

# Global Views

Weekly commentary on economic and financial market developments

April 1, 2011

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### Global Central Banks In The Spotlight

- **No fewer than four major central banks make rate announcements next week, but only one is expected to hike. See our full indicator, auction, event, and central bank calendars on pp. A3-A9.**

A slow week for most other developments will keep the way cleared for global central banks to dominate market reactions throughout the week. The ECB is the only major central bank that is expected to raise rates, but hikes are also expected from Peru's central bank and Poland's National Bank. Both the RBA and BoE are expected to remain on hold, while the BoJ is likely to introduce further stimulus measures in order to counter the devastating effects of its earthquakes, tsunami and nuclear reactor crises.

Scotia's Tuuli McCully applies her background at the ECB in a focus upon its policy outlook on pages 13-14. The key won't be Thursday's rate announcement, but the following press conference at which ECB President Jean-Claude Trichet will provide clarification on the ECB's bias going forward. What isn't clear is whether the ECB will signal the start of a tepid-and-data-dependent, or aggressive-and-consistent tightening campaign. We expect relatively hawkish talk to characterize the bias, with the Euro facing further upside on the week. I continue to think the ECB is demonstrating shades of July 2008 when it unfortunately hiked on the eve of the crisis on fears that commodity prices would spill over into wage demands and core inflation. It is hiking rates in response to a relative price shock, not generalized inflation, and that distinction is key. The ECB, however, is time and again the least likely central bank to draw that distinction. That relative price shock in the form of a surge in commodity prices poses more downside risk to future growth, alongside the implications of euro appreciation and fiscal drag, than the sustained upside risk to inflation stemming from large hypothesized pass-through effects into core measures. Operating throughout the background is Europe's sovereign and corporate credit crisis, and next Friday's meeting of Euro-area finance ministers could carry headline risk on top of fall-out from Ireland's stress testing exercises, and Portugal's political instability that makes addressing ballooning deficit estimates and austerity measures more difficult.

Canadian markets will be worth watching on two days — Monday and Friday. Monday's release of the Bank of Canada's Business Outlook Survey is important because the BoC pays close attention to several gauges within it including business inflation expectations, expectations for future sales, hiring intentions, capacity pressures, labour shortages, and credit conditions. The Senior Loan Officer Survey due out that same day will provide insight into pricing and availability of short-term business credit in Canada. Both surveys are among the last pieces of evidence before the following week's rate announcement and the ensuing quarterly Monetary Policy Report. But while the BoC's surveys are important to close watchers of BoC policy developments, Friday's jobs report is where the majority of the week's domestic market risk will be focused. There are few useful leading indicators of Canadian employment trends — unlike the US — but technical distortions owing to supply chain disruptions and repeated global shocks could put the risk to the downside. That said, we're not calling for a materially different print than the long-run average monthly job gain. The more material component of the Labour Force Survey will come from watching hours worked that fell in December, were flat in January despite a large job gain, and fell again in February despite a further smaller job gain. The BoC has pointed to this as a better sign of slack in job markets and muted wage pressures. Nova Scotia and PEI also release their *2011-12 Budgets*, and housing starts will likely cool off in the Friday release given the high base effect distortion caused by lumpy multiples projects coming on stream the prior month.

US markets will spend most of the time in watch-mode toward global developments throughout the week. The ISM services gauge is expected to post a flat print in March and the Tuesday release will be the only data-sensitive day of the week unless regular weekly claims data sharply surprises on Thursday. Fed speak will dominate market attention, particularly FOMC minutes to the March 15th meeting due out on Tuesday. Each of Bernanke, Evans (voting), Plosser (voting), Kocherlakota (voting), Lockhart (alternate), and Lacker (alternate) speak.

As for key global data risk, at the top of our list are German factory orders and trade data, Eurozone retail sales, Australian & Canadian jobs, US ISM-Services, and Mexican CPI.

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### Sovereign Credit Ratings in Latin America

- **Positive trend evident in Latin American ratings, but major tasks to fulfill before any further upgrades.**

Rating agencies have been active in many Latin American economies with a few exceptions since 2010, upgrading sovereign credit ratings or improving the rating outlook. Sovereign credit trends in Latin America will likely improve in 2011-2012 as many countries retain a “positive” outlook. However, some tough goals must be achieved in order to gain further significant upgrade revisions. Fitch, Moody’s and S&P have been upgrading many countries in Latin America on the back of the resilience during the 2008-2009 crisis, the flexibility and stability of policies, and the relatively modest fiscal positions.

Colombia has recently received an investment grade status by S&P, the first agency to move to that direction after the country lost its higher grade category in 1999. The decision was supported by Colombia’s stronger economic performance and positive mid-term prospects, deeper domestic capital markets that can shelter the local economy from external shocks, a decreased government fiscal deficit, and market-oriented policies that aim to ensure investors confidence. Moody’s analysts have noted that Colombia’s sovereign credit rating could be upgraded before the summer.

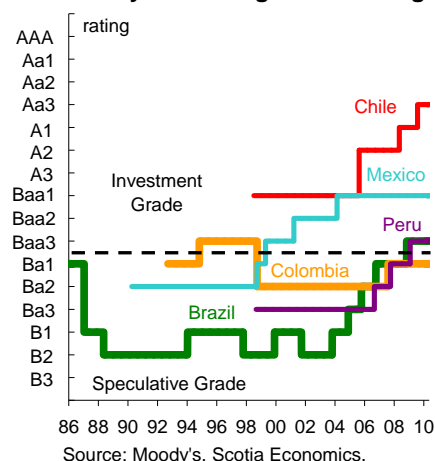
In March, Moody’s changed Peru’s outlook to “positive” with the improvement fiscal metrics alongside expectations of policy continuity irrespective of the outcome of the presidential election. Even though the communiqué was announced before the increase in popularity of a leftist candidate, Ollanta Humala, Moody’s forecast of policy stability has remained unchanged. However, according to the rating agencies, Peru’s new government will need to create a proper policy environment to ensure political commitment to fiscal sustainability.

Brazil’s sovereign credit rating has remained unchanged during the recent phase of upgrade revisions; however, Moody’s and Fitch are positioned to act in its favour with a “positive” outlook. For Brazil, an upgrade will depend on the new government’s ability to restrain fiscal deficit and return to healthier public finances. President Dilma Rouseff recently announced measures to constrain public sector spending, sending a signal of more responsible government finances.

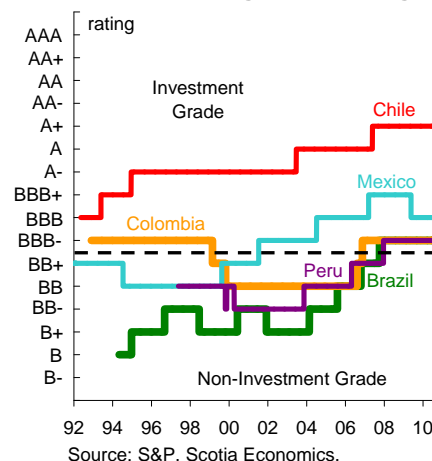
Sovereign credit ratings for Mexico have been stable since 2009 when Fitch and S&P announced downgrades and Moody’s left its stance unchanged. Since then, the Mexican economy seems to have been trapped in the “BBB/Baa1” stage. However, Mexico still retains the region’s second highest rating (after Chile’s A rating). The fiscal reliance on oil revenues and on US economic performance, together with subdued growth, have been the major obstacles to an upgrade; nevertheless, ongoing commitment to fiscal consolidation, the IMF credit line and the increasing foreign reserves help to maintain a “stable” outlook by the three main agencies.

Notwithstanding the positive performance of Latin American economies, important tasks and goals remain on the horizon for another round of upgrades, especially regarding the commitment to balanced fiscal policies, sustainable growth rates, deeper capital markets and lower dependence on commodity prices.

Moody's Sovereign Debt Rating



S&P Sovereign Debt Rating



### *Downgrading Japan's Economic Outlook*

- **International supply chains, commodity prices and financial markets are being tested by the disruptions in Japanese industrial activity. An eventual rebalancing is likely to gain momentum in the second half of the year as the nation's massive rebuilding program gets underway.**

Global growth entered 2011 on a relatively upbeat note. However, by February, heightened geopolitical tensions in North Africa and the Middle East began to cloud the outlook for global growth, alongside sharply higher oil and food costs, renewed concerns over sovereign debt problems in the euro zone, and rising inflationary pressures in the largest emerging market economies.

A promising start to the year in Japan is being sharply reversed by the fallout following the March 11<sup>th</sup> Sendai earthquake and tsunami, as well as the subsequent nuclear crisis, which is ongoing and therefore complicating the quantification of the economic aftermath at home and abroad. Assuming that the radioactive disaster is soon contained, our preliminary assessment suggests that a sharp economic contraction in Japan in Q2 should be followed by a transition to renewed growth in the second half of the year and into 2012, as the Japanese government responds with massive fiscal stimulus in support of clean-up and rebuilding, and the Bank of Japan continues to advance liquidity through its asset purchase program. Although Japan is the third-largest economy in the world, its combined exports and imports amount to around only 2% of global GDP, so even a larger shock to Japanese growth would still have a rather limited overall impact. Under these circumstances, our global growth estimate for 2011 and 2012 is unchanged at 4.4% for both years.

