but once demand is given time to adjust to the price shock, the result can easily become deflationary in such a manner as to make policy tightening ultimately inappropriate. For developed economies, the first-round effect of a food price shock is mildly inflationary, and the second-round effect is mildly disinflationary since demand for both food and non-food items does not respond as harshly as it does in developing economies.

To back this up, we use data from the US Department of Agriculture that provides evidence on how households in countries the world over respond to higher food prices in terms of their demand for food and their demand for non-food items.

As a starting point, consider chart 1. It demonstrates the obvious point that the more a country spends on food as a share of total household spending, the more likely households in that country are to demand less food. Their budgets are not big enough to absorb the impact. The vertical axis plots the percentage change in demand for food for a one percent change in food prices, assuming governments provide no income offset to the food price shock. At one extreme is the United States where a 1% change in food prices has a negligible impact on demand for food (-0.1%). At the opposite extreme are developing economies where a 1% rise in food prices results in as much as a 0.75% decline in demand for food, thereby almost fully offsetting the impact of higher prices. Canada's food demand sensitivity is greater than the US at -0.3%.



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But that's only one part of the story. The key is to evaluate the impact of a 1% change in food prices on demand for non-food items. In the parlance of economics, this is called the cross-price elasticity, and again we are assuming no offsetting income adjustment (the "cournot elasticity"). The table below shows the sensitivities for various types of consumption. For example, a 1% rise in food prices results in an average drop in demand for non-food items of 0.16% across all 114 countries. The highest impact is a drop of 0.22%, the lowest is about half that (the US), and Canada sits marginally above the US. Demand for staples like clothing and footwear is relatively less impacted by higher food prices than demand for relative luxuries like medical care especially in developing economies. Backing out the math, for the average economy, the 32% rise in food prices since last June would drop demand by 5-10% across each consumption category. This connotes a total loss of pricing power for everything beyond food in developing economies. For countries where demand for non-food items has the harshest response to a food price shock, the impact of the 32% rise in average food prices since last June runs between a 7-48% decline in demand for non-food items on top of the stiff impact on demand for food. For such economies, the effects of a sharp rise in food prices can spark significant recessions and ensuing political and social upheaval.

Impact On Demand For Consumer Spending By Category Stemming From A 1% Rise In Food Prices

	Clothing & Footwear	Gross rent, fuel, & power	House furnishing & operations	Medical care	Education	Transport & communication	Recreation	Other
Average Impact	-0.16	-0.22	-0.22	-0.26	-0.19	-0.22	-0.31	-0.25
Lowest Impact	-0.12	-0.16	-0.16	-0.17	-0.15	-0.16	-0.18	-0.17
Highest Impact	-0.22	-0.33	-0.32	-0.71	-0.26	-0.34	-1.51	-0.68
Canada	-0.13	-0.17	-0.17	-0.18	-0.16	-0.17	-0.19	-0.18
US	-0.12	-0.16	-0.16	-0.17	-0.15	-0.16	-0.18	-0.17

Source: US Department of Agriculture

Whereas we buy the argument that development of emerging economies will raise demand for food and prices over the long haul, the capacity of developing nations themselves to absorb such a sharp rise in food prices within such a short period of time lies in doubt.

A caution is that the elasticities provided by the USDA are old, but released last Spring as the "only consistent, cross-country, cross-price estimates available for such a large number of countries and consumption categories." We think the general argument we have made holds true, but emphasizing the exact results is to be done with great caution.

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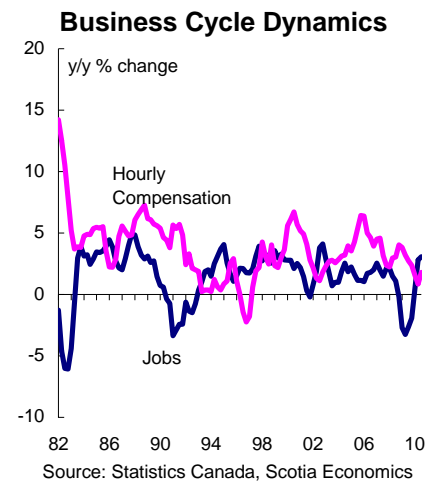
Have We Reached Canada's Inflection Point On Wages?

- ***Historically, 12-18 months after Canadian firms start to hire again following a downturn, wages start to move higher.***
- ***There is some evidence supporting this revival, but it is not broadly evident across most sectors and regions. There is still considerable excess capacity in the system, and most businesses face very competitive operating conditions.***

Canada's business community, comprised of small and large firms alike, thinks that 2011 is shaping up to be a good year. Both the Bank of Canada's January 2011 *Business Outlook Survey*, and more recently, the January 2011 small business barometer index prepared by *The Canadian Federation of Independent Business*, report that Canadian firms expect sales volumes to continue to post even better results this year than in 2010.

The largest gains are likely to come from the resource sectors that are benefiting from the supercharged emerging economies. The commodity-sensitive areas are predominantly in the west and the very east of the country, but are represented to some degree in virtually every province. Manufacturing should continue to gear up in response to the improving production activity globally, and in the United States in particular, with increased orders for transportation equipment and machinery providing increased traction. And the large and expanding service sector – reflecting the increasing diversity of the Canadian economy – is expected to remain an important source of support and stabilization during an unprecedented period of structural adjustments both domestically and around the globe.

Typically, businesses begin to face labour-related pressure points once the recovery takes hold, a period that generally begins 12-18 months into recovery, and which coincidentally, corresponds to the chronology of the current cycle. Inevitably, businesses face the prospect of an escalating wage bill as rising employment levels reduce the amount of labour slack. The chart on the right highlights the historical relationship between changes (measured on a year-over-year basis) in hourly compensation (a proxy for wages) and jobs created in the business sector. Early in a recovery phase as employment conditions first stabilize and then eventually improve, the surplus labour capacity exerts a powerful disinflationary force on wage trends, with the compression on earnings essentially persisting for about a year. Thereafter, wages tend to trend higher, with the extent of the eventual upturn depending upon the strength of a number of variables, including the economic revival, underlying inflationary pressures, and the general health of the labour market in general.



In the current cycle, the private sector in Canada began to hire again in the second quarter of 2009, which suggests that the inflection point for higher wages is potentially at hand. Note the slight uptick in hourly compensation registered in 2010Q3. Some constraints are indeed becoming more visible in the high growth sectors and regions of the country, notably western Canada which continues to ride its strong resource-led revival. Anecdotally, there are reports suggesting that labour shortages are already putting pressure on wages in the mineral sector, a development that is global in scope. Additionally, domestic firms have had to quickly respond to the revival in U.S. manufacturing activity, putting some temporary pressure on hiring and wages.

Even so, the general survey results indicate that rising production has not resulted, as of yet, in an overall tightening of capacity that would pressure broad wage and inflation trends. As the accompanying table illustrates, overall wage trends in Canada's goods- and services-producing sectors have been remarkably

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stable, averaging about 2.2% in 2010 even as the unemployment rate moved progressively lower through the year, especially in the goods sector. Only the manufacturing industry is exhibiting an upward trend in wage growth alongside declining unemployment, though the gains are from a low base, and the year-over-year increase of 2.6% in Q4 is only moderately above the national average of a 2.2% yearly increase.

This result is not surprising, considering that it takes time to absorb the significant excess capacity that had quickly built up during the recession, and which is slowly being eliminated. Public sector wage trends will likely be restrained by upcoming fiscal retrenchment. Furthermore, many Canadian businesses operate in a highly competitive global marketplace, where labour and other production costs can be substantially lower in competing nations. With the Canadian dollar now trading at a premium to the U.S. greenback, businesses must focus on raising productivity to offset rising energy costs, and the inevitable cyclical increase in compensation and benefits. To that end, Canadian firms have been investing in machinery & equipment at an estimated annualized rate of 16% from mid-2009 to the end of last year, with further strong gains likely in the year ahead, as they attempt to bolster their historically sub-par efficiency gains.

	Hourly Wages (y/y % change)				Unemployment (y/y % point change)			
	10Q1	10Q2	10Q3	10Q4	10Q1	10Q2	10Q3	10Q4
Total	2.2	2.2	2.3	2.2	0.4	-0.4	-0.4	-0.6
Goods-producing	2.3	2.4	2.1	2.1	-1.5	-3.2	-2.2	-1.7
Primary*	3.7	1.0	2.3	0.0	-4.0	-5.1	-5.1	-3.7
Construction	1.8	0.8	1.1	1.8	-0.5	-2.5	-1.1	-1.4
Manufacturing	0.8	1.8	2.0	2.6	-2.3	-4.1	-3.0	-2.4
Services-producing	2.3	2.1	2.3	2.3	0.3	-0.4	-0.4	-0.5

* Forestry, fishing, mining, quarrying, oil and gas
 Source: Statistics Canada, Scotia Economics

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Elections and Leadership Changes Shadow the Upcoming Budget Season

- **Five provincial elections this fall, plus three governing parties selecting new leaders, may complicate multi-year fiscal plans.**

Among the cross currents in the upcoming *Budget* season are the pre-set elections for five Provinces this fall. As well, British Columbia's governing party is currently selecting a new leader, and new leader elections for the governing parties in Alberta and Newfoundland and Labrador are planned. And finally, for Canada's minority federal government, after it tables its *Budget* in March, a non-confidence vote could trigger a federal election.

The risk is the opportunity cost of not taking full advantage of conditions that are becoming increasingly favourable for fiscal repair in fiscal 2011-12 (FY12). Scotia Economics' recent forecast update raises real GDP growth for 2011 to 3.1% for the United States and 2.7% for Canada. This offers a welcome boost to Central Canada's exports as the resource-rich provinces benefit from buoyant global commodity prices. Interest rates, though edging higher as FY12 progresses, should remain sufficiently low to bolster bottom-line repair. After FY12, conditions will likely become less accommodating as interest rates shift higher and Washington's eventual fiscal restraint intensifies. For several Provinces, regaining some 'fiscal space' sooner rather than later would provide some important flexibility for mid-term challenges, including an expanding Seniors cohort and extensive power system investments.

New mandates, however, can provide an excellent base for a comprehensive fiscal repair plan. In addition to potential revenue hikes and spending cuts, tax expenditures stand out as an area where regular reassessment is required to ensure their effectiveness and relevance. Selected federal tax expenditures are presented in the side table to illustrate their range and the tax relief they offer. The Provinces, in many instances, match federal tax expenditures, and to varying degrees add their own specific initiatives. While significant corporate tax reform and reduction is currently assisting Canada's business sector, increasing tax expenditures have widened the difference in the marginal effective tax rates on new capital investment by industry, as documented by Chen and Mintz¹. A review of tax expenditures, therefore, could provide considerable benefit in terms of simplification and creating a more neutral tax system with less distortion in resource allocation.

¹D. Chen and J. Mintz, Federal-Provincial Business Tax Reforms, University of Calgary School of Public Policy, January 2011.

Upcoming Canadian Elections		
Province	Next Election	Comments
PEI	October 3, 2011	Set: 1st Mon. in Oct. every 4 yrs
Manitoba	October 4, 2011	Set: 1st Tue. in Oct. every 4 yrs
Ontario	October 6, 2011	Set: 1st Thur. in Oct. every 4 yrs
Nfld & Labrador	October 11, 2011	Set: 2nd Tue. in Oct. every 4 yrs
Saskatchewan	November 7, 2011	Set: 1st Mon. in Nov. every 4 yrs
Alberta	On/before Apr. 11, 2013	Last election Mar. 3, 2008
British Columbia	May 14, 2013	Set: 2nd Tue. in May every 4 yrs
Quebec	On/before Jan. 12, 2014	Last election Dec. 8, 2008
Nova Scotia	On/before June 9, 2014	Last election Jun. 9, 2009
New Brunswick	September 22, 2014	Set: 4th Mon. in Sept. every 4 yrs
Federal	October 15, 2012	Set: 3rd Mon. in Oct. every 4 yrs

Source: Provincial Legislatures.