Nevertheless, with the continued advance of globalization and industrial specialization, the spillover effects associated with prolonged and severe disruptions in international supply chains could impose even greater restraint on global growth. Many Japanese automakers and parts manufacturers have reduced or halted output at damaged production facilities in response to the interruptions in electric power availability, personnel and transportation infrastructure. The shutdowns in Japan represent nearly 14% of global vehicle output, but the major risk to the global industry is the strain on the world's auto parts supply chain. Japan is the world's second-largest auto parts exporter behind Germany, and given the lack of alternative suppliers for certain niche products from the afflicted regions in Japan, automakers around the world have been forced to rein in production, or even temporarily cease output due to parts shortages. Nonetheless, once conditions stabilize in Japan and begin to recover, we anticipate that vehicle assemblies around the world will bounce back as global demand remains strong.

Reconstruction in Japan will also boost the demand, as well as prices, for a number of resource-related products. These include lumber and plywood, as well as steel and base metals, many of which should benefit Canadian producers, especially in the west. Moreover, concerns over the safety of Japan's agricultural, animal, and fish stocks, particularly in the north, will eventually trigger increased demand for imported foodstuffs. Although regional suppliers have a transportation advantage, Canadian producers of hogs, poultry, and beef stand to benefit from the anticipated increase in demand. Finally, given the hit to its nuclear power generating capacity, Japan is turning to imported natural gas and crude oil to meet its energy requirements, a development that will likely support the current high, or potentially even higher energy prices, even if the situation in North Africa and the Middle East cools down.

The Japanese equity market has stabilized for the time being after the massive post-quake sell-off. Support for the Nikkei has been underpinned by the commitment of the Bank of Japan to provide significant amounts of liquidity to the marketplace, in addition to the coordinated G7 currency intervention to cap excessive yen strength. Any sustained appreciation in the yen due to extensive repatriation could destabilize global financial markets and individual economies, if selling pressure on foreign securities triggered broad-based wealth declines internationally. However, longer-term trends point to a weaker yen in an environment of expanded government deficits and reduced trade surpluses, with reconstruction helping to boost imports.

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**The Credit Cycle Doesn't Suggest The BoC Should Be In A Rush**

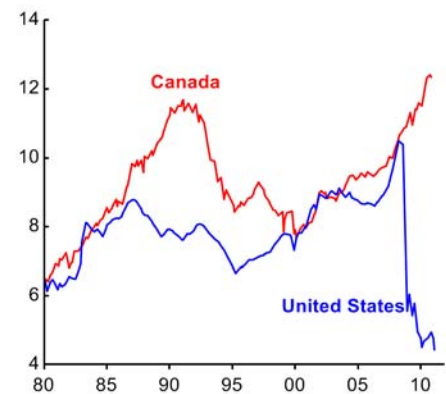
- **Cooling growth in money supply and credit creation.**

Although no longer in vogue as it once was, an occasional glance at measures of money supply can be informative. In Canada's case, the monetary aggregates and the broader credit cycle are both cooling to the point to which they reinforce our view that the Bank of Canada should be in no hurry to raise rates.

Chart 1 may appear to contradict this thesis. After all, a record-high money multiplier would ordinarily send monetarists into convulsions. This is especially so, because it stands in stark contrast to the US money multiplier that continues to signal a paucity of true credit creation in relation to the Federal Reserve's efforts.

What matters, however, is *why* the money multiplier is soaring. In Canada's case, it is because the monetary base — which serves as the denominator in a money multiplier calculation and which is most directly controlled by monetary policy — is shrinking as past stimulus programs drop off the books. This is occurring at a faster rate than the weakening growth trend in the numerator (chart 2) that is defined as M2 excluding personal fixed term deposits but adding back near-money through money market funds. In contrast to what the money multiplier might lead one to conclude, money creation is slowing in Canada and that in itself is a form of policy tightening. For alternative definitions of money supply that are rapidly cooling, see chart 3.

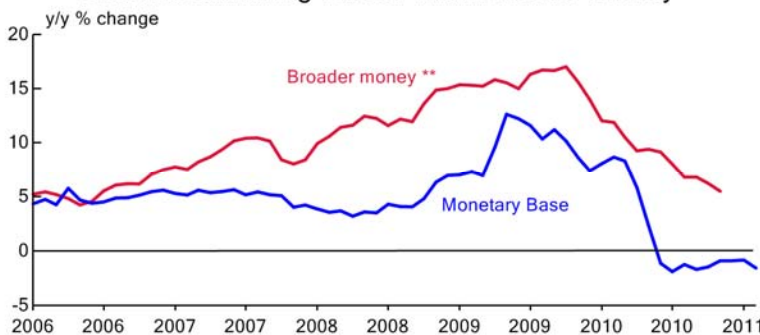
**Chart 1**  
**Money Multiplier Using MzM**



Source: Global Insight, Scotia Capital Economics.

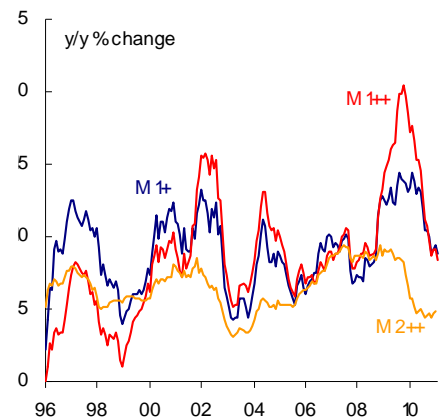
**Chart 2**

**Money Multiplier Is Soaring Because BoC's Balance Sheet Is Shrinking Faster Than Broader Money**



Source: Bank of Canada, Scotia Capital Economics  
\*\* M2 (gross) ex personal fixed term deposits, plus money market funds.

**Chart 3** **Waning Money Supply Growth**



Source: Statistics Canada, Scotia Capital Economics.

The credit cycle confirms this. As charts 4-5 depict, the household credit cycle has abruptly slowed. As charts 6-7 demonstrate, the recent acceleration in mortgage growth that is related to a pre-emptive push by households to get in before tighter mortgage rules that took effect in mid-March is likely to be short-lived. In fact, the acceleration in total industry-wide mortgage loan data in January already looks to have slowed again in February with the portion of the picture we have in the form of banks and securitized totals that make up over 80% of the mortgage market. During the first two rounds of mortgage rule tightening that are signaled through grey bars on charts 6-7 that capture the introduction through to implementation phase, mortgage credit typically accelerated after the tighter rules came into effect given how the lagged pre-approvals

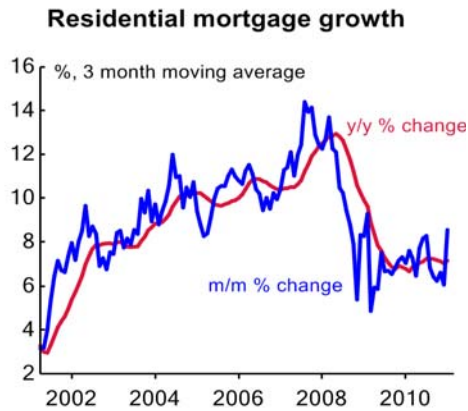
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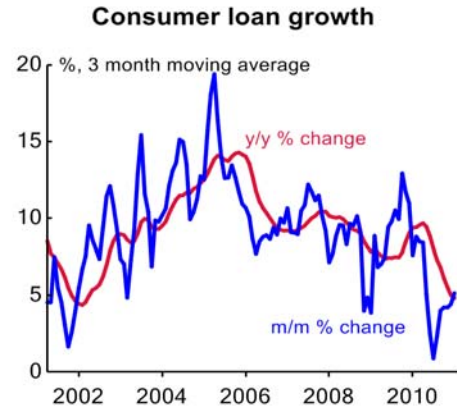
pipeline operates. It isn't fully clear what will transpire once we have more complete data around the current period of tighter rules. But maybe households are adapting quicker to tighter mortgage rules and front-loading the effects earlier. In any event, we think the aftermath will leave the slowing trend intact.

Chart 4



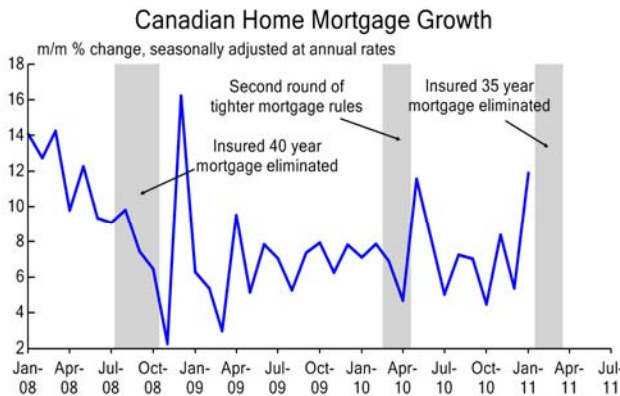
Source: Bank of Canada, Scotia Capital Economics

Chart 5



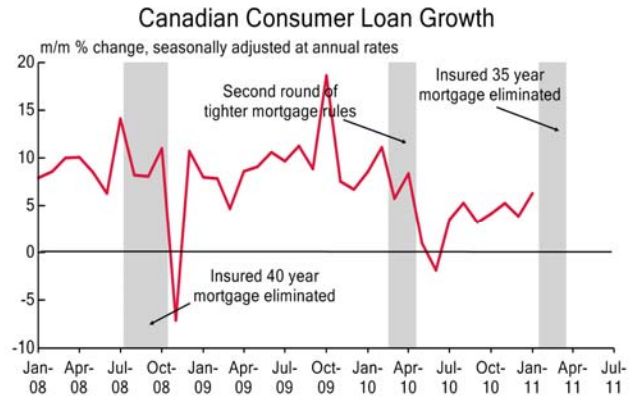
Source: Bank of Canada, Scotia Capital Economics

Chart 6



Source: Bank of Canada, Scotia Capital Economics

Chart 7



Source: Bank of Canada, Scotia Capital Economics

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### **Why Canadian Housing Isn't Like The United States**

- **The micro-foundations of Canada's mortgage market are fundamentally different.**

The WSJ latched on to Canada's housing bubble in an article this past week (subscribers see: [http://online.wsj.com/article/SB10001424052748703784004576220994025363866.html?mod=djemITP\\_h](http://online.wsj.com/article/SB10001424052748703784004576220994025363866.html?mod=djemITP_h)). It did so by pitting an extremely bearish view against an overly optimistic one, versus our middle ground. While the article made some good points, and while I continue to agree on the richness of house prices and evidence of speculative froth that the consensus of Canadian economists has continually under-estimated, I thought the article missed the main point as to why Canada is not the US: chain-wide leverage. Understanding the different micro-foundations of the mortgage market is why the 30% price decline seen stateside is highly unlikely in Canada on average across all markets.

Yes, leverage is comparable on the household balance sheet, but the comparisons end beyond that. For one thing, Canadian banks are well capitalized. For another, dealers are generally owned in bank holdco structures and have not run gearing ratios up to where Wall Street dealers did. Finally, Canada has a tiny shadow banking sector, and it therefore did not play the same role as in the US by way of having the appetite for taking mortgages, securitizing them, and compounding leverage upon leverage in off-balance-sheet Ponzi schemes. System-wide leverage is much lower in Canada, which indicates less likelihood that reversing leverage would have as powerful a magnifying effect on falling house prices as it did in the US.

But it's the funding model that also sharply differs in Canada versus the US. Securitization is also only 30% of total residential mortgages in Canada, and the conduits are securitized primarily through the National Housing Act offerings via the CMHC. The CMHC has explicit government backing, is frankly a cash cow for the government through consolidated reporting and financing, and prices its insurance underwriting more effectively than was often the case in the US. Indeed, more of the Canadian book is retail funded by relatively much more secure deposits, and less of it is funded through lines as in the US. More stable funding means less potential for a severe credit crunch as occurred stateside.

But the contrasts between the two countries' mortgage markets push deeper. There are fewer adverse incentives operating in Canada, such as when US dealers cut off lines to mortgage companies and then shorted the stock on a pure gravy trade that made investing heroes out of ordinary folks. Yes, Canada added innovation late cycle when the government liberalized the mortgage insurance business in early 2007 – followed by tighter rules in October 2008, a year ago, and then again now – but the nature of the products in Canada remained more conservative than in the US. Your Canadian banker actually checks your T4, verifies that there is a home at the address being lent against, and asks questions for reasons that dawned upon US bankers too late in the game. Appraisals are generally more conservative in Canada and they hair cut properties before lending against them. Mortgage brokers are not as big a factor as in California where out-sourced brokers played off the best rate at competing institutions and then walked away with no skin in the game after the fact. Strategic defaults are only a limited option in Alberta and Saskatchewan. There is limited mortgage interest deductibility in Canada, in contrast to the US which long ago embraced one of the worst imaginable forms of tax policy.

Uncle? Here's one more: household credit growth has already generally slowed sharply and is only getting a temporary lift in anticipation of tighter mortgage rules (now) and consumer lending rules (mid-April), so the BoC's concerns should arguably be turning more toward downside risks via an abrupt slowdown than toward tightening policy in order to slow credit growth. The BoC has acknowledged this by pointing to a closer connection between income and credit growth today. Going forward, from Canada's current cycle top on variables like the home ownership rate and renovation spending, and with no pent-up consumer demand, the household sector won't be contributing to GDP growth as it has in the past. But barring a massive rate shock or sharp erosion in jobs, I don't see a large price correction. A modest one in a soft landing that has housing and the consumer play less of a role in the economy, yes, but the forces of leverage-reversal that amplified the downside risks in the US do not operate in the same manner within Canada.

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**Revisiting North American Inflation**

- While underlying price pressures remain well contained in both the United States and Canada, rising energy and food costs have prompted us to raise our 2011 consumer inflation forecasts.

We have revised up our 2011 inflation forecasts for both the United States and Canada. In the United States, core inflation has bottomed, with the continuing economic recovery and nascent pickup in hiring lifting the y/y increase in the CPI excluding food and energy from a low of 0.6% in October to 1.1% in February. However, while drifting higher from historic lows, we expect underlying inflation to be kept in check by considerable excess production capacity, still high unemployment and minimal wage pressures. Our revised forecast pegs core U.S. inflation at 1.1% this year, up from our prior estimate of 0.9%.

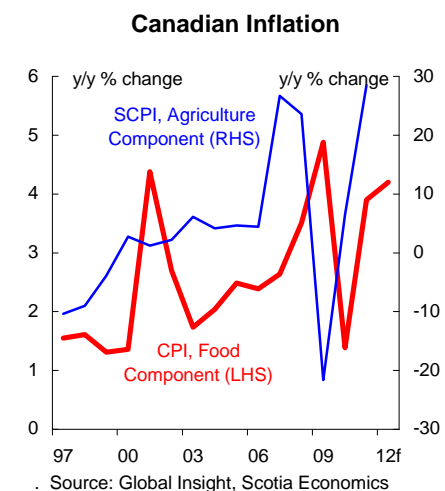
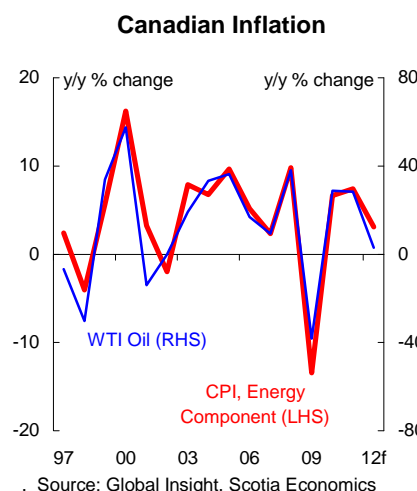
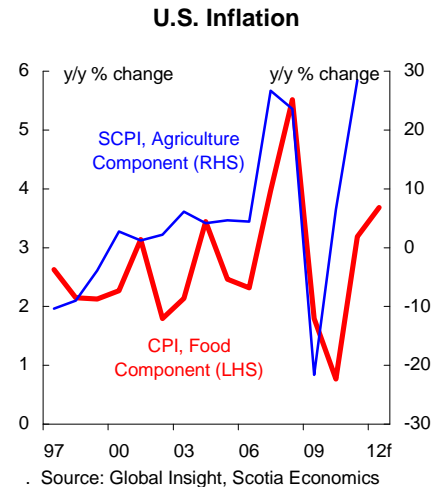
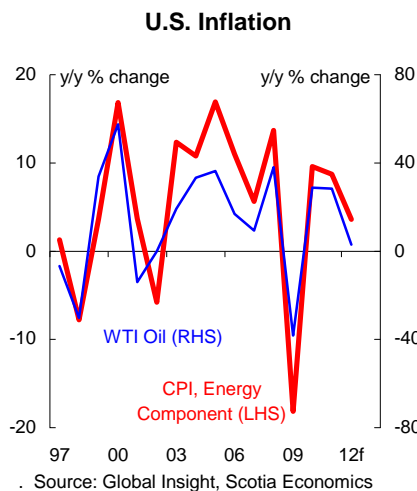
Meanwhile, persistent gasoline and food price increases suggest a slightly larger upward revision to headline U.S. inflation, from 1.9% to 2.3%. Crude oil prices and the energy component of the U.S. CPI track quite closely and coincidentally (see chart). Based on our revised forecast for WTI oil of US\$102/bbl for 2011, we now expect rising energy costs to add just over a percentage point to headline CPI this year.

Perhaps not surprisingly, we also find a reasonably good correlation between food commodity prices (measured by the agricultural component of the Scotiabank Commodity Price Index) and the food component of the U.S. CPI. However, in this case, the transmission to retail prices

is less direct and takes longer. The lack of full passthrough reflects in part non-food costs, including packaging, distribution and marketing, that comprise a large share of final retail grocery prices.