Selected Federal Tax Expenditures, 2010e

	Amount \$ billions
Personal Income Tax	
Charitable/political donations	2.5
Education	1.7
Employment	6.6
Employee Stock Option Plans	0.6
Union/professional dues	0.7
Working Income Tax Benefit	1.1
Other	4.2
Family	3.8
Farming and Fishing	0.3
Small Business	0.6
General Business, Investment	4.2
Health	4.7
Income Maintenance	24.3
Pension Income Credit/Splitting	1.9
RPP	11.6
RRSP	7.3
Other	3.5
Canada/Quebec Pension Plans*	7.7
Employment Insurance* **	2.9
Corporate Income Tax	
Charitable/political donations	0.8
Capital Gains Partial Inclusion	3.3
Atlantic Investment Tax Credit	0.3
Scientific Res. & Experimental Dev.	3.5
International Activity, Investment	3.8
Small Business (lower CIT rate)	3.9
Specific Industry Measures	0.3
Goods & Services Tax	
Charities and Non-Profits	1.1
Education	1.2
Health Care	2.1
Household Spending	3.5
GST/HST Credit	3.9
Housing	1.9
Municipalities	2.4

*Credit for employee-paid contributions and non-taxation of employer-paid premiums.

**Includes Quebec Parental Insurance Plan.
 Source: Finance Canada.

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Weather Effect on January Payrolls Likely Overplayed

- ***Four reasons why the sharp disappointment in U.S. nonfarm payrolls reflected genuine weakness.***

We believe that the weather effect was exaggerated in the January nonfarm payroll reports for four reasons that lead us to conclude that this was a genuinely weak report. There is likely some weather effect buried in here, but nowhere close to what is being suggested by some analysts in our view.

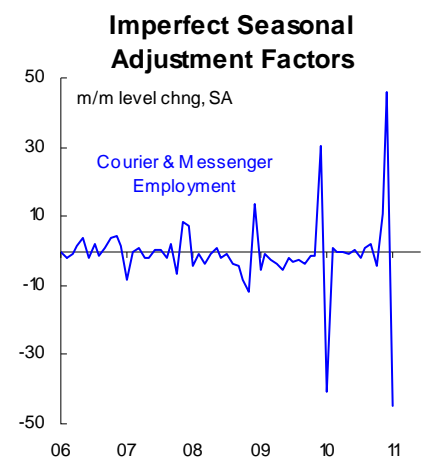
First, ignore the headlines about how bad weather kept 886,000 Americans from work in the payroll week. That's not the issue here. The bottom line is that as long as people could get to work for a minimum of one hour and were counted on payrolls that is what matters. To be off payrolls meant not showing up to work and not getting paid at all for the whole reference period. Blizzards were bad – but not that bad. Being counted on payrolls for some portion of the reference period matters, not whether one could make it into work during a snowstorm. To this effect, we quote text from the BLS's Q&A on the nonfarm payrolls report :

Q. How can unusually severe weather affect employment and hours estimates?

A. In the establishment survey, severe weather is likely to have more of an impact on hours than employment. In order for severe weather conditions to reduce the estimate of payroll employment, employees have to be off work for the entire pay period that includes the 12th of the month and not be paid. About half of all employees in the payroll survey have a 2-week, semi-monthly, or monthly pay period. Employees who receive pay for any part of the pay period, even 1 hour, are counted in the payroll employment figures. While some persons may be off payrolls during the pay period due to severe weather, others, such as those dealing with cleanup and repair activities, may be added to payrolls. Hours are impacted to the extent that time away from work is unpaid. In the household survey, the reference period is the calendar week (generally) including the 12th of the month. People who miss the entire week's work for weather-related events are counted as employed whether or not they are paid for the time off. The household survey collects data on the number of people who usually work full time but had reduced hours, or had a job but were not at work due to bad weather. Current and historical data are available on the household survey's most requested statistics page at <http://data.bls.gov/cgi-bin/surveymost>

Second, the most likely weather-affected sectors suffered the biggest hit. These include construction (-32k) — mostly the non-residential specialty trade contractors (-21.6k), who work on building exteriors (site preparation, foundation, framing, roofing) — and courier & messenger services (-44.8k). Adding these back into the headline would still yield a disappointing nonfarm headline print. What's more, it seems that the seasonal adjustment factors for these series are imperfect (see chart). Courier & messenger employment seems to regularly spike in December and drop in January, and increasingly so in the more recent years.

Third, the labour force shrank by 504k in January, after falling by 260k in the prior month. On the face of it, that says that the weather could have disrupted job search efforts and thus depressed the headline job growth tally. But keep in mind that this is a notoriously volatile series that also posted a sizeable decline in October (-164k) that was not at all weather related, and a big gain of 489k in August. The biggest contributors to the January decline in the labour force were males aged 20 and older who held a high school diploma, but no college degree. Some 690k



Source: BLS, Scotia Capital Economics.

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Americans with this education level exited the labour force in January. It is likely that many of these men were employed in the above-mentioned construction and transportation industries.

Fourth, much like in January, blizzards were also a factor in December, but most of the total nonfarm decline in the labour force then was not in the affected blizzard states. The lagged state level data showed a modest 15k m/m decline in the size of the labour force across the Northeast, a region which includes the nine New England and mid-Atlantic states. We will have to wait until the state level data get released for January to see if this point held true again.

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Canadian Government Is Hiring

- ***The strong role played by public sector job creation in Canada's job recovery faces the risk of cooling as fiscal stimulus unwinds going forward.***

January's headline gain — at 69k — was far stronger than expected, including on most of the details, but one jobs report does not alter our view on the BoC for three reasons.

First, one jobs report does nothing to alter our views on each of core inflation, sub-par expected growth through 2011-12, currency pressures that do the BoC's tightening, the Fed's constraint if it is on hold through-out 2011, and global market frailties. All of these factors combined still lead us to view the BoC to be on hold until October.

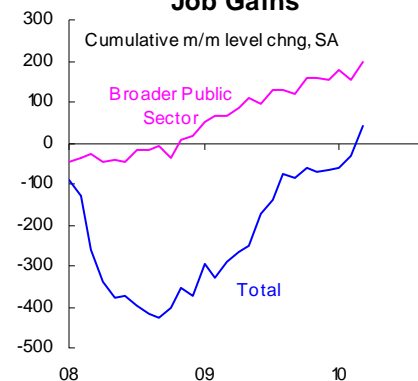
Second, the headline increase in payrolls was split between full-time (+31.1k) and part-time jobs (+38.0k). As a result, less of the gain will flow through to an expansion of hours worked given the 55% weighting on part-time jobs. This, in turn, will provide a more modest boost to January GDP than had the gain been more heavily weighted to full-time jobs.

Finally, the role played by the public sector was far greater than one might think. In fact, the public sector very possibly accounted for over two-thirds of the rise. As such, one has to question the sustainability of this effect going into a period of fiscal consolidation that the US may have postponed but Canada has not.

While the private sector and the newly self-employed contributed 22.7k and 20.1k jobs, respectively, in January, the public sector hired an additional 26,400 Canadians. It is not clear, however, that it really was the private sector driving the headline. That depends upon how strict a line one draws between direct government jobs, and indirect government jobs in health care, education and culture. Adding public administration, health care and education together yields 45,200 of the 69,000 headline gain, or two-thirds of the total. We are unable to capture the culture-only component — heavily subsidized by the government — as it is grouped together with the information and recreation sectors, and no underlying details are available.

From December 2008 to August 2009, public administration, health care and education shed altogether 34.2k jobs, accounting for only 8.5% of the overall labour market contraction (401.5k). However, since bottoming in August 2009, the broader public sector has added 232.2k positions (see chart), mostly in Ontario, Quebec and British Columbia. That represents over half of all the jobs created since the recovery began. This causes us some concern in that the heavy reliance upon public sector jobs may be unsustainable going forward, particularly as the focus turns toward reversing stimulus this year such that fiscal drag will be imposed upon the economy.

Public Sector Hiring Leads Job Gains



Source: Statistics Canada, Scotia Capital Economics.

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Collapse In The Baltic Dry Index Does Not Portend Trade Weakness

- ***The steep decline in the Baltic Dry Index since November does not portend weakness in next week's global trade updates.***

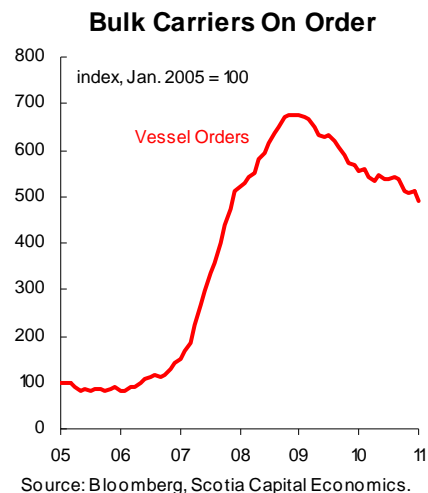
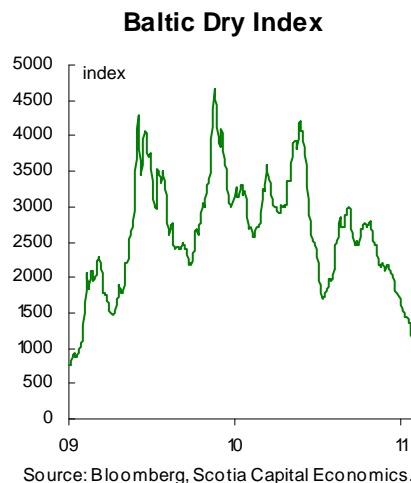
A number of countries will provide updates on their trade accounts next week, including China, the US, Canada, Germany, France, the UK, and Japan. Some analysts are pointing to the collapse in the Baltic Dry index since November as portending gloom for lagged trade statistics (chart 1). We don't buy that for several reasons.

Recall that the Baltic Dry Index measures shipping rates for large ships, and therefore mixes demand influences that could be reflective of global trade patterns or special factors that distort demand, with supply side influences affecting the cost of shipping. Scotia's Patricia Mohr doesn't buy that the decline in this index reflects softening trade. Several other factors explain the more recent decline in the index. Indeed, we think its decline is a red herring.

One is weather in Australia, since flooding in Queensland froze its important coal industry and thus diminished demand for ships. This effect was further compounded by the recent Cyclone Yasi that hit Australia.

Two is the expectation that many more ships will be coming on stream this year, including out of China, so increased supply is depressing global shipping rates. In fact, given a 2-3 year lag between when orders for bulk carriers are placed (see chart 2) and then completed, the massive surge in orders over the 2007-09 period is resulting in complete ships just now starting to hit the waters.

More recently, the Chinese New Year shut down large amounts of global shipping activity temporarily. We're therefore cautiously optimistic that the general tone of improving global trade will remain intact next week and thus not reflective of the Baltic Dry index.



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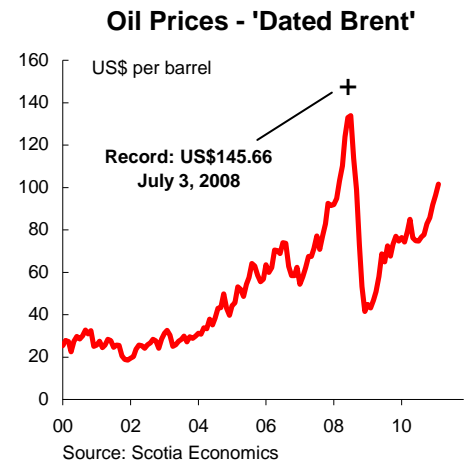
Oil Prices, the Suez Canal and Egypt

- **Suez Canal is less of a 'strategic bottleneck' to European oil supplies than in the past**

Political developments in Egypt have re-introduced a small 'geopolitical risk premium' into oil prices. The price of 'Brent' oil, which impacts prices for two-thirds of world oil supplies, climbed as high as US\$103.37 per barrel in intraday trading early on February 3 — the highest level since September 2008 and about US\$4 higher than the near-term peak before protests began. Concern that tanker shipments through the Suez Canal or via the SUMED Pipeline might be disrupted or that political unrest might spread to major oil producing countries in North Africa or the Middle East lie behind the price increase. However, the 'risk premium' has faded with the still normal operation of the Suez Canal and pipeline (a situation expected to continue).

The Egyptian Army is now maintaining security in the Suez Canal — a 120 mile stretch of water administered by the Suez Canal Authority — with NATO and the U.S. Navy (the Fifth Fleet) monitoring waters in the region. The Canal yielded revenue of US\$5 bn in 2010. Extra security has also been posted to protect the pipeline, though some port operations in the Canal have slowed, with protests keeping supplies and staff from the docks. OPEC has offered to boost output in the event of an emergency spike in oil prices. Saudi Arabia alone has 3.5 mb/d of 'spare' capacity and the OPEC-11 (excluding Iraq) has 5.2 mb/d (6% of estimated world oil consumption in 2011).