Agricultural product prices are heavily influenced by unpredictable shifts in weather and growing conditions beyond our forecasting capabilities. However, based on current levels and expectations that prices will stay high due to both structural and cyclical factors — including rising global food demand and low inventories — we anticipate higher U.S. retail food prices over the next 6-12 months.

In Canada, core inflation slowed sharply in February, to just 0.9% y/y. While the larger-than-expected moderation reflects in part a strong base effect from higher Winter Olympic



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pricing a year earlier, we have nonetheless trimmed back our forecast of Canada's core inflation rate to an average of 1.4% for 2011, from our prior estimate of 1.6%. Underlying inflation pressures are expected to remain stronger in Canada relative to the United States given a smaller output gap and firmer labour market conditions. At the same time, limited retail pricing power, a strong Canadian dollar and well entrenched inflation expectations will prevent any substantial breakout.

Meanwhile, we have raised 2011 headline inflation in Canada from 2.4% to 2.5%. As in the United States, rising oil prices are fairly quickly passed through to retail pump prices. Even with the partial offset of a strengthening Canadian dollar, higher energy costs are expected to add 0.7 percentage points to headline CPI this year. We likewise anticipate further upward pressure on domestic retail food prices in the coming months, with several processors and retailers already announcing pending increases.

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### Can The Strongest Economy In The G7 Stall On Rate Hikes?

- **The Canadian output gap may close much earlier than anticipated, but the consequences for inflation and BoC policy don't jeopardize our call.**

Because 2010Q4 growth over-shot BoC expectations by a full percentage point, and 2011Q1 could come in double the BoC's January forecast for Q1 annualized growth of 2.5%, the output gap is closing off materially faster than the BoC last assumed in the January Monetary Policy Report. Indeed, it looks probable that spare capacity in the Canadian economy disappears by late this year or early next as measured solely by the output gap. But these shifting dynamics do not mean inflationary pressures are creeping higher nor that they lie just around the corner.

Chart 1 contains our base case forecast for the BoC's output gap. We've used our own Scotia Economics forecasts for actual real GDP growth. That sees the likely outcome being in the 4-5% range for 2011Q1 (we've assumed the upper bound in order to understate our case on the output gap), followed by roughly 3% in each of Q2 and Q3, and then cooling to the 2 1/2% pace into next year. We think Canada is front-loading growth again this year similar to last year. We've also used the BoC's assumptions for potential GDP growth as last updated in the October 2010 MPR and repeated in the January 2011 MPR. The relative rates of growth in potential versus actual GDP growth have excess capacity closing off by 2011Q4 and shifting into slight excess demand conditions thereafter. That's a full year earlier than the BoC expected just a few months ago.

#### BoC Could Raise Its Potential Growth Estimate

Chart 1 also contains our alternative scenario where we ask to what extent the BoC would have to adjust its estimate of potential GDP growth in order to justify sticking to its January view that it takes until the end of 2012 to close off the output gap. One scenario among many would require bumping up potential growth by 0.2% to 2.0% this year, and then by a larger 0.5% in 2012 to 2.5%. While sizeable, even small changes to potential growth would delay closure of the output gap.

#### A Tenuous Connection Between Output Gaps and Inflation

Chart 2 plots the connection between the output gap and inflation.

Three points are in order. One is that historically, when the connection between the two was best, there was about a one-year lag between when movements in the output gap translated into movements in inflation. Thus, should the gap close by the end of this year, then upside to inflation risk would materialize in late 2012. Inflation does not become an instantaneous problem the minute the economy is back to balance and starting to shift to excess demand. If that's the case, then working backward from the point at which inflation would react in a lagged fashion toward the end of 2012, there is no pressure for monetary policy action until later this year, in line with our call for the BoC to remain on hold until October. This assumes an average policy lag of about one year between monetary policy changes and when they impact inflation.

Second, our measure of excess demand is modest. In fact, given all of the measurement problems associated with the various inputs to output gaps, particularly in terms of accurately pegging potential growth, what we

Chart 1

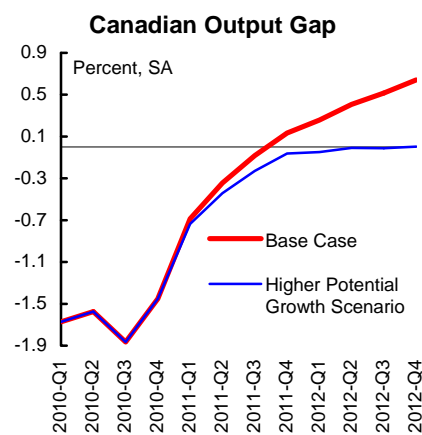
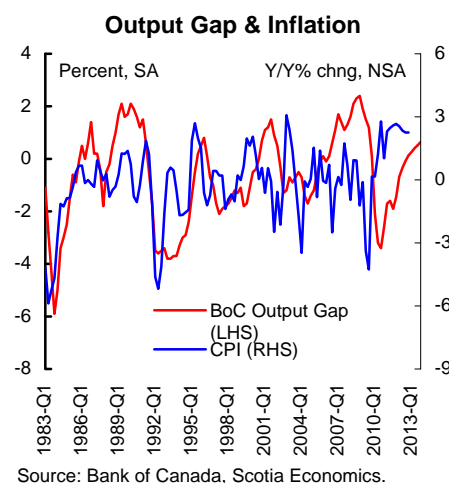


Chart 2



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come up with is a statistically insignificant degree of excess demand. Indeed, one cannot say that there is compelling evidence that the economy does anything other than remain near balance in 2012.

The third point related to chart 2 is that the relationship broke down between output gaps and inflation over the past twenty years following the 1980s and during the period in which the BoC has been an explicit inflation-targeting central bank. The two variables are loosely connected at best. Why? The perfect policymaker argument would posit that the BoC has been able to execute monetary policy perfectly throughout this period by anchoring inflation expectations in turn through acting against inflation risk preemptively. Who are we to take anything away from the BoC on its impressive track record, but we do feel there have been other factors at play in driving a wedge between output gaps and inflation readings like the role of foreign terms of trade and financial market shocks, stable expectations, and sticky wages and prices. Forecasting inflation by solely using output gaps is perilous at best. Academic research has also cast doubt on the direct usefulness of output gaps in forecasting inflation, including this paper by former Fed star Athanasios Orphanides: [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=655230](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=655230).

### **No Rush To Tighten In Terms Of Current Inflation Readings**

Lastly, one would be remiss in failing to point to actual evidence which indicates that current inflation readings in Canada are sharply different than the inflation pressures that are building in Asia, across emerging markets, and in parts of Europe. Charts 3-9 do this. Headline inflation is well within the BoC's target band, while core is declining to sub-1% y/y prints partly due to temporary factors like HST refunded credits, but also likely due to CAD cheapening of import content and crowding out of core pricing power by virtue of higher energy and grocery bills. Further, research points to how CPI overstates actual inflation on the order of 0.6% by not fully controlling for substitutability of items within the consumer price index. There is therefore no compelling case out of current inflation readings to shift toward a hawkish bias. Indeed, core inflation is modestly under-shooting the BoC's forecast for Q1.

As for today's finished producer goods prices, we're barely creeping back above the zero marker on y/y terms, and well shy of the 4-10% pre-crisis ballpark. Pipeline inflationary pressures through raw and intermediate goods prices are being absorbed in margins. Business expectations will be updated next Monday in the BoC's Business Outlook Survey, but January's quarterly reading remained comfortably within the BoC's 1-3% band on year-ahead views.

Further, there is no cost-push labour market pressure, since average hourly wages for permanent employees have sharply decelerated from the nearly 5% mark just prior to the crisis to about half that today, and hence among the weaker readings of the full past cycle. Unit labour costs are accelerating, but gently so from a small decline early last year to just shy of 2% y/y gains today on weak base effects, and far weaker than the 4-5% pre-crisis peaks. Market expectations, defined by the spread between Canadas and RRBs, have risen from the depths of the global deflation worries but also the safe haven bid that distorted nominals more than real yields, while the spread remains well within historical norms and inside the BoC's 1-3% inflation target band.