The Suez Canal is less of a 'strategic bottleneck' to European or U.S. oil supplies than in the past. The advent of large super-tankers (300,000 DWT) offering economies of scale has substantially reduced the cost of shipping via the Cape of Good Hope.



In its 141-year history, the Suez Canal has only been shut down twice due to political instability — during the 1956 Suez Crisis for 17 months, and in the aftermath of the 1967 Six Day War for nearly eight years. Due to lower OPEC output in 2009, increased piracy, ship-size restrictions and a trend towards larger eastward oil flows from the Middle East to Asia, the Suez Canal and the SUMED Pipeline have not recently been operating at high utilization rates. According to the Suez Canal Authority, in 2009 volumes of crude oil & products transiting the Suez Canal totaled 1 mb/d northbound and 0.8 mb/d southbound, while the SUMED Pipeline transported 1.1 mb/d for a total of 2.1 mb/d northbound (crude flows fell 70% yr/yr). The SUMED Pipeline operated at less than 50% utilization in 2009, with throughput at 1.1 mb/d, though volumes through both the Canal and the pipeline likely rebounded alongside recovering oil demand in 2010.

During the two previous crises, flows through the Suez Canal accounted for more than 60% of Europe's total oil supplies, but are now only around 15%. This reflects the development of North Sea oil supplies (recently declining in the U.K.) and very large crude tankers (VLCCs). Nevertheless, the closure of both the Suez Canal and the SUMED Pipeline would have a significant impact on short-term oil prices. Tanker, bulkcarrier and containership rates would also shoot up due to increased tonne-mile demand.

While closure of the Canal and pipeline appear unlikely, oil prices are nevertheless expected to move irregularly higher as 2011 unfolds. Strong demand growth from China (up 12% in 2010) & 'emerging Asia', the beginning of a second round of 'strategic' stockpiling by China and only a slow resumption of exploration & development in the U.S. 'deepwater' Gulf of Mexico will lift prices. With many benchmark crude grades now above US\$100 (excepting WTI), OPEC will informally review its policy on the sidelines of a February 22 conference in Saudi Arabia.

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Risk of a Sharp House Price Correction Remains Low

- ***While there is more downside than upside to Canadian home prices over the next few years, the odds of a major correction remain low.***

Considering a variety of housing valuation metrics, Canadian home prices are overvalued relative to their 'fundamental' or 'long-term' trend. By one common measure — price-to-income — valuations are approaching record highs (see chart). As of the third quarter of 2010, average home prices (measured by the national average MLS price) were a near-record 5.7 times average annual disposable income (measured by disposable income per worker). This compares to an average ratio of 4.1 over the 1980-2010 period.

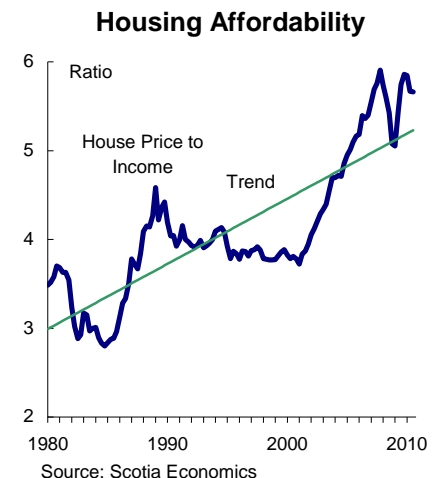
The steady rise in Canadian home prices over the past decade was underpinned by favourable demand fundamentals — a strong economy, record employment rates, low borrowing costs, and rising immigration and homeownership rates. It also reflects some catch-up from the underperforming domestic housing markets of the 1990s. At the same time, it is not particularly surprising that house prices have overshot in recent years given persistently tight resale housing supply and unprecedented low interest rates.

It is widely expected that the housing boom of the past decade will be followed by a period of softness in coming years. Yet it is also highly unlikely that Canada will experience a U.S.-style housing collapse. The roughly 25% correction in U.S. home prices from their 2006 peak was primarily the result of weak lending practices and high-risk mortgage products largely absent in Canada, and the subsequent wave of U.S. foreclosures. With the exception of a relatively large stock of unsold condo units, Canada's housing market is not oversupplied. Builders have begun to slow the pace of construction in line with underlying household formation, and mortgage arrears are stable.

While there is no doubt housing affordability has become more strained after years of rising prices, it does not follow that the ratio of home prices relative to income must return to its long-term average. This ratio has been trending higher for several decades, corresponding with a rising aggregate household debt-to-income ratio. Several factors help account for the rising long-term trend. Canadians today are more comfortable carrying a larger debt load (the biggest share of which is mortgage debt) relative to their annual income than in the past due in part due to financial product innovation and rising household net worth. Consistently low nominal interest rates, urban intensification, and shifting lifestyle and investment considerations may also have contributed to a structural — and sustainable — increase in the ratio.

Taking into account the long-term rising trend in house prices relative to income, the current overvaluation in average Canadian home prices is probably around 10%. While based on a fairly crude analysis of one housing metric, this is consistent with several other estimates, including recent research by the IMF. A 10% overvaluation is fairly typical toward the end of a strong housing upcycle.

Moreover, we expect the adjustment to restore long-run affordability will be relatively orderly given a low share of high-risk mortgages, only gradually rising interest rates, and continued, if modest, population and income growth. Assuming flat nominal home prices (i.e. modest real price declines) and annual income growth of 2% per worker, the average price-to-income ratio would return to its long-term trend by mid-decade.



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Provincial Vehicle Sales Outlook For 2011

• Resource-Rich Provinces Will Lead Sales Gains

The resource-rich provinces of Alberta, Saskatchewan and Newfoundland will lead the improvement in car and light truck sales across Canada in 2011. Commodity prices posted a double-digit increase in 2010, and will continue to advance this year alongside a strong and sustained economic recovery, particularly in the fast-growing emerging nations.

An acceleration in the pace of global job creation and continued double-digit gains in business investment will support not only the global economic recovery, but also gains in Canadian auto sales. The BRIC nations — the key drivers of demand for commodities — are leading the way, with employment growth now advancing by 4% y/y — compared with a flat year-over-year performance in early 2010.

Alberta will lead the improvement in vehicle sales across Canada in 2011, with purchases expected to climb to 210,000 units, up from 200,000 last year and only 182,000 in 2009. Volumes will be buoyed by a double-digit increase in oil sands production — the sharpest gain in five years.

Vehicle sales in Saskatchewan have also started to rebound alongside rising mineral production. Purchases jumped 6% last year to 46,000 units and will reach 48,000 in 2011 — matching the recent peak set in 2008.

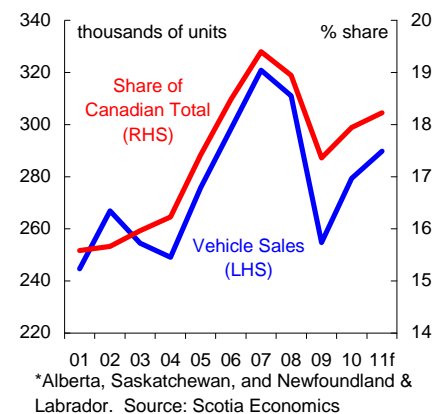
Newfoundland and Labrador is also benefitting from the rebound in the energy sector, with vehicle sales jumping by 11% last year to a record high of 32,000 units — more than 20% above the average of the past decade. However, the gain will moderate in 2011, as the province now has the youngest vehicle fleet in Canada.

Purchases in British Columbia will climb to 157,000 units in 2011, up from 154,000 in 2010. Activity will be bolstered by strengthening exports to Asia — the destination for 40% of the province's overall exports. In particular, exports to China have surged by 60% over the past year, and are now more than double 2007 levels.

Sales in Manitoba are expected to advance to 46,000 units in 2011, matching the 2008 annual peak, and up from 44,000 last year. The province has the most stable auto market in Canada, with volumes posting an annual peak-to-trough decline of only 7% during the latest downturn — significantly outperforming the 12% drop in the rest of Canada. The auto market stability reflects Manitoba's diversified economy, which enabled the province to avoid a contraction during the latest global economic downturn.

Central Canada posted a government-supported 7% jump in sales last year, but will lag in 2011. We expect sales gains in the region to moderate to less than 2% in the coming year, held back by a sharp moderation in government spending in these provinces. Spending by these two provincial governments jumped by 8% per annum over the past two years.

Resource-Rich Provinces* Lead Sales Gains



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Caribbean Region on Recovery Path but Vulnerable to External Shocks

- **Signs of economic recovery in the Caribbean are emerging; however, because of large economic imbalances, Caribbean countries remain vulnerable to external shocks, such as those stemming from developments in the Middle East and North Africa**

Elevated external vulnerability caused by economic imbalances

The Caribbean region continues to be vulnerable to changes in global economic and financial market conditions because of sizable current account deficits, high public debt burdens, limited economic diversification, and underdeveloped capital markets. Therefore, periods of increased global risk aversion — stemming from the turmoil in the Middle East and North Africa for instance — will potentially affect the region as countries struggle to attract foreign funds to meet large financing needs. Despite the fact that recessionary conditions generally reduced current account deficits, the shortfalls (as % of GDP) in the Caribbean remain in double digits in many cases (particularly among the smaller islands), making the region highly dependent on external financing. Therefore, multilateral financing will continue to play a key role in supporting the regional economic recovery as it has constituted a fundamental element aiding some countries to weather effectively the adverse effects of the global recession. Meanwhile, persistently lax monetary conditions in advanced economies will play in the Caribbean region's favour, as they may allow easier access to affordable external financing.

Similarly, falling tax revenues associated with the recession and rising public spending on the back of fiscal stimulus programs have led to a severe deterioration of government balances throughout the region. Given the Caribbean region's relatively elevated public debt levels, the economic downturn placed several regional governments in a difficult position at a time of economic and financial distress. With global investor attention continuing to center on fiscal

sustainability issues, credible consolidation of public sector balances remains imperative to restore investor confidence; within an environment of rapidly changing risk appetite, the possibility of governments facing difficulties in rolling over external debt obligations remains latent. Furthermore, natural disaster preparedness contributes an additional element of potential stress to public finances for the region. In the midst of the financial crisis, several Caribbean countries sought multilateral assistance. For instance, Dominica, St. Lucia and St. Vincent and the Grenadines requested aid from the International Monetary Fund under the Exogenous Shocks Facility to help deal with the adverse effects stemming from the global downturn, while Jamaica and the Dominican Republic have received funding on the back of their Stand-By Arrangements with the Fund.

Key Economic Forecasts for 2011

	Real GDP (% change)	Government Balance (% of GDP)	Current Account (% of GDP)
Barbados	1.5	-6.0	-8.0
Bahamas	1.5	-4.0	-12.9
Trinidad & Tobago	2.3	-4.5	20.4
Dominican Republic	4.0	-3.0	-6.0
Puerto Rico	2.5	-2.5	0.5
Jamaica	1.0	-4.5	-9.1

Source: Scotia Economics

Energy price outlook reflected in inflationary pressures

Vulnerabilities with respect to global commodity price fluctuations will continue to dictate the outlook for inflation within the Caribbean region; most of the regional economies are net importers of oil. While relatively elevated oil prices provoked an uptick in fuel prices in some countries in 2010, our base case for 2011 calls for a relatively stable scenario as lacklustre economic expansions in advanced economies is compensated by solid recoveries in emerging markets. A benchmark WTI oil price of US\$97 per barrel is expected on average for 2011-12. Nevertheless, there are major upside risks to the inflation outlook stemming from the developments in the Middle East and North Africa that may put pressure on global energy costs. Meanwhile, global food prices are showing signs of a pickup, causing adverse inflationary impacts on many import-dependent Caribbean countries.

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Caribbean economic recovery in sight

Global economic recovery is underway despite periods of increased uncertainty, with momentum gradually spilling over to the Caribbean region. The financial crisis adversely affected the Caribbean economies, leading to declining output through a contraction in tourism, financial and business services and goods exports, and a deterioration in government finances. Now, signs of revival in economic activity in the Caribbean are emerging. Nevertheless, while the recovery continues to move forward, growth globally is moving to a weaker, rather than a stronger, performance profile, thereby limiting Caribbean longer-term economic prospects. The US and other developed economies continue to recover, fuelled by a rebound in consumer spending and production activity and the monetary and fiscal stimulus introduced in the last two years. Unemployment in developed economies will likely remain high, while the housing and financial sectors continue to struggle with structural weaknesses, and governments globally face the need to fix their finances by potentially increasing taxes and implementing other austerity measures; therefore, the global recovery in developed economies will likely be relatively gradual, with growth through the decade remaining below levels registered during the previous upturn. As economic ties between the Caribbean region and the US are traditionally strong, the latter's economic prospects will greatly influence the Caribbean outlook; we expect the US economy to expand by 3.1% in 2011 and 2.7% in 2012, following an estimated growth of 2.9% in 2010. After expanding by 1.7% in 2010, real GDP growth in the Caribbean (in nominal GDP-weighted average terms) will pick up to 3% in 2011-12, with the Dominican Republic, Cuba, and Trinidad and Tobago leading the region, while many others expand at a slower pace (i.e. Barbados and Jamaica).