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Chart 3

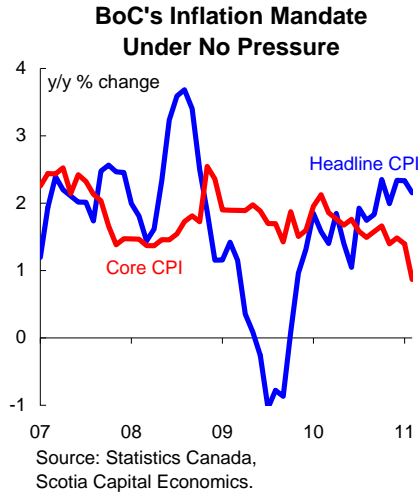


Chart 4

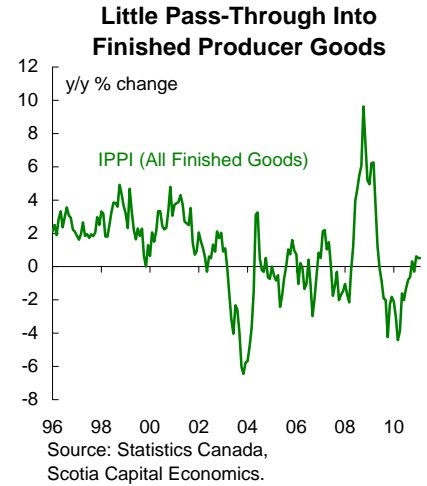


Chart 5

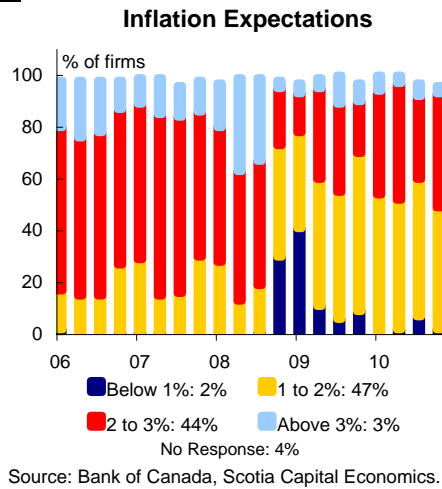


Chart 6

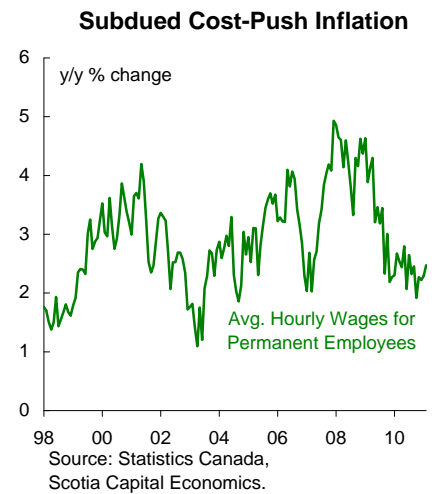


Chart 7

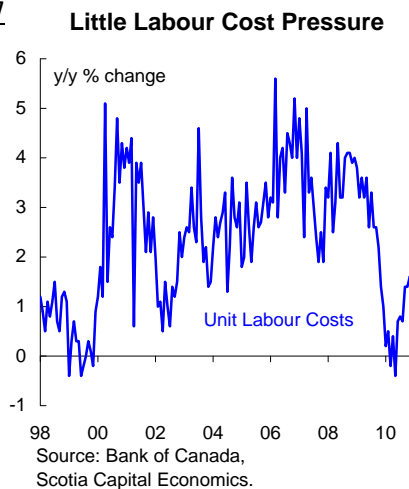


Chart 8



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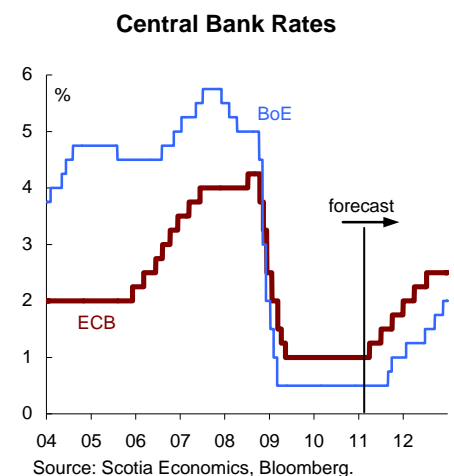
### **Monetary Tightening Cycles Approach in Europe**

- **The European Central Bank will initiate monetary tightening among major central banks in Europe, followed by the Bank of England.**

#### **ECB to embark on a monetary tightening path next week**

The beginning of the European Central Bank's (ECB) monetary policy tightening cycle is imminent. We have revised our forecast and now expect that the ECB main refinancing interest rate will be raised by 25 basis points to 1.25% at the Governing Council meeting scheduled for April 7<sup>th</sup>, followed by similar quarterly adjustments until the policy rate reaches 2.5% in the third quarter of 2012.

Euro zone policymakers have recently become more concerned about second-round inflationary impacts stemming from higher energy and food prices. The ECB assesses that risks to the inflation outlook are "on the upside" and that inflation that is persistently over the target of "below, but close to, 2%" is a threat to the central bank's price stability mandate. Consumer prices increased by 2.6% y/y in March according to a "flash estimate". Compared with the situation in December 2005 when the previous monetary tightening cycle was initiated, inflation today is significantly higher; it was 2.3% y/y in November 2005. Furthermore, there are stronger price pressures further up the distribution chain today than in 2005; the producer price index increased by 6.1% y/y in January 2011 compared to a 4.1% y/y reading in November 2005. Moreover, in recent statements ECB President Jean-Claude Trichet has used the words "strong vigilance" in the context of monitoring inflation developments, words which have previously indicated a forthcoming hike.



The ECB assesses that positive economic momentum continues in the euro zone. Indeed, according to estimates by the International Monetary Fund, the region's output gap is narrowing and is smaller than that of the UK and the US. When compared with the situation in December 2005, the current outlook for economic activity seems more favourable. The euro zone composite Purchasing Managers' Index (PMI) is at 57.5 today while it was 55.1 in November 2005.

In the context of persistent debt-related turmoil in the euro zone periphery, President Trichet has highlighted that tighter monetary conditions can be accompanied with non-standard liquidity measures, stressing the ECB's commitment to financial stability. Nevertheless, it is the member countries' own responsibility to have sound fiscal policies to maintain sustainable economic growth. Indeed, market participants expect regional policymakers — not the ECB — to find a joint solution to the sovereign credit crisis; European leaders have indicated that they are prepared to do "whatever it takes" to bring an end to the turmoil.

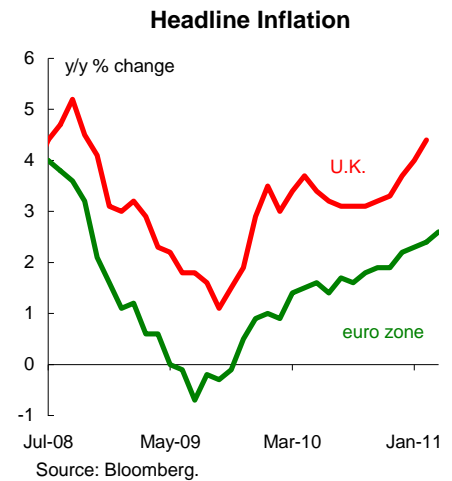
#### **BoE to follow the ECB in the third quarter of 2011**

We now estimate that the Bank of England (BoE) will begin a gradual process of monetary normalization in the third quarter of 2011, increasing the Bank Rate by 25 basis points per quarter until it reaches 2.0% by the end of 2012. As the UK's inflation rate continues to exceed the official inflation target of 2.0% by a wide margin, British monetary authorities will be challenged by finding a balance between promoting price stability and supporting economic growth conditions.

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Inflationary pressures continue to intensify in the UK, with the consumer price index increasing by 4.4% y/y in February, up from 4.0% the month before. Inflation expectations and prices at the core level are picking up as well (core inflation reached 3.4% y/y in February). The headline inflation rate will likely continue to increase in the coming months towards the 5.0% y/y threshold, before subsiding to below 4.0% by the end of the year. For a more detailed assessment regarding the factors behind inflationary developments in the UK, please refer to our *Global Views* write-up from March 18<sup>th</sup>. In March, 3 out of 9 BoE policymakers supported a rate increase. While the hawkish Andrew Sentence's term will come to an end in May, he will be replaced by Ben Broadbent, who also has an aggressive stance towards inflation, leaving the Monetary Policy Council's overall position unchanged. Although the BoE tends to look through temporary inflationary effects, we assess that by the third quarter the risks of second-round inflationary impacts have intensified substantially, implying the need for monetary policy action.



We believe that earlier monetary tightening by the ECB will support the euro (EUR) vis-à-vis the British pound (GBP) through 2011, with the EURGBP exchange rate closing the year at £0.89. The 2012 will bring about a brighter outlook for the GBP while market participants refocus on the European sovereign turmoil, as the replacement of the temporary European Financial Stability Facility by the permanent European Stability Mechanism approaches. Moreover, the fact that the UK's fiscal position will have improved — reflecting the government's fiscal consolidation efforts — together with the BoE's continuing monetary tightening will provide support to the GBP. We expect that EURGBP will close the year 2012 at £0.87 as the GBP continues to recover its recent years' losses and the EUR faces resistance to reach its highs.

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### **Thailand — Resilience**

- **Both domestic economy and exports are stronger than expected.**
- **Loan growth has gained momentum, reflecting a new investment cycle.**
- **Election is expected in June-July, and the market is positive about this prospect.**
- **Key risks are Japan impact to exports (short-term) and high oil prices.**

The Thai economy has shown resilience so far this year, continuing the strong growth performance of 2H10, and no longer driven by low-base effects. The strength of the economy is reflected in all engines, including consumption, investment, government spending and exports. Exports reached a new historic high in February 2011, increasing 29% y/y, having expanded at a 25% clip in the first two months of this year. Interestingly, despite many concerns regarding growth in the western economies and some impact from slower momentum in China given tightening monetary policy, Thai exports to those countries showed more than decent expansion of over 20%. Overall, Thai exports were up across destinations and also across product categories. Both agricultural and industrial products saw growth of 29% y/y.