Tourism sector prospects brightening

The Caribbean region is vulnerable to fluctuations in external demand, which is correspondingly reflected in volatile economic growth. With over 20 million arrivals and more than US\$22 billion in tourism receipts annually, the tourism industry is by far the main employer and foreign exchange generator in many countries in the region. Caribbean tourism receipts are equivalent to 10% of regional GDP, while the sector directly employs at least 600,000 people. As tourist arrivals are linked to all facets of the economy, including such sectors as retail and construction, the real impact of the leisure industry is significantly larger. Nevertheless, the importance of the sector varies widely across the region; in Aruba, tourism receipts are equivalent to 53% of GDP, while in the Bahamas, Barbados and St. Lucia such income amounts to a third of GDP. Meanwhile, in Puerto Rico's manufacturing oriented economy, tourism has less significance, with industry receipts equivalent to less than 6% of GDP.

With the United States being the main origin of visitors to the Caribbean (accounting for almost half of total arrivals; in the case of the Bahamas, 80% of the arrivals are from the US), its economic recovery will provide support to the tourism sector over the coming years. Nevertheless, as tourism sector performance depends on employment conditions in source countries — which typically lag output recoveries — the industry will likely see only modest advancement this year. While a global recovery in consumer spending will be reflected in a pickup in tourist arrivals, ample room capacity and persistent uncertainties regarding the strength of the rebound in activity will likely keep hotel room discounting in place in the near term. The Caribbean region's tourism industry has been recovering since September 2009; according to the World Tourism Organization, visitor arrivals were 3.9% higher in 2010 than in the previous year. Meanwhile, the World Travel and Tourism Council estimates that real GDP growth stemming from the tourism industry will reach an average of 4.1% over the next 10 years. The Caribbean region is well-positioned to take advantage and meet the tourism services needs of the aging US population.

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Asian Central Banks Wary of Commodity Shock Transmissions

- **Rising inflationary pressures have monetary authorities on the edge; however, exchange rate gains are on their side with evidence of labour cost contamination yet to emerge**

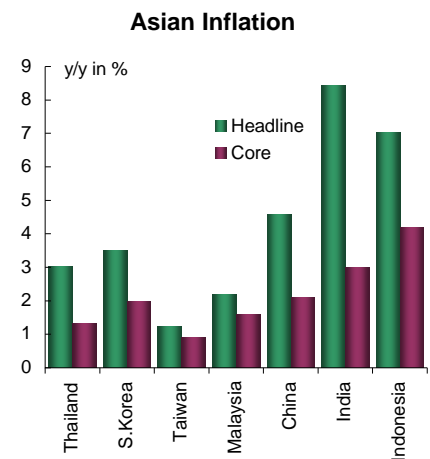
Asia will remain the global growth leader in 2011-12. The statement has several implications, one of them being that as economies climb closer to full capacity utilization levels home grown inflationary pressures are likely to collide with the current global commodity uplift. Persistent gains in economic momentum have moved economies towards becoming natural breeding ground for price pressure contamination.

There is now little doubt that the global credit crunch was a fleeting shock in Asia, as countries recovered promptly and currently operate at output levels that surpass those observed in mid-2008. The attitude of regional central banks during the second half of 2009 through 2010 is evidence of the same phenomenon. Across the Pacific, the Reserve Bank of Australia was the obvious regional leader as it embarked on a monetary tightening campaign since October 2009. India and Malaysia followed suit with upward benchmark interest rate moves since March 2010, with the monetary authorities of those two countries plus Thailand, South Korea and Taiwan having raised benchmark interest rates at least three times during the past ten months. To that we add two upward moves by the People's Bank of China and this week's initial move by Bank Indonesia.

Regional economies have also geared fiscal policies towards tightening mode. Public balances in all of the above mentioned countries are estimated to have fallen in 2010 as a share of GDP, with the fiscal austerity trend expected to continue through 2012. This is not only an additional sign of authorities' perception of the proximity of a full recovery, but explains in part the slowdown registered in some economies in mid-2010, as fiscal impulses were being withdrawn. Since then, consumer and investment spending indicators have continued to improve, pointing to a successful passing of the economic baton from public to private sector spending. It is hard to argue against the fact that the so-called "organic" growth so coveted a year ago is nowadays a reality in Asia. The effect of fiscal retrenchment on inflationary pressures was mixed, however, as it contributed to reduce domestic demand but in some cases added a supply shock as government subsidies of fuel and energy were withdrawn in mid-year. The inflation accelerating effect had been particularly clear in India, Indonesia and Malaysia, where we now observe as in other countries a fiscal drag that contributes to diminish inflationary pressures complementing the monetary policy stance.

Recently observed increases in food and fuel commodity prices have fallen into the above described context, and are bringing the issue of inflationary pressures back to the fore in Asia. Such a shock was anticipated (particularly because of the severe spike in commodity prices that preceded the global recession in 2008) but had not materialized through the first leg of the recovery. As supply constraints associated with weather abnormalities have combined with increased demand due to improving global economic conditions, rising global food and energy costs ensued; add recent political turmoil in North Africa to the mix.

Undeniably, there is some evidence of pass-through from external price shocks; for instance, core inflation in South Korea reverted in December a previously established downward trend. However, as can be concluded from the adjacent table, a casual look across a sub-set of countries still portrays headline inflation well ahead of measures of price gains that isolate from rising food and fuel costs. This implies that, while there remains ground to be covered in the monetary normalization process, overall financial conditions have yet to become clearly misaligned with inflation containment.



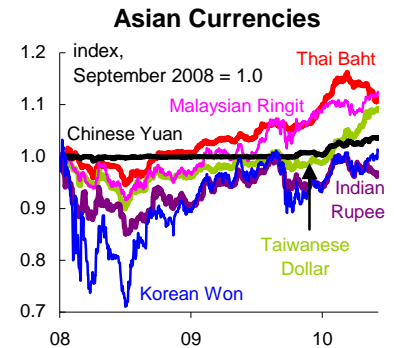
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Nevertheless, inflationary expectations are likely to pickup as a result of current price shocks, if they have not done so already, leaving central banks on the edge of their seat and ready to react to any evidence of transmission to core inflation in order to prevent a labour cost spiral.

Overall monetary conditions are far from lax, and moving towards stabilization. While the expansion in bank lending to the private sector in most Asian economies is on an upward trend ranging between 25% y/y and 10%, overall credit growth remains well below the rates registered in mid-2008. Part of the reason lying in the fact that the preeminence of private sector demand has gathered pace only in the past six months. In the presence of substantial foreign inflows of capital and as business confidence indicators continue to improve, bettered investment intentions and falling unemployment rates will continue to pull credit forward towards prior peaks.

Finally, the foreign exchange market is the last piece of the jig-saw. A significant share of the inflation prevention weight is being carried by exchange rates. As can be observed in the adjacent chart, with the exception of the Indian rupee, most countries here considered have nominal currencies at a level just equivalent or below that observed in September 2008. The Malaysian ringgit leads the pack, with the Thai baht and the Taiwanese dollar not far behind. Most regional exchange rates have remained on a strengthening pattern through the economic recovery. With the obvious exception of the Chinese yuan, currency fluctuations played a key role as buffers that allowed for a quick absorption of the adverse effect of falling exports demand as a result of the global crisis. Exchange rates are now playing a similar stabilizing role, as they contribute to mitigate the rise in local prices resulting from the externally induced increase in food and fuel costs.



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ISM Hits Goldilocks Level

This text was published on February 2, 2011.

- The January manufacturing ISM index (released February 1st) hit the turbo-charged 60.8 level, pushing the S&P 500 above the 1,300 level. The Services ISM also came out on the strong side at 59.4.
- The ISM recovery from sub-40 levels in Q4/08 appears to have come full circle (the S&P500 is up 46% since the ISM trough of 37.8 in Nov-08). Strong New Orders and Employment components point to elevated ISM levels in coming months, but improvements from the current 60 level will be challenging. 60+ ISMs mean the economy is firing on all cylinders and precede strong U.S. macro/earnings visibility in 1H/11. From an equity risk-reward standpoint, however, the S&P 500 average 1-Yr forward return is very modest when the ISM sits above 60 (Exhibits 1).

Exhibit 1

ISM Index and Investment Phases (1950-2011)*: One-year Forward Equity and Interest Rate Behaviour

		1-Yr Forward					
Phases	ISM Ranges	S&P 500	Prob. of Positive Return	Fed Funds (bp)	10-Yr Yield (bp)	U.S. Small-cap Outperformance**	Prob. of Outperformance
Apocalypse	< 40	27%	100%	-102	-25	20%	90%
Worse-to-Bad	40-50	11%	76%	-95	-22	2%	60%
Show-me-the-Money	50-55	8%	72%	-48	-3	0%	45%
Optimism	55-60	6%	68%	+76	+14	-1%	51%
Goldilocks	60+	2%	62%	+113	+32	-4%	29%

*Based on Blended ISM (25% Manufacturing / 75% Services) since Jul-97.

**Based on Russell 1000 and 2000 since 1978

Source: Scotia Capital, Bloomberg

- More importantly, bond yield reaction accelerates when the ISM surpasses 60. Short term and long term yields are biased higher in coming months as the U.S. recovery gains traction and credibility. A flattening YC will point to less risk in portfolios and an extension of the recent Large Cap over Small outperformance.
- Sub-40 ISM (Q4/08, jobless claims turnaround (Q1/09) and S&P 500 golden cross (Q2/09) have been the main drivers of our aggressive bullish equity view in 2009 and 2010. In our opinion, odds of equity outperformance vs. bonds remain attractive in the wake of normalizing equity sentiment (higher P/E) and inflation expectations (higher yields). However, these odds are dramatically lower than 12-24 months ago and investors should trim their risk exposure.
- In our January 2011 Strategy outlook report, we reduced our equity overweight recommendation to +8% from +18% a year ago (Exhibit 2). We prefer Equities to Bonds for 2011, but the magnitude of our equity overweight has been reduced. Our game plan in coming months will be to look for signs to turn more neutral on equities. With ISM now sending warning signs, we will focus on the jobless claims trend, profits revisions and S&P500 moving average pattern.

Exhibit 2

Scotia Capital Asset Mix - 2011

	Asset Mix		Change from Focus 2010	Total Return Next 12-M
	Benchmark	Recommended		
Equities	50%	58%	-10%	8-10%
Canada (TSX)	10%	13%		
U.S. (S&P 500)	15%	20%		
Int'l (Europe, Japan)	15%	18%		
EM-Asia	6%	4%		
EM-LatAm	4%	3%		
Bonds	45%	35%	+7%	3%
Government	35%	23%		2%
Corporate	10%	12%		4%
Cash (91-D Tbills)	5%	7%	+3%	1%

Source: Scotia Capital

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CAD's Strength Is Not Temporary

Overview — USDCAD is expected to hover either side of parity with a bias for downside in the near-term. The downward trajectory is likely to strengthen this year. We hold a year-end USD CAD forecast of 0.96 (Bloomberg consensus calls for 1.01). Accordingly we favour short USDCAD positions.

Near-Term Outlook — Stronger than expected GDP (+0.4% m/m in November) and a surge in employment (+69.2k in January) have provided a solid fundamental base for CAD to rally, even from current levels — see chart.

Technically, the near-term outlook for USDCAD is bearish. The MACD has crossed below the signal line, the RSI, at 39, leaves open significant room before we reach oversold levels, and today the pair has broken to a new multi-year low. There are some warning signals, including the MACD highlighting bullish divergence and the failure of the 9-day moving average to cross below the 21-day. However, we expect that today's break below the January 18th 0.9838 low is foreshadowing further downside. Support from here lies at 0.9712, the February 2008 low, followed by 0.9425, then 0.9335 and finally the 2007 low of 0.9058. Resistance lies initially at the psychological parity, followed by 1.0250 - see bottom chart.

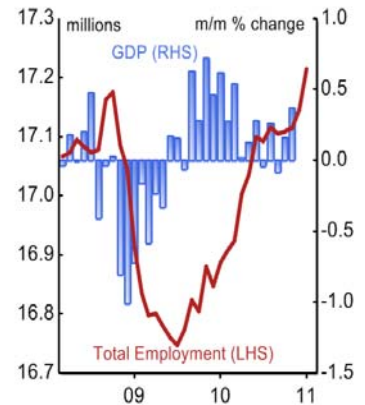
An important input into near-term currency valuations is investor sentiment, which can be gauged by the weekly CFTC speculative positioning reports. The net long CAD position currently stands at \$3.2bn, above the average level over the last two years but well off the April 2010 high of \$7.2bn. Accordingly, sentiment is bullish CAD but positioning is not yet extended. We think this is positive for short-term CAD traders as it leaves open the potential for a further build in long positions.

Medium-Term Outlook — The medium term outlook for USDCAD has not changed materially over the last several quarters, but is substantially different than the short-term outlook. The combination of fundamentals and technicals provide a powerful argument for USDCAD to move sustainably through parity in 2011. Accordingly, we retain our bias to be short USDCAD, and hold a 0.96 forecast (CAD at 1.04).

Fundamental Medium-Term Outlook — Historically, there have been many times when the fundamental outlook for Canada was stronger than it currently is. However, the current relative story is favourable, and it is the relative outlook that matters for currencies.

Canada has come through the recession on better footing than most, but more importantly its domestic outlook remains favourable enough that the Bank of Canada is expected to resume interest rate hikes in the second half of 2011, thereby widening the US-Canada spread in CAD's favour. In addition, the sovereign position has weakened, but it is still enviable. Canada's Federal budget deficit is estimated have reached

Strong Fundamentals



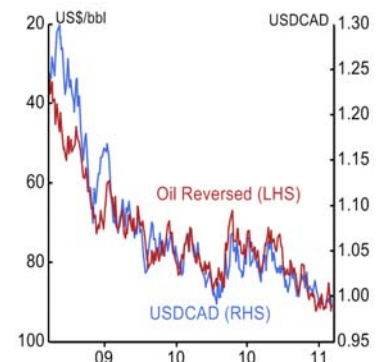
Source: Scotia FX Strategy & Global Insight.

USDCAD Downward Trend



Source: TraderMade & Scotia FX

USDCAD and Oil are Closely Related



Source: Scotia FX Strategy & Global Insight.

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2.7% of GDP in 2010 and is expected to narrow to 1.2% by 2012 and close by 2015. This is far narrower and on a better path than the US, UK or most European nations. We expect that as debt and confidence concerns mount for the US and others, flow towards Canada will increase materially.

Investor sentiment is extremely important in short-term currency movement, and somewhat less so in longer-term valuations. However, for Canada flows are important. Recently we have seen a decrease in foreign direct investment (FDI), but portfolio flows remain strong. Net flow into Canadian based assets is still a positive for the currency. Particularly important is that many of the recent flows appear to have been from longer term investors, who are using Canada (and by default CAD) as an alternative to US and even European investments. This is a positive long-term trend of relatively stable inflows and is a significant advantage for CAD.

The Canadian economy is particularly sensitive to commodity prices, notably oil, natural gas, potash, etc. Commodities, particularly oil prices, are expected to benefit from three factors: 1) strong emerging market growth, which is generally commodity intensive; 2) loose US monetary policy, which is leading to a global search for alternative investments and yield; 3) investor appetite to diversify into commodities. Accordingly oil prices are expected to trend higher next year, benefitting the Canadian economy and currency.

CAD underperformed AUD last year, as markets were quick to punish it for its close ties to the US economy, while AUD was rewarded for its ties to Asia. However, with the growth trajectory in the US improving (at least in part due to the extension of the Bush-era tax cuts), it lends support to Canada's export sensitive economy (70% of Canadian exports are US bound). Meanwhile the combination of loose US monetary policy and the country's unwillingness to present a credible fiscal plans leaves the USD vulnerable to significant downside, in periods where risk appetite is favourable. A broadly weaker USD should also help to propel CAD sustainably through parity.

Accordingly, as we look out to the first quarter of 2011, we expect USDCAD will continue to hover either side of parity with a bias for downside (CAD strength). As we look out to year-end and 2012, we expect that USDCAD will have moved sustainably through parity, closing this year at 0.96 and next at 0.94.

Risks — The single biggest risk for USDCAD is a renewed spike in risk aversion. A deepening of the confidence and contagion issue in Europe is the most likely catalyst for this. However, our base case is that we see stability return to EUR, which will ease concerns in markets and will open the door for a strong CAD.

A strengthening CAD weighs heavily on Canada's export sensitive economy. Accordingly, there are limits to how far CAD can rise before the economics turn negative. In addition, the Bank of Canada (BoC) will become increasingly sensitive to CAD strength as it moves towards 1.06 (USDCAD moves toward 0.94). A strong CAD will alter both the economic outlook and the tone of the BoC, which will limit the sustainability of any upside CAD potential through 1.06 (USDCAD 0.94).

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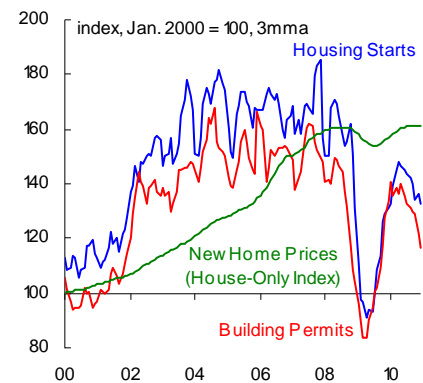
Key Data Preview

CANADA

We estimate that the **trade deficit** (Friday) will expand modestly to around -C\$0.5 billion in December, from the sharp improvement to -C\$0.1 billion in the prior month. The impact of higher commodity prices is likely to be offset by a strong loonie and a high base effect. While the prior month's sizeable narrowing of the trade gap was a net positive for November GDP, the underlying details were less encouraging. A drop in export volumes was outpaced by a steeper decline in imports, suggesting possibly softening domestic demand and lower export competitiveness. The Bank of Canada has been putting more emphasis on the implications of lower export competitiveness on the domestic economy; a result of poor labour productivity growth and a stronger loonie. While we will have to wait until February 28th for the fourth-quarter GDP report, net trade is tracking a positive contribution to the headline print.

As we have argued before, the US may have improved its housing affordability and stirred up pent-up demand, but Canada has not. In fact, the Canadian housing market — which helped lift the economy from recession — is now at cycle tops on a number of variables, including the home ownership rate, leverage and house prices (see chart). On a quarterly basis, housing is shifting toward being an increasing drag on overall economic growth, and building intentions point to further weakness in the months ahead. Fourth-quarter starts declined 6.4% q/q (non-annualized), marking their second straight quarter of accelerating retreat and the sharpest since the third quarter of 2009. Looking to next week's reports, we think that **housing starts** (Tuesday) and **building permits** (Monday) recovered modestly in January and December, respectively, mostly on strong negative base effects from the prior month. We are looking for a modest advance of 4.0% m/m to 175k annualized units in the former and a 3.0% m/m gain to C\$5.7 billion for the latter.

Canadian Housing Market



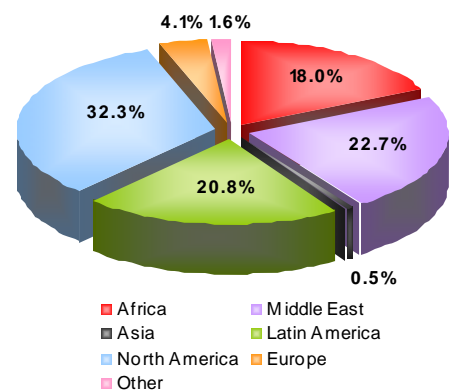
Source: Statistics Canada, Scotia Capital Economics.

With the Canadian housing market entering a softer environment, the **New Home Price Index** (Thursday) — which tracks home and land prices — seems also to have reached the cycle's peak (see chart). As a result, we expect the headline index to post a modest gain of 0.1 at 159.2 in December. The house-only sub-index — which drives the shelter component of the CPI, its biggest slice — is likely to moderate through 2011, and, hence, act as a disinflationary force on core inflation.

UNITED STATES

Only one fundamental release is on next week's schedule in the US. We look for the nominal **trade gap** (Friday) to widen to -US\$41.0 billion in December, from -US\$38.3 billion in the prior month. According to the manufacturing and services Purchasing Manager Indices (PMIs), growth in exports continued to outpace imports in December. Foreign aircraft deliveries by Boeing were also stronger. However, the impact of sharply higher import prices, particularly among commodities, is likely to provide a significant offset. Petroleum products account for roughly 12% of overall imports, three quarters of which come from North America, the Middle East and Latin America (see chart). December trade data will round out trade flows for the fourth quarter. Assuming a flat print for December, we could see the nominal trade gap tighten by about 10% — nearly 15% in price-adjusted terms — the first quarter that net trade would have added to the GDP growth since mid-2009. The advance fourth-quarter GDP estimate revealed a weighty net trade contribution of 3.4 percentage points, the biggest since early 1980.

US Crude Imports



Source: BEA., Scotia Capital Economics.

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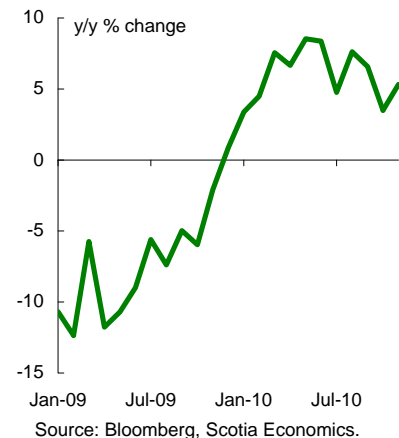
MEXICO

Mexican industrial production for December will be released on February 11 and we expect it to remain strong on the back of increasing domestic demand but highly dependent on US economic recovery. In November, industrial output increased by 5.30% y/y; the manufacturing sector outperformed with a 6.6% increase. However, on a monthly basis, production grew only by 0.21% m/m, showing some signs of a slowdown. For the second consecutive month, construction increased by 1.20% m/m, displaying signs of improvement following many months of lagging the economic recovery. This reflects increasing local demand which is expected to continue and support Mexican growth in the coming months. We anticipate industrial production to keep growing at a moderate pace.

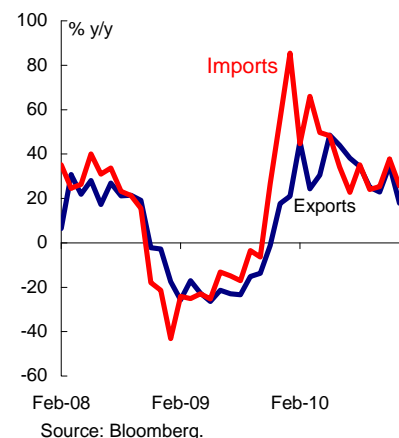
ASIA

We expect China's exports to continue to propel along on the back of the improved profile of the U.S. consumer. However, we also anticipate them to continue to be surpassed by the expansion in imports as Chinese domestic demand has yet to show any sign of abatement.

Mexican Industrial Production



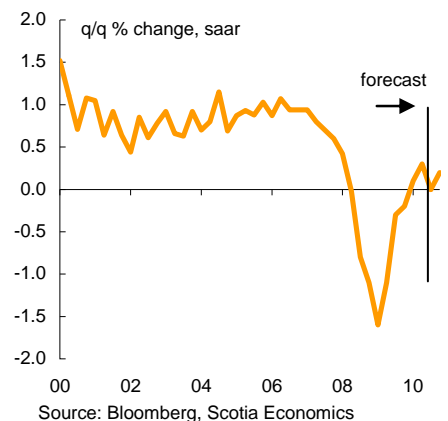
China's Trade



EUROPE

Growth conditions in the €1.4 trillion Spanish economy continue to be challenging. We estimate that **real GDP** (to be released on February 11th) increased by 0.2% q/q in the final quarter of 2010, keeping total 2010 output expansion slightly in negative territory, at -0.1%. We expect real GDP growth to pick up to 0.7% this year, and to 1.2% in 2012. While consumer spending will likely start improving in the coming months, it will remain subdued on the back of very high unemployment (the jobless rate was 20.3% in the final quarter of 2010). Aggressive fiscal consolidation efforts will continue to limit government spending while investment will remain a growth drag due to the lack of public sector investment spending and a persistently weak housing market. In the context of low demand for imports, net exports will support economic activity.