Farm income has remained very high and it continues to provide a strong support to consumption growth. There is increasing investment activity in the areas of capacity expansion in the electronics, auto & auto parts, and electrical appliances sectors. Most of the major industrial estates have seen their land sales rise. The government, ahead of the election, is now aggressively spending money on both populist and pump-priming policies. Money supply growth has nearly doubled to 11% y/y, from only 6% in 1H10. Infrastructure activities is widespread, both on the small-scale in the provincial area and the mega-project scale in Bangkok (i.e., mass transit). More jobs in both the agriculture sector and industrial sector have led to an all-time low unemployment rate of 1%.

Prime Minister Abhisit Vejjajiva has given a clear timeframe for a House dissolution to take place in the first week of May. That implies an election will be held in June or early July, as the law requires an election to follow a House dissolution by at least 45 days but no later than 60 days. Politicians are now very active ahead of the election and that helps to improve money liquidity and velocity in the system. There have been protests by anti-government red shirts and yellow shirts, but the protests so far have failed to attract significant participation. Given the strong state of the economy, it's difficult for the protests to gain momentum given that farmers, labourers, businessmen and entrepreneurs are currently happy and there are no reasons for them to join in the unrest. Overall, both Thais and corporates are looking forward to the election and hope for political stability. The market consensus now expects the current government to return and Thailand will, for the first time in many years, see continuity of its government.

One of the key risks for Thailand is the aftermath of Japan's earthquake. The impact is less from direct exports (Japan buys 10% of total Thai exports), than a supply chain disruption that will affect exports to other countries and also domestic sales. Two key affected industries are electronics and automotive. Combined, these sectors account for over 30% of total exports. Auto & auto parts companies and electronics companies expect the strain to be felt in May, as their inventories can last for another month, and the effects may last into early 3Q11. However, the adverse impact is more of a short-term hiccup, and should not change the underlying trend of Thai exports. In fact, many companies now expect the longer-term consequences to be positive given the potential production relocation to Thailand, especially in the auto sector where the country is already very competitive.

The other key risk is the price of oil. If it climbs to US\$130/bbl and stays there for an extended period of time, Thailand will have a problem, as its oil import bill relative to GDP will hit 10%. At this point, however, the country can still manage quite well with oil prices at around US\$100/bbl. Fortunately, the country has substantial offsetting income from high soft commodities prices (agriculture and foods account for 16% of total exports) and high petrochemical prices (petrochemicals account for 12% of total exports). Therefore, even though the price of oil was already at US\$100/bbl in February 2011, Thailand still saw a trade surplus of US\$2 billion, considered very high for the country.

**Global Parts Supply Threatened by Japan's Earthquake**

- **Auto parts shortages from Japan threaten global vehicle output.**

Japanese automakers continue to extend their vehicle production shutdown following the March 11<sup>th</sup> earthquake and subsequent tsunami. Production cutbacks are also increasingly spreading outside of Japan, as shortages of key auto parts emerge in many countries, especially in other Asian nations. However, global vehicle demand remains strong and assemblies will bounce back sharply once conditions stabilize in Japan.

Assembly plant shutdowns in Japan have led to losses in vehicle production of about 37,000 units per day since the earthquake, with cumulative losses exceeding 500,000 units so far. These plant closures alone will lead to at least a 1% drop in Japan's industrial activity in March, as autos are the second-largest manufacturing sector, accounting for 13% of overall manufacturing.

The shutdowns in Japan represent nearly 14% of global vehicle output, but the major risk to the global auto industry, including non-Japanese automakers, lies in the potential for auto parts shortages globally and its impact of the global supply chain, due to delays in the resumption of component deliveries by Japanese suppliers. Japan is the world's second-largest auto parts exporter behind Germany, and hundreds of parts suppliers are located in northeastern Japan near the epicentre of the earthquake.

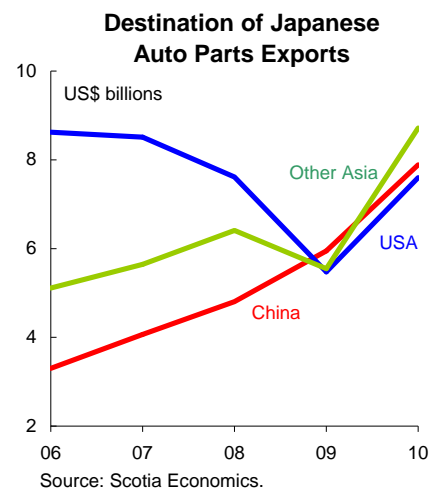
Several assembly plants of Japanese automakers outside of Japan have already started to be impacted by component shortages. Toyota has stopped overtime at its plants in North America, and Honda has trimmed in half its output in the region. If these measures spread, the impact on the global auto industry could be greater than the shutdowns in Japan. Japanese automakers produce 1.3 vehicles outside of Japan for each car or truck assembled domestically.

Non-Japanese automakers are also at risk, as most automakers source some components from Japanese suppliers. In fact, Japan exports more than US\$35 bn in auto parts annually — 11% of the global total. Several non-Japanese automakers have already announced work stoppages due to parts shortages from Japan. For example, the global supply of airflow sensors is extremely tight, as a plant of a major supplier was badly damaged by the earthquake.

However, the risk is greatest for electronic products, such as semiconductors and infotainment systems, as well as for chemical resins used to make automotive paint. Japan supplies 21% of global semiconductors and is a major producer of integrated circuits and sensors for vehicles. In particular, the largest supplier of semiconductors to the auto industry, had its facility in Ibaraki prefecture badly damaged. The company will provide an update on the facility next week. Compounding the problem is the fact that automakers are unable to get supplies from alternative sources due to the proprietary nature of many of these niche products.

The United States is the world's largest auto parts importer at more US\$43 bn annually, including US\$7.6 bn from Japan, creating significant risk of parts shortages. However, roughly 80% of all auto parts used in assembling new vehicles in the United States and Canada are produced in North America. Japanese-made parts now account for only about a 6% share of all auto parts purchased in Canada and the United States.

We believe that the greatest risk remains in Asia, as nearly half of all Japanese auto parts shipments are destined to China and other Asian nations. China became the largest importer of Japanese-made auto parts in 2009, surpassing the United States. In addition, Asia (including Japan) now produces more than 55% of all new vehicles assembled globally, up from only 30% a decade ago.



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### **Pre-Catastrophe Private Sector Dynamics Foretell a Japanese Rebound**

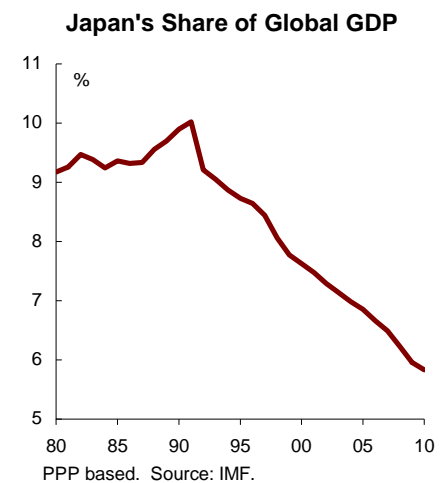
- **Data for the first two months of 2011 suggest capacity for private spending in Japan to rebound independent of government support; a trend observed throughout Asia.**
- **Trade links with the rest of Asia point to significant adverse effects on the region's manufacturing output chain in coming months.**

Economic activity for the second quarter is therefore expected to contract significantly leading to a fall in our forecast for yearly GDP growth to 1% for 2011, from the original 1.6%. Government estimates of the damage so far place the loss from the March catastrophe at around US\$300 billion (about 5% of the country's GDP), with the viability of a swift recovery hinging not only on the capacity to restore a reliable electricity grid and transportation network, but also on the level of the Japanese yen given the country's export dependence. Given the size of the blow an initial reaction naturally gives way to a downward correction of economic prospects, with lingering uncertainty about the radioactivity contamination crisis likely to play a big part in the downgrade.

The significance of Japan to the world economy has fallen over the past two decades from a peak of about 10% of global GDP in the early 1990s to under 6% today (chart). More importantly, International Monetary Fund (IMF) estimates place Japan accounting for less than 1% of global growth registered in the past five years. Thus, from this event we see only a small threat to the sustainability of global economic momentum.

There is little doubt that the Japanese economy will shift back to government spending in the coming months. As authorities grapple with the aftermath of the March 11<sup>th</sup> earthquake /tsunami and a lingering nuclear reactor crisis, reconstruction based on fiscal support is the sole option. While recent economic indicators—which gauge activity prior to the catastrophe—bear little power to predict what will ensue in coming months, they do point out that private sector spending was slowly climbing back, after being under government-support programs following the global recession of 2008. Similar dynamics have been detected throughout Asia, implying that notwithstanding Japan's demographic and weak fiscal account profile, the inherent capacity of investment and consumer spending to take over once fiscal impulse winds down remains in place. We thus interpret recent data as a valuable indicator of a potentially solid economic rebound once the government-propelled reconstruction effort elapses, sometime in late 2012.