Spain's GDP Growth



Key Indicators for the week of February 7 - 11

North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>	<u>Period</u>	<u>BNS</u>	<u>Consensus</u>	<u>Latest</u>
CA	02/07	08:30	Building Permits MoM	DEC	3.0	2.0	-11.2
US	02/07	15:00	Consumer Credit (US\$ bns)	DEC	--	2.5	1.3
US	02/08	07:30	NFIB Small Business Optimism	JAN	--	93.8	92.6
CA	02/08	08:15	Housing Starts (000s)	JAN	175.0	174.0	168.3
US	02/08	10:00	JOLTs Job Openings (000s)	DEC	--	--	3248.0
US	02/09	07:00	MBA Mortgage Applications (%)	4-Feb	--	--	11.3
MX	02/09	09:00	Trade Balance (US\$ mn)	DEC F	--	--	-218.5
MX	02/09	10:00	Consumer Prices (MoM)	JAN	--	0.5	0.5
MX	02/09	10:00	Consumer Prices (YoY)	JAN	--	3.8	4.4
MX	02/09	13:00	Central Bank 1Q Inflation Report				
CA	02/10	08:30	New Housing Price Index MoM	DEC	0.1	0.2	0.3
US	02/10	08:30	Initial Jobless Claims (000s)	5-Feb	410.0	410.0	415.0
US	02/10	08:30	Continuing Claims (000s)	29-Jan	3960.0	3900.0	3925.0
MX	02/10	09:00	Gross Fixed Investment (YoY)	NOV	--	7.6	5.3
US	02/10	10:00	Wholesale Inventories (MoM)	DEC	--	0.7	-0.2
US	02/10	14:00	Monthly Budget Statement (US\$ bn)	JAN	--	-59.5	-80.0
CA	02/11	08:30	Int'l Merchandise Trade (C\$ bn)	DEC	-0.5	-0.3	-0.1
US	02/11	08:30	Trade Balance (US\$ bn)	DEC	-41.0	-40.3	-38.3
MX	02/11	09:00	Industrial Production (YoY)	DEC	--	3.7	5.3
US	02/11	09:55	U. of Michigan Confidence	FEB P	--	75.0	74.2

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

Key Indicators for the week of February 7 - 11

Europe								
Country	Date	Time	Event	Period	BNS	Consensus	Latest	
EC	02/07	04:30	Sentix Investor Confidence	FEB	--	14.0	10.6	
GE	02/07	06:00	Factory Orders MoM (sa)	DEC	--	-1.5	5.2	
UK	02/07	19:01	RICS House Price Balance (%)	JAN	--	-37.5	-39.0	
FR	02/08	02:30	Bank of France Bus. Sentiment	JAN	--	--	108.0	
FR	02/08	02:45	Central Govt. Balance (Euros bn)	DEC	--	--	-140.7	
FR	02/08	02:45	Trade Balance (Euros bn)	DEC	--	-4.2	-3.9	
GE	02/08	06:00	Industrial Production MoM (sa)	DEC	--	0.2	-0.7	
RU	FEB 8-9		Light Vehicle & Car Sales YoY	JAN	--	--	60.0	
GE	02/09	02:00	Exports SA (MoM)	DEC	--	1.0	0.4	
GE	02/09	02:00	Imports SA (MoM)	DEC	--	0.8	4.1	
GE	02/09	02:00	Trade Balance (Euro bn)	DEC	--	12.0	12.9	
FR	02/09	02:45	Survey of Industrial Investments					
UK	02/09	04:30	Total Trade Balance (GBP/Mln)	DEC	--	-4000.0	-4123.0	
FR	02/10	02:45	Industrial Production (MoM)	DEC	--	-0.3	2.3	
FR	02/10	02:45	Manufacturing Production (MoM)	DEC	--	-0.2	2.2	
SP	02/10	03:00	House transactions YoY	DEC	--	--	-6.2	
IT	02/10	04:00	Industrial Production sa (MoM)	DEC	--	0.2	1.1	
UK	02/10	04:30	Industrial Production (MoM)	DEC	--	0.5	0.4	
RU	02/10		Gold & Forex Reserve (USD bn)	4-Feb	--	--	484.7	
UK	02/10	07:00	BOE Asset Purchase Target (£ bn)	FEB	200	200.0	200.0	
UK	02/10	07:00	BOE ANNOUNCES RATES (%)	10-Feb	0.50	0.50	0.50	
RU	FEB 9-11		Budget Level (Year to date, bn)	JAN	--	--	-1795.2	
GE	02/11	02:00	CPI - EU Harmonised (MoM)	JAN F	-0.5	-0.5	-0.5	
GE	02/11	02:00	CPI - EU Harmonised (YoY)	JAN F	2.0	2.0	2.0	
FR	02/11	02:45	Current Account (EURO bn)	DEC	-3.6	--	-4.2	
FR	02/11	02:45	Non-Farm Payrolls (QoQ)	4Q P	--	--	0.1	
FR	02/11	02:45	Wages (QoQ)	4Q P	--	0.3	0.3	
SP	02/11	03:00	GDP (Constant SA) (QoQ)	4Q P	0.2	0.1	0.0	
UK	02/11	04:30	PPI Input NSA (YoY)	JAN	--	12.7	12.5	
RU	02/11		Balance (USD bn)	DEC	--	12.3	10.9	
RU	02/11		Exports (USD bn)	DEC	--	38.5	35.3	
RU	02/11		Imports (USD bn)	DEC	--	26.9	24.5	

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

Key Indicators for the week of February 7 - 11

Asia Pacific

Country	Date	Time	Event	Period	BNS	Consensus	Latest
AU	02/06	19:30	Retail Sales s.a. (MoM)	DEC	--	0.5	0.3
JN	02/07	00:00	Leading Index CI	DEC P	--	101.4	100.6
IN	02/07	00:30	FY10 Annual GDP Constant YoY%	1Q A	--	8.6	8.0
ID	02/07		GDP Constant Price (QoQ)	4Q	--	-2.0	3.5
JN	02/07	18:50	Bank Lending Banks Adjust YoY	JAN	--	--	-1.8
JN	02/07	18:50	Current Account Total (¥ bn)	DEC	--	1130.0	926.2
JN	02/07	18:50	Trade Balance - BOP Basis (¥ bn)	DEC	--	779.6	259.7
JN	02/07	23:30	Bankruptcies (YoY)	JAN	--	--	-3.0
NZ	02/08	18:00	QV House Prices YoY%	JAN	--	--	-0.9
CH	02/08	21:30	China HSBC Services PMI	JAN	--	--	53.1
JN	02/09	00:00	Consumer Confidence	JAN	--	--	40.2
JN	02/09	18:50	Housing Loans YoY	4Q	--	--	3.6
JN	02/09	18:50	Machine Orders (MoM)	DEC	--	5.0	-3.0
AU	02/09	19:30	Employment Change (000s)	JAN	--	20.0	2.3
AU	02/09	19:30	Unemployment Rate (%)	JAN	--	5.0	5.0
PH	02/09	20:00	Total Exports (YoY)	DEC	--	18.9	11.5
CH	02/09	21:00	Trade Balance (USD bn)	JAN	--	10.2	13.1
CH	02/09	21:00	Exports YoY%	JAN	--	22.4	17.9
CH	02/09	21:00	Imports YoY%	JAN	--	21.9	25.6
SK	02/09	22:00	Bank Lending to HH (KRW Tln)	JAN	--	--	430.4
PH	02/10	03:00	Overnight Borrowing Rate (%)	10-Feb	--	4.00	4.00
SK	02/10	16:00	Producer Price Index (YoY)	JAN	--	--	5.3
SK	02/10	20:00	South Korea 7-Day Repo Rate (%)	11-Feb	3.00	3.00	2.75
IN	02/11	00:30	Industrial Production YoY	DEC	--	1.6	2.7
TA	02/11	03:00	Total Trade Bal in (USD bn)	JAN	--	1.6	1.6
TA	02/11	03:00	Total Exports (YoY)	JAN	--	15.2	19.1
TA	02/11	03:00	Total Imports (YoY)	JAN	--	22.8	21.4
NZ	FEB 10-12		REINZ Housing Price Index MoM%	JAN	--	--	-0.6
NZ	FEB 10-12		REINZ House Sales YoY%	JAN	--	--	-11.3

Latin America

Country	Date	Time	Event	Period	BNS	Consensus	Latest
CL	02/07	06:30	Trade Balance in (USD mn)	JAN	--	2150.0	2392.6
CL	02/07	06:30	Economic Activity YoY	DEC	--	6.3	6.2
CL	02/08	06:00	CPI (MoM)	JAN	--	0.3	0.1
CL	02/08	06:00	CPI (YoY)	JAN	--	2.7	3.0
BZ	02/08	09:00	IBGE Inflation IPCA (MoM)	JAN	--	0.8	0.6
BZ	02/08	09:00	IBGE Inflation IPCA (YoY)	JAN	--	6.0	5.9
CL	02/10	06:30	Central Bank Economist Survey				
PE	02/10		Reference Rate (%)	FEB	3.50	3.50	3.25
CO	02/11		Monetary Policy Meeting Minutes				
PE	02/11		Trade Balance (PEN mn)	DEC	--	--	560.2

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

Global Auctions for the week of February 7 - 11

North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	02/07	11:00	U.S. Fed to Purchase USD7-9 Bln Notes/Bonds
US	02/07	11:30	U.S. to Sell USD32 Bln 3-Month Bills
US	02/07	11:30	U.S. to Sell USD30 Bln 6-Month Bills
US	02/08	11:00	U.S. Fed to Purchase USD1.5-2.5 Bln Notes/Bonds
US	02/08	11:30	U.S. to Sell 4-Week Bills
US	02/08	11:30	U.S. to Sell USD22 Bln 52-Week Bills
US	02/08	13:00	U.S. to Sell USD32 Bln 3-Year Notes
US	02/09	11:00	U.S. Fed to Purchase USD6-8 Bln Notes/Bonds
CA	02/09	12:00	Canada to Sell 3-Year Notes
US	02/09	13:00	U.S. to Sell USD24 Bln 10-Year Notes
US	02/10	13:00	U.S. to Sell USD16 Bln 30-Year Bonds

Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
GE	02/07	05:15	Germany to Sell EU5 Bln 6-Mth Bills
HU	02/07	05:30	Hungary to Sell 6-Week Bills
NE	02/07	06:00	Netherlands to Sell up to EUR2 Bln 170-Day Bills
NE	02/07	06:00	Netherlands to Sell up to EUR2 Bln 264-Day Bills
NE	02/07	06:00	Netherlands to Sell up to EUR3.5 Bln 79-Day Bills
PD	02/07	06:00	Poland to Sell Up to PLN1.1 Bln 51-Week T-bills
FR	02/07	09:00	France to Sell EUR4 Bln 91-Day Bills
FR	02/07	09:00	France to Sell EUR2 Bln 182-Day Bills
FR	02/07	09:00	France to Sell EUR2 Bln 364-Day Bills
NE	02/08	04:00	Netherlands to Sell up to EUR2 Bln 3.75% 2042 Bonds
DE	02/08	04:15	Denmark to Sell Up to DKK5 Bln 2.5% 2016 Bonds
IT	02/08	05:00	Italy to Sell Bonds via Exchange Auction
SZ	02/08	05:30	Switzerland to Sell 3-Month Bills
UK	02/08	05:30	U.K. to Sell GBP1 Bln 1.875% I/L 2022 Bonds
HU	02/08	05:30	Hungary to Sell 3-Month Bills
HU	02/08	06:00	Hungary's Central Bank to Sell 2-Week Bills
SW	02/09	05:10	Sweden to Sell SEK2 Bln 3.5% 2022 Bonds
GE	02/09	05:15	Germany to Sell Add'l EU5 Bln 5-Year Notes
SZ	02/09	05:30	Switzerland to Sell Bonds
PD	02/09	06:00	Poland to Sell Up to PLN5.5 Bln Bonds Due January 2013
RU	02/09	06:00	Russia to Sell Up to RUB5 Bln OFZ Bonds
RU	02/09	08:00	Russia to Sell Up to RUB35 Bln OFZ Bonds
IT	02/10	05:00	Italy to Sell Bills
SW	02/10	05:10	Sweden to Sell SEK5 Bln Bonds via Exchange Auction
HU	02/10	05:30	Hungary to Sell Bonds
SW	02/11	05:10	Sweden to Sell SEK5 Bln Bonds via Exchange Auction
UK	02/11	06:10	U.K. to Sell Bills
IC	02/11	06:45	Iceland to Sell Bills

Source: Bloomberg, Scotia Economics.

Global Auctions for the week of February 7 - 11

Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
SK	02/06	20:30	Korea Central Bank to Sell KRW500 Bln 182-Day Bonds
SK	02/06	21:30	Korea to Sell KRW1.5 Tln 3-Year Bonds
JN	02/06	22:35	Japan to Sell 6-Month Bills
MA	02/06	23:00	Bank Negara to Sell MYR1 Bln 210-Day Notes (03/11)
MA	02/06	23:00	Bank Negara to Sell MYR2 Bln 128-day Notes (07/11)
MA	02/06	23:00	Bank Negara to Sell MYR1.5 Bln 910-Day Islamic Notes (09/11)
MA	02/06	23:00	Bank Negara MYR1 Bln 128-Day Islamic Notes (10/11)
SI	02/06	23:00	Singapore to sell 91-Day T-Bills
PH	02/07	00:00	Philippines to Sell PHP 1 Bln 91D T-bills
PH	02/07	00:00	Philippines to Sell PHP 3.5 Bln 182D T-bills
PH	02/07	00:00	Philippines to Sell PHP 4 Bln 364D T-bills
SK	02/07	00:00	Korea Central Bank to Sell KRW1 Tln 91-Day Bonds
TH	02/07	22:00	Bank of Thailand to Sell THB25 Bln 28D Bills
TH	02/07	22:00	Bank of Thailand to Sell THB22 Bln 91D Bills
TH	02/07	22:00	Bank of Thailand to Sell THB15 Bln 182D Bills
HK	02/07	22:30	Hong Kong to Sell HKD27.65 Bln 91-Day Bills
HK	02/07	22:30	Hong Kong to Sell HKD9 billion 182-Day Bills
JN	02/07	22:35	Japan to Sell 3-Month Bills
JN	02/07	22:45	Japan to Sell 40-Year Bond
IN	FEB 7-11		India to sell INR 30-40Bln 5-9Year Bonds
IN	FEB 7-11		India to sell INR 40-50Bln 10-14Year Bonds
IN	FEB 7-11		India to sell INR 20-30Bln 15-19Year Bonds
TH	02/08	22:00	Thailand to Sell THB10 Bln Bonds due 2015
MA	02/08	23:00	Bank Negara to Sell MYR2 Bln 126-Day Notes (01/11)
MA	02/08	23:00	Bank Negara to Sell MYR1 Bln 364-Day Notes (08/11)
MA	02/08	23:00	Bank Negara to Sell MYR400 Mln 1-Year Islamic Bonds (01/11)
MA	02/08	23:00	Bank Negara to Sell MYR1.5 Bln 61-Day Islamic Notes (11/11)
TA	02/08	23:30	Taiwan to Sell TWD40 Bln 2-Year Bonds
IN	02/09	06:30	India to Sell INR 50Bln 91-Day Bills
IN	02/09	06:30	India to Sell INR 30Bln 364-Day Bills
NZ	02/09	20:30	New Zealand Plans to Sell Government Bonds
MA	02/09	23:00	Malaysia to Sell MYR80 Mln 91-Day Bills (07/11)
MA	02/09	23:00	Malaysia to Sell MYR100 Mln 364-Day Islamic Bills (03/11)
TA	02/09	23:30	Taiwan to Sell TWD100 Bln 364-Day NCD
TH	02/10	22:00	Bank of Thailand to Sell THB15 Bln 3-Year FRN

Source: Bloomberg, Scotia Economics.

Events for the week of February 7 - 11

North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	02/08	08:45	Fed's Lacker Speaks on Economy in Newark, Delaware
US	02/08	13:00	Fed's Lockhart Speaks in Fort McClellan, Alabama
US	02/08	13:30	Fed's Fisher Speaks in Dallas on U.S. Economy
US	02/09	10:00	Bernanke Testifies at House Budget Committee
US	02/09	17:45	NY Fed's Sack to Speak about QE2 in Philadelphia
US	02/09	18:45	Fed's Lockhart Speaks on U.S. Outlook in Atlanta
US	02/10	12:45	Fed's Lockhart Speaks on Panel on Debt, Fiscal Policy
CA	02/10	13:15	Bank of Canada's Murray Speaks in Regina, Saskatchewan
US	02/11	21:00	Fed's Raskin Speaks in Park City, Utah on Mortgages

Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
EC	02/07	09:00	ECB's Weber Speaks in Tallinn
LX	02/07	12:15	ECB's Mersch Speaks at Luxembourg Event
PO	02/07		Bank of Portugal Releases Data on Banks
EC	02/09	13:00	ECB's Bini Smaghi Speaks in London
BE	02/10	05:30	ECB's Bini Smaghi Speaks in Brussels
AS	02/10	07:00	ECB's Weber and Nowotny Speak in Vienna
UK	02/10	07:00	Bank of England Monetary Policy Committee Decision
UK	02/10	07:00	BOE Asset Purchase Target
EC	02/10		European Financial Services Conference in Brussels
EC	02/10		ECB's Bini Smaghi Speaks at Conference in Brussels
EC	02/10		EU's Barnier Speaks at Financial Services Conference
GE	02/11	12:30	ECB's Trichet Speaks in Bremen, Germany

Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
JN	02/06	22:30	Shirakawa to Speak at Foreign Correspondents' Club of Japan
NZ	02/09		Finance Minister Speaks at Select Committee
PH	02/10	03:00	Overnight Borrowing Rate
AU	02/10	17:30	RBA's Stevens Appears Before Parliamentary Panel in Canberra
SK	02/10	20:00	South Korea 7-Day Repo Rate

Latin America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
PE	02/10		Reference Rate

Source: Bloomberg, Scotia Economics.

Global Central Bank Watch

North America

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
Bank of Canada – Overnight Target Rate	1.00	March 1, 2011	1.00	--
Federal Reserve – Federal Funds Target Rate	0.25	March 15, 2011	0.25	--
Banco de México – Overnight Rate	4.50	March 4, 2011	4.50	--

The BoC's concerns about weak productivity growth and a strong currency that constrain export competitiveness are intensifying in nature through ongoing CAD strength on the heels of higher commodity prices driven by developments in the Middle East. This limits the ability of the country to leverage the US recovery, thus sparking dovish central bank talk. Political and economic instability abroad is yet another factor supporting our contention that the Fed will remain exceptionally unwilling to raise rates this year.

Europe

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
European Central Bank – Refinancing Rate	1.00	March 3, 2011	1.00	--
Bank of England – Bank Rate	0.50	February 10, 2011	0.50	0.50
Swiss National Bank – Libor Target Rate	0.25	March 17, 2011	0.25	--
Central Bank of Russia – Refinancing Rate	7.75	TBA	7.75	--
Hungarian National Bank – Base Rate	6.00	February 21, 2011	6.25	6.00
Central Bank of the Republic of Turkey – 1 Week Repo Rate	6.25	February 15, 2011	6.25	--

Despite increasing inflationary pressures, we maintain our view that both the ECB and the BoE will keep monetary conditions accommodative for an extended period of time. On February 3rd, ECB President Jean-Claude Trichet emphasized that higher commodity prices have not affected the ECB's assessment that euro zone price developments will remain in line with price stability over the policy-relevant horizon.

Asia Pacific

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
Bank of Japan – Target Rate	0.10	February 15, 2011	0.10	--
Reserve Bank of Australia – Cash Target Rate	4.75	February 28, 2011	4.75	--
Reserve Bank of New Zealand – Cash Rate	3.00	March 9, 2011	--	--
People's Bank of China – Lending Rate	5.81	TBA	--	--
Reserve Bank of India – Repo Rate	6.50	TBA	--	--
Hong Kong Monetary Authority – Base Rate	0.50	TBA	--	--
Bank Negara Malaysia – Overnight Policy Rate	2.75	March 11, 2011	--	--
Bank of Korea – Bank Rate	2.75	February 10, 2011	3.00	3.00
Bank of Thailand – Repo Rate	2.25	March 9, 2011	--	--
Bank Indonesia – Reference Interest Rate	6.75	March 4, 2011	6.75	--

Bank Indonesia surprised us with a 25 basis point increase; the first move in two years. While headline inflation is uptrending, core eased for the second time in January. The Bank of Korea will likely look to stay ahead of the curve and raise the base rate by 25 basis points to 3% on February 10th. While headline inflation lies below the October peak, the recent pickup in costs has led to an advance in core to 2% in January.

Latin America

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
Banco Central do Brasil – Selic Rate	11.25	March 2, 2011	11.75	--
Banco Central de Chile – Overnight Rate	3.25	February 17, 2011	3.25	3.50
Banco de la República de Colombia – Lending Rate	3.00	February 25, 2011	3.00	--
Banco Central de Reserva del Perú – Reference Rate	3.25	February 10, 2011	3.50	3.50

After the surprise hike in January, we expect the central bank of Peru to tighten its monetary policy again in February, raising the reference rate by 25 basis points to 3.50%. Despite the fact that increases in international oil and food prices remain beyond the scope of monetary policy, the Peruvian central bank is taking "preventive" actions to keep inflation expectations well anchored.

Africa

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
South African Reserve Bank – Repo Rate	5.50	March 24, 2011	5.50	--

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

	2000-09	2010e	2011f	2012f	2000-09	2010e	2011f	2012f
Output and Inflation (annual % change)	Real GDP				Consumer Prices²			
World ¹	3.6	4.9	4.2	4.4				
Canada	2.1	2.9	2.7	2.6	2.1	1.8	2.3	2.1
United States	1.8	2.9	3.1	2.7	2.6	1.6	1.7	1.8
Mexico	1.9	5.2	4.0	4.0	4.9	4.4	4.1	3.5
United Kingdom	2.7	1.5	1.4	1.7	2.2	3.7	3.4	2.8
Euro zone	1.2	1.8	1.4	1.6	2.1	2.2	2.3	2.3
Japan	0.7	3.4	1.6	2.7	-0.3	-0.5	0.1	1.0
Australia	3.0	3.0	3.5	3.3	3.2	3.0	2.8	2.5
China	10.2	10.3	9.5	9.7	2.0	3.5	4.5	4.0
India	7.2	8.3	8.5	8.8	5.7	8.4	7.0	5.0
Korea	4.5	5.8	5.5	5.3	3.2	3.0	3.3	3.0
Brazil	2.9	7.6	5.5	5.0	6.6	5.9	5.2	5.0
Chile	3.7	5.0	6.0	5.5	3.4	3.7	3.5	3.0
Peru	5.1	8.5	6.8	7.2	2.5	2.4	3.0	3.0
Central Bank Rates (% end of period)	11Q1f	11Q2f	11Q3f	11Q4f	12Q1f	12Q2f	12Q3f	12Q4f
Bank of Canada	1.00	1.00	1.00	1.50	2.00	2.25	2.25	2.25
Federal Reserve	0.25	0.25	0.25	0.25	0.75	1.25	1.75	2.00
European Central Bank	1.00	1.00	1.00	1.25	1.50	1.75	2.00	2.25
Bank of England	0.50	0.50	0.50	0.75	1.00	1.25	1.50	1.75
Swiss National Bank	0.25	0.25	0.25	0.50	0.50	0.75	0.75	1.00
Bank of Japan	0.10	0.10	0.10	0.10	0.10	0.25	0.25	0.50
Reserve Bank of Australia	5.00	5.00	5.25	5.50	5.75	6.00	6.25	6.50
Exchange Rates (end of period)								
Canadian Dollar (USDCAD)	1.00	0.99	0.98	0.96	0.96	0.95	0.95	0.94
Canadian Dollar (CADUSD)	1.00	1.01	1.02	1.04	1.04	1.05	1.05	1.06
Euro (EURUSD)	1.35	1.37	1.38	1.39	1.39	1.41	1.43	1.45
Sterling (GBPUSD)	1.58	1.60	1.61	1.63	1.65	1.67	1.69	1.70
Yen (USDJPY)	82	83	84	84	86	87	89	90
Australian Dollar (AUDUSD)	1.03	1.05	1.06	1.08	1.07	1.08	1.09	1.10
Chinese Yuan (USDCNY)	6.5	6.4	6.2	6.1	6.0	5.9	5.8	5.8
Mexican Peso (USDMXN)	12.2	12.2	12.2	12.5	12.6	12.5	12.6	12.8
Brazilian Real (USDBRL)	1.67	1.68	1.69	1.70	1.71	1.72	1.74	1.75
Commodities (US\$, annual average)	2000-09	2010	2011f	2012f				
WTI Oil (/bbl)	51	80	95	98				
Nymex Natural Gas (/mmbtu)	5.95	4.40	4.40	4.75				
Copper (/lb)	1.78	3.42	4.50	4.25				
Zinc (/lb)	0.73	0.98	1.03	1.05				
Nickel (/lb)	7.11	9.89	10.00	8.00				
Gold, London PM Fix (/oz)	522	1,225	1,485	1,400				
Pulp (/tonne)	668	960	875	960				
Newsprint (/tonne)	572	607	685	710				
Lumber (/mfbm)	275	254	265	300				

¹ World GDP for 2000-09 are IMF estimates; 2010-12f are Scotia Economics' estimates based on a 2009 PPP-weighted sample of 34 countries.