At the turn of the year, Japanese economic indicators rebounded with spending on consumption, investment and exports displaying improvements. Business conditions as gauged by the quarterly Tankan sentiment index climbed up again in March, indicating that manufacturers grew more confident about the economic outlook just prior to the earthquake (72% of responses came in by that date according to the central bank). This is consistent with the 4.2% m/m seasonally adjusted (sa) pickup in machinery orders excluding shipbuilding and utilities in January. On the household spending front, consumer opinions about the state of the economy and future prospects also displayed an improvement in March according to a recent Bank of Japan survey, with feelings of both present and future conditions gaining ground. Retail sales (sa) trended up at the turn of the year, with department store sales (sa) rebounding again during February after the retrench in January, in line with a 5.8% gain in imports through February over the final three months of 2010. Overall household outlay indicators were underpinned by the persistent fall in unemployment to 4.6% in February. Finally, exports (sa) continued to increase through February, with the two month average posting a 4.5% gain over the December quarter average.



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Momentum for an economic rebound was building since the 2010Q4 contraction which came as a result of the lapsing of the public impulse in place since mid-2009. While we anticipate a substantial retrenchment from March on, a 0.9% q/q (not annualized) advance is still expected for 2011Q1. To put this figure in perspective, it would be just below the average rate of GDP expansion in 2010 when the Japanese economy advanced at a very solid 3.9% annual rate.

Previous experiences around the world demonstrate that the effectiveness with which the crisis is handled by political leaders is likely to have a significant bearing on the country's medium term economic performance. We have therefore revised upwards our growth expectation for 2012 to 2.9% y/y. In our view, in the midst of inescapable wealth destruction, Japanese society and politicians count now on something that was not there prior to the shock: namely, a national sense of urgency as to the need to recover the livelihood of survivors and valuable lost infrastructure. This has effectively broken the stalemate in the Japanese political process, providing the conditions necessary for an agreement on the country's public budget for 2011-12.

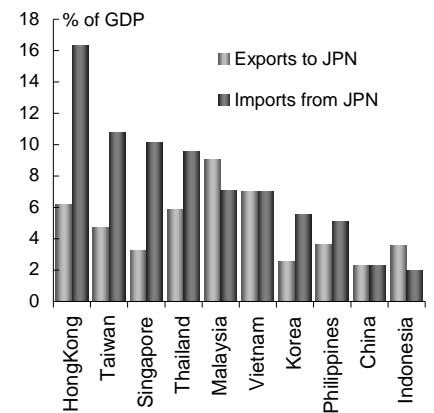
The country's public deficit and net public debt are estimated by the IMF at 9.6% and 120% of GDP, for 2010 respectively. Nevertheless, Japan is a large global creditor with net foreign assets worth 60% of GDP, and private sector holdings vastly surpass public liabilities. Furthermore, the above described rebound in demand (both local and foreign) for Japanese products leads us to view the country as an integral part of a very dynamic Asian region, notwithstanding disparities in demographics and public sector accounts.

In terms of Asian markets, exports to Japan represent between 6% and 8% of GDP for Malaysia, Hong Kong, Singapore and Thailand, and account for less than 4% for the Philippines, Taiwan, Indonesia, South Korea, China and India (please refer to first adjacent chart). Therefore, while the market for these countries' products will shrink temporarily, growth effects will be significant only for the first four and modestly so. This helps explain a fairly mild impact on regional financial markets so far.

The rest of Asia ran a trade deficit with Japan in 2010, and thus a more serious threat could result from the fact that Japanese manufacturing facilities form an integral part of the region's assembly chain. Japanese imports represent over 10% of GDP in Malaysia, Singapore, Taiwan and South Korea.

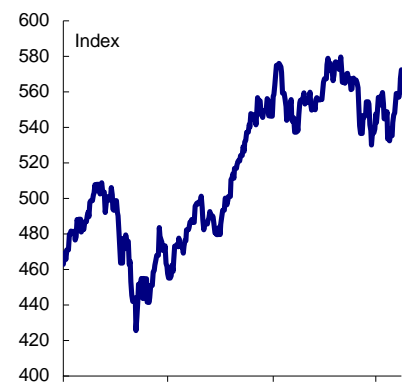
Finally, notwithstanding the intertwined manufacturing activity between Japan and the whole Asian region, financial market indicators still portray a positive spin in the midst of continued uncertainty in Japan. In fact the MSCI Asia (excluding Japan) index managed to end the first quarter reaching new heights (please see second chart).

Trade Links with Japan



Source: Bloomberg and IMF.

MSCI Asia ex. Japan



Source: Bloomberg.

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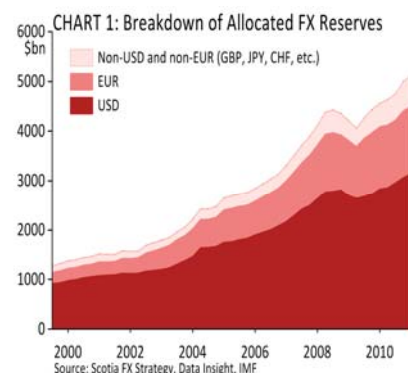
### FX Reserve Allocation Suggestive of Important Trends

- **A stabilization in the diversification trend away from the USD and encouraging signs for CAD and gold are a few of the themes that can be drawn from recent FX reserve data.**

Global FX reserves have seen dramatic growth over the last decade and now stand at \$9.3tn (allocated reserves stand at \$5.1tn). Central banks look for two key characteristics in FX reserves: liquidity and capital preservation. The USD, due in part to the depth of its capital markets, has long been the FX reserve currency of choice and will likely remain so for many years to come.

#### **A stabilization in the diversification trend away from USD**

As the top chart highlights, most reserves are held in USD and because of the overall growth in reserves generally, the dollars allocated to the USD have grown steadily and now stand at \$3.1tn. In percentage terms the diversification away from the USD has stabilized, with just over 61% of allocated reserves being held in USD since the third quarter of 2009. This stabilization is likely partly due to global market turmoil and a lack of credible alternative. We would expect the trend towards USD diversification will re-establishes itself, but that it is a long term trend and not a near-term threat to the USD.

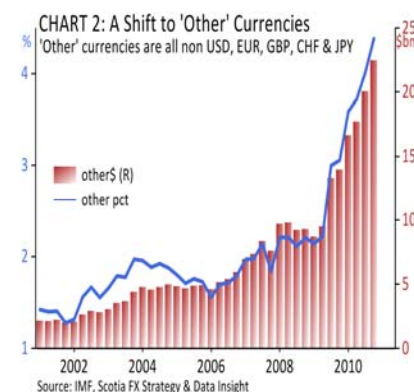


#### **The shifting importance of EUR as a reserve vehicle**

EUR has been widely believed to be the USD alternative of choice. However, the percentage of allocated reserves held in EUR reached their peak (27.9%) in the third quarter of 2009 and have now drifted down to 26.3%. This is partly reflective of the European sovereign crisis, but it also started before the current issues erupted. Due to the overall growth in FX reserves, even a dropping percentage, includes significant buying of EUR. However, should there be a further drop in the allocation to EUR it would weigh on the currency.

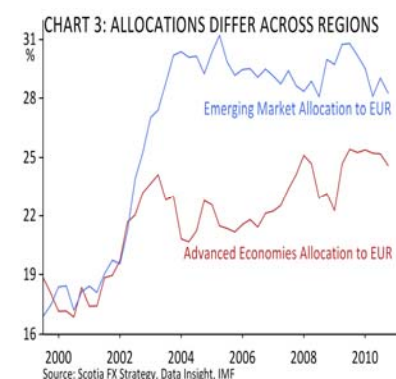
#### **CAD positive trends intensify**

For CAD, shifting trends in FX reserve management are positive. There is increasing evidence that as the appetite for EUR fades, there is increasing pressure to find other alternatives. Chart #2 illustrates that allocated reserves held in non-majors (which includes CAD) have risen on both a percentage and dollar basis. Canadian fundamentals fit the mold for a potential reserve currency well, however the capital markets fail miserably in terms of liquidity. Still, there has been anecdotal evidence that global central banks have interest in diversifying at least a minor portion of total reserves into CAD. These long-term and stable flows form part of our bullish outlook for CAD.



#### **Emerging market versus advanced economies**

The way the emerging market allocates reserves is notably different than the advanced economies. Since most of the growth in reserves is from the emerging market, where total reserves have grown by 10% over the last 10-years (versus 3% in the advanced economies), these trends are important. Chart 3 highlights that emerging FX reserve managers are more likely to have exposure to EUR and 'other' currencies than advanced economies.



#### **The impact of growing reserves on gold**

An interesting side note, is how gold factors into reserve management. FX reserve managers appear increasingly likely to accumulate gold as part of their reserves (China and Russia are two key nations where this trend has taken place). This is positive for gold prices.