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

Canada	2009	10Q2	10Q3	Latest	United States	2009	10Q2	10Q3	Latest
Real GDP (annual rates)	-2.5	2.3	1.0		Real GDP (annual rates)	-2.6	1.7	2.6	3.2 Q4
Current Acc. Bal. (C\$B, ar)	-43.5	-51.9	-70.1		Current Acc. Bal. (US\$B, ar)	-378	-493	-509	
Merch. Trade Bal. (C\$B, ar)	-4.6	-9.4	-26.5	-1.0 (Nov)	Merch. Trade Bal. (US\$B, ar)	-507	-678	-685	-614 (Nov)
Industrial Production	-9.4	6.1	7.9	5.0 (Nov)	Industrial Production	-9.3	7.8	6.9	5.7 (Dec)
Housing Starts (000s)	149	198	192	168 (Dec)	Housing Starts (millions)	0.55	0.60	0.59	0.53 (Dec)
Employment	-1.6	1.5	1.8	2.0 (Jan)	Employment	-4.4	-0.8	-0.1	0.7 (Jan)
Unemployment Rate (%)	8.3	8.0	8.0	7.8 (Jan)	Unemployment Rate (%)	9.3	9.6	9.6	9.0 (Jan)
Retail Sales	-2.9	4.9	3.6	5.3 (Nov)	Retail Sales	-7.2	7.5	6.1	8.2 (Dec)
Auto Sales (000s)	1459	1518	1609	1561 (Nov)	Auto Sales (millions)	10.4	11.3	11.6	12.6 (Jan)
CPI	0.3	1.4	1.8	2.4 (Dec)	CPI	-0.4	1.8	1.2	1.5 (Dec)
IPPI	-3.5	0.7	1.0	-2.9 (Dec)	PPI	-2.6	4.4	3.8	4.0 (Dec)
Pre-tax Corp. Profits	-32.3	26.3	16.0		Pre-tax Corp. Profits	-1.2	46.7	34.8	
Mexico					Brazil				
Real GDP	-6.1	7.6	5.3		Real GDP	-0.6	8.5	5.9	
Current Acc. Bal. (US\$B, ar)	-6.2	-2.5	-7.3		Current Acc. Bal. (US\$B, ar)	-24.3	-47.6	-45.6	
Merch. Trade Bal. (US\$B, ar)	-4.6	-0.2	-9.2	-2.6 (Dec)	Merch. Trade Bal. (US\$B, ar)	25.3	28.0	19.6	5.1 (Jan)
Industrial Production	-7.4	7.9	6.3	5.3 (Nov)	Industrial Production	-7.3	14.2	8.1	2.9 (Dec)
CPI	5.3	4.0	3.7	4.4 (Dec)	CPI	5.2	5.5	5.0	6.6 (Dec)
Argentina					Italy				
Real GDP	0.9	11.8	8.6		Real GDP	-5.1	1.3	1.1	
Current Acc. Bal. (US\$B, ar)	11.0	12.8	3.6		Current Acc. Bal. (US\$B, ar)	-0.04	-0.06	-0.05	-0.08 (Nov)
Merch. Trade Bal. (US\$B, ar)	16.9	21.4	12.0	2.9 (Dec)	Merch. Trade Bal. (US\$B, ar)	-8.0	-32.1	-22.9	-55.5 (Nov)
Industrial Production	0.1	10.1	9.3	10.6 (Dec)	Industrial Production	-18.2	7.7	6.3	4.2 (Nov)
CPI	-26.9	93.3	89.8	0.0 (Jun)	CPI	0.8	1.5	1.6	1.9 (Dec)
Germany					France				
Real GDP	-4.7	3.9	3.9		Real GDP	-2.8	1.8	2.0	
Current Acc. Bal. (US\$B, ar)	168.9	132.0	148.1	197.5 (Nov)	Current Acc. Bal. (US\$B, ar)	-52.2	-58.3	-41.8	-131.0 (Nov)
Merch. Trade Bal. (US\$B, ar)	193.4	179.3	205.9	193.3 (Nov)	Merch. Trade Bal. (US\$B, ar)	-31.4	-42.3	-40.0	-34.0 (Nov)
Industrial Production	-15.5	12.2	10.2	11.1 (Nov)	Industrial Production	-13.5	7.4	5.3	5.1 (Nov)
Unemployment Rate (%)	8.2	7.7	7.6	7.4 (Jan)	Unemployment Rate (%)	9.5	9.7	9.7	9.7 (Dec)
CPI	0.3	1.1	1.2	1.9 (Jan)	CPI	0.1	1.6	1.5	1.8 (Dec)
Euro Zone					United Kingdom				
Real GDP	-4.0	1.9	1.9		Real GDP	-4.9	1.6	2.7	
Current Acc. Bal. (US\$B, ar)	-69.2	-104	-43	-99 (Nov)	Current Acc. Bal. (US\$B, ar)	-37.1	-28.3	-63.9	
Merch. Trade Bal. (US\$B, ar)	54.7	17.1	43.0	15.9 (Nov)	Merch. Trade Bal. (US\$B, ar)	-128.7	-135.3	-159.6	-167.7 (Nov)
Industrial Production	-14.8	9.0	7.1	7.5 (Nov)	Industrial Production	-10.1	1.5	3.2	3.3 (Nov)
Unemployment Rate (%)	9.4	9.9	10.0	9.9 (Dec)	Unemployment Rate (%)	7.6	7.8	7.8	7.9 (Oct)
CPI	0.3	1.5	1.7	2.2 (Dec)	CPI	2.2	3.4	3.1	3.7 (Dec)
Japan					Australia				
Real GDP	-6.3	3.5	5.0		Real GDP	1.3	3.1	2.7	
Current Acc. Bal. (US\$B, ar)	141.8	156.9	227.5	135.0 (Nov)	Current Acc. Bal. (US\$B, ar)	-41.4	-12.3	-33.5	
Merch. Trade Bal. (US\$B, ar)	29.6	55.6	91.5	101.7 (Dec)	Merch. Trade Bal. (US\$B, ar)	-3.2	31.9	27.3	36.7 (Dec)
Industrial Production	-21.8	21.1	12.9	4.6 (Dec)	Industrial Production	-1.6	6.9	5.0	
Unemployment Rate (%)	5.1	5.2	5.1	4.9 (Dec)	Unemployment Rate (%)	5.6	5.2	5.2	5.0 (Dec)
CPI	-1.4	-0.9	-0.8	0.0 (Dec)	CPI	1.8	3.1	2.8	
China					South Korea				
Real GDP	9.1	10.3	9.6		Real GDP	0.2	7.2	4.4	
Current Acc. Bal. (US\$B, ar)	297.1				Current Acc. Bal. (US\$B, ar)	32.8	35.4	39.7	25.4 (Dec)
Merch. Trade Bal. (US\$B, ar)	195.7	164.2	261.0	157.0 (Dec)	Merch. Trade Bal. (US\$B, ar)	40.4	58.0	45.7	35.5 (Jan)
Industrial Production	18.5	13.7	13.3	13.5 (Dec)	Industrial Production	-1.3	19.5	14.1	9.7 (Dec)
CPI	1.9	2.9	3.6	4.6 (Dec)	CPI	2.8	2.6	2.9	4.1 (Jan)

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

Source: Bloomberg, Scotia Economics.

Interest Rates (% , end of period)

Canada	10Q3	10Q4	Jan/28	Feb/04*	United States	10Q3	10Q4	Jan/28	Feb/04*
BoC Overnight Rate	1.00	1.00	1.00	1.00	Fed Funds Target Rate	0.25	0.25	0.25	0.25
3-mo. T-bill	1.01	1.05	1.03	1.02	3-mo. T-bill	0.15	0.12	0.14	0.15
10-yr Gov't Bond	2.76	3.12	3.25	3.45	10-yr Gov't Bond	2.51	3.29	3.32	3.63
30-yr Gov't Bond	3.36	3.53	3.71	3.82	30-yr Gov't Bond	3.68	4.33	4.53	4.71
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US\$B)	59.4	57.0	57.0	(Dec)	FX Reserves (US\$B)	122.1	121.4	121.4	(Dec)
Germany					France				
3-mo. Interbank	0.86	0.96	1.03	1.00	3-mo. T-bill	0.51	0.40	0.65	0.60
10-yr Gov't Bond	2.28	2.96	3.15	3.26	10-yr Gov't Bond	2.66	3.36	3.53	3.62
FX Reserves (US\$B)	62.4	62.3	62.3	(Dec)	FX Reserves (US\$B)	52.2	55.8	55.8	(Dec)
Euro-Zone					United Kingdom				
Refinancing Rate	1.00	1.00	1.00	1.00	Repo Rate	0.50	0.50	0.50	0.50
Overnight Rate	0.88	0.82	1.06	0.53	3-mo. T-bill	4.85	4.85	4.85	4.85
FX Reserves (US\$B)	300.1	300.4	300.4	(Dec)	10-yr Gov't Bond	2.95	3.40	3.65	3.82
Japan					FX Reserves (US\$B)	67.2	68.3	68.3	(Dec)
Discount Rate	0.30	0.30	0.30	0.30	Australia				
3-mo. Libor	0.15	0.13	0.13	0.13	Cash Rate	4.50	4.75	4.75	4.75
10-yr Gov't Bond	0.94	1.13	1.22	1.29	10-yr Gov't Bond	4.96	5.55	5.46	5.68
FX Reserves (US\$B)	1077.4	1061.5	1061.5	(Dec)	FX Reserves (US\$B)	38.1	38.7	38.7	(Dec)

Exchange Rates (end of period)

USDCAD	1.03	1.00	1.00	0.99	¥/US\$	83.53	81.12	82.12	82.00
CADUSD	0.97	1.00	1.00	1.01	US\$/Australian\$	96.71	102.33	99.40	101.49
GBPUSD	1.572	1.561	1.586	1.609	Chinese Yuan/US\$	6.69	6.61	6.59	6.59
EURUSD	1.363	1.338	1.361	1.358	South Korean Won/US\$	1140	1126	1114	1103
JPYEUR	0.88	0.92	0.89	0.90	Mexican Peso/US\$	12.594	12.340	12.206	11.996
USDCHF	0.98	0.94	0.94	0.96	Brazilian Real/US\$	1.687	1.661	1.683	1.676

Equity Markets (index, end of period)

United States (DJIA)	10788	11578	11824	12056	U.K. (FT100)	5549	5900	5881	5993
United States (S&P500)	1141	1258	1276	1306	Germany (Dax)	6229	6914	7103	7206
Canada (S&P/TSX)	12369	13443	13438	13828	France (CAC40)	3715	3805	4002	4039
Mexico (Bolsa)	33330	38551	36840	37545	Japan (Nikkei)	9369	10229	10360	10544
Brazil (Bovespa)	69430	69305	66698	65472	Hong Kong (Hang Seng)	22358	23035	23843	23909
Italy (BCI)	1033	1048	1126	1136	South Korea (Composite)	1873	2051	2087	2072

Commodity Prices (end of period)

Pulp (US\$/tonne)	990	960	960	960	Copper (US\$/lb)	3.65	4.42	4.35	4.53
Newsprint (US\$/tonne)	638	640	640	640	Zinc (US\$/lb)	0.99	1.10	1.04	1.12
Lumber (US\$/mfbm)	236	308	300	292	Gold (US\$/oz)	1307.00	1405.50	1319.00	1355.00
WTI Oil (US\$/bbl)	79.97	91.38	89.34	89.55	Silver (US\$/oz)	22.07	30.63	26.68	28.91
Natural Gas (US\$/mmbtu)	3.87	4.41	4.32	4.31	CRB (index)	286.86	332.80	335.44	338.79

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

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