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## Key Data Preview

### CANADA

Although it came on the heels of a strong base effect, details of the February's employment report disappointed more than the headline miss of +15k. Not only were the additions concentrated in part-time jobs and the public sector, but hours worked fell by 0.25% m/m, detracting from February GDP. That said, it is important to keep in mind that the Canadian labour market is further along the recovery path than its EU, UK and particularly US counterparts (see chart 1). Since peaking in August 2009, the unemployment rate is down nearly one percentage point to 7.8%, despite the re-entry of some 355k Canadians looking for work. Over 40% of those joined over the past three months alone, while the US saw some 700k discouraged individuals exit the labour market over the same period. Turning to the **March payrolls report** (Friday), we are looking for a gain of 20k, in part supported by a weak base effect from the prior month. Leading indicators are sparse and lagged, attaching a lot of uncertainty to the call.

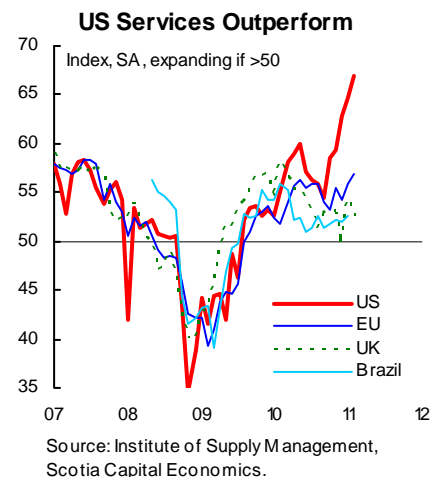
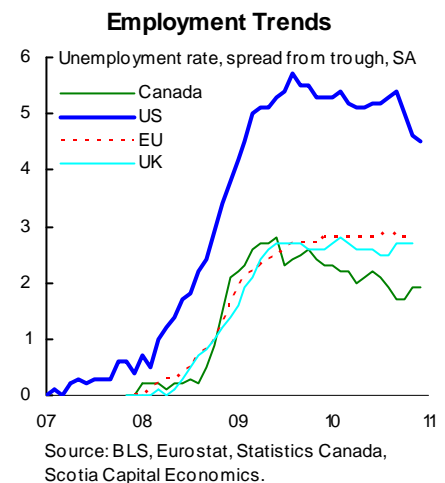
Although the housing market is unlikely to tank, it is showing signs of stress. We expect to see some softening, particularly as the impact of tighter mortgage rules takes effect. Canadian building intentions have been trending lower since April 2010. We think that next week's reports will show that **housing starts** (Friday) and **building permits** (Thursday) moderated further, down 2% m/m in March and 2.5% in February, respectively. There is a two-tail risk to our housing starts call, as the prior month's print was distorted by a sharp gain in notoriously volatile multis and January data on building permits — a leading indicator — showed an 8.8% gain in singles volumes.

### UNITED STATES

Markets will also be focused on the **FOMC minutes** (Tuesday) and another week loaded with Fed speeches. While we know that the vote at the March-15 meeting was unanimous, analysts will scour the minutes for any insight on how the internal debate surrounding inflation and growth risks is unfolding, particularly following recent comments by St. Louis Fed Chairman James Bullard that suggested that positive US economic momentum could motivate an early end to the planned total of \$600 billion in Treasury purchases, originally scheduled for completion by the end of 2010Q2. Although he is a non-voting, non-alternate FOMC member, Bullard is nonetheless often perceived as being at the leading edge of internal Fed debates.

The services sector has been recovering at an improving pace since June of last year, with the **ISM Non-Manufacturing Index** (Tuesday) well above its long-run average of 53.8. Alongside available capacity, the underlying details — including employment, imports and a widening orders-to-inventories spread — are generally supportive of greater strength ahead. That said, respondents are reporting that input prices continue to accelerate pressured by the impact of a higher cost of commodities. While we do not expect a significant change in either direction in March, a weaker USD and softer retail revenue point to a modest slowdown, with our forecast looking for a reading of 59.0.

Although **consumer credit** (Thursday) expanded for the fourth straight month in January, loan growth occurred almost exclusively through federal government loans for education. As we have pointed out before, consumers seem to be borrowing to go back to school in slack labour markets, not to feed consumption through a recovery in private lending. We do not expect this to change significantly until hiring activity picks up more substantially and Americans have a stronger sense of job security.



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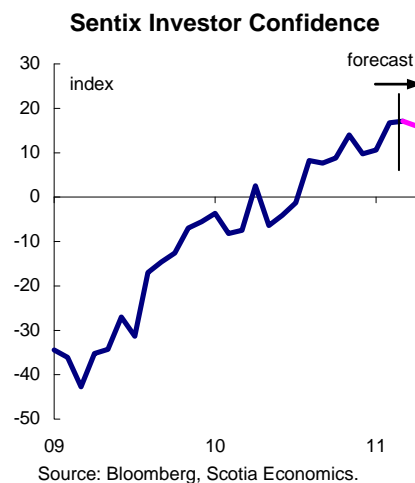
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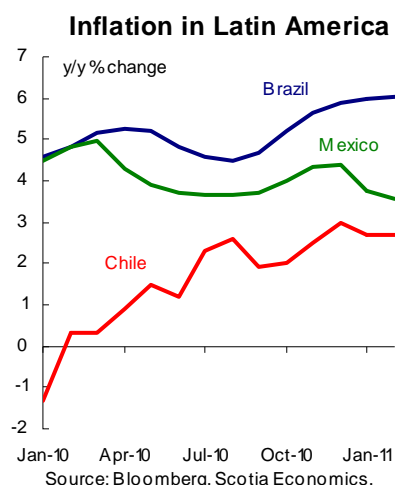
**EUROPE**

The sovereign credit crisis in the euro zone periphery will continue to be reflected in euro zone investor confidence. While the Sentix Investor Confidence has been on an upward trajectory in recent months, we assess that the intensified turmoil surrounding Portugal will translate to the April figure (to be released on April 4<sup>th</sup>), as was the case following the bailouts of Greece in May 2010 and Ireland at the end of last year. We expect the Sentix indicator to drop to around 16 from 17.1 in March.



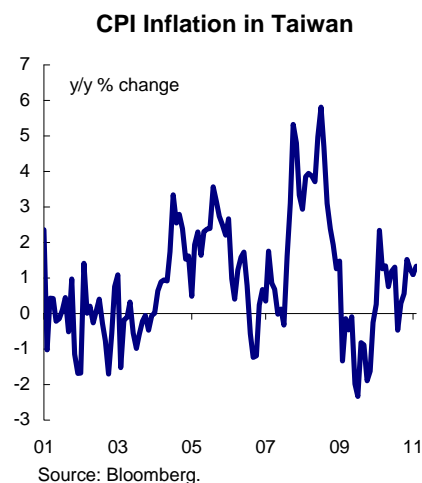
**LATIN AMERICA**

Inflation numbers for March will be released in Mexico, Brazil and Chile next week. Mexico's inflation (3.57% y/y in February) will not likely reverse its downward trajectory; accordingly, inflation is not a threat to Mexican monetary authorities. However, other Latin American countries have had differing experiences. Since the beginning of the year, Brazil's inflation (IPCA) achieved levels of around 6.0% y/y, the highest since the second half of 2008, prompting monetary authorities to restart a tightening cycle. During the last monetary policy tightening phase, the central bank of Brazil increased the so-called SELIC rate by 350 basis points (bps) over five months as inflation remained above 6.0%. Up until now, the SELIC rate has been increased by 250 bps since mid-2010. Chile's inflation has been accelerating gradually; however, expectations for year-end have shifted quickly, forcing policymakers to continue to tighten monetary conditions; the benchmark rate has been increased by 350 bps in the last 10 months.



**ASIA**

We expect annual inflation in Taiwan to increase to 1.5% in March, backed by rising imported raw materials costs throughout Asia and a weaker Taiwan dollar that prevailing through most of the month. While inflationary pressures are building up, they remain contained.



## Key Indicators for the week of April 4 - 8

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	04/04	10:30	Business Outlook Future Sales	1Q	--	27.0	22.0
CA	04/04	10:30	BoC Senior Loan Officer Survey	1Q	--	--	-36.4
MX	04/04	13:00	IMEF Manufacturing Index	MAR	--	--	52.9
MX	04/04	13:00	IMEF Non Manufacturing Index	MAR	--	--	52.8
MX	04/05	09:00	Consumer Confidence	MAR	--	--	92.3
US	04/05	10:00	ISM Non-Manf. Composite Index	MAR	59.0	59.9	59.7
US	04/05	14:00	Minutes of FOMC Meeting				
US	04/06	07:00	MBA Mortgage Applications (WoW)	1-Apr	--	--	-7.5
CA	04/06	10:00	Ivey Purchasing Managers Index SA	MAR	--	64.0	70.8
CA	04/07	08:30	Building Permits (MoM)	FEB	-2.5	0.6	-5.1
US	04/07	08:30	Initial Jobless Claims (000s)	2-Apr	385	384	388
US	04/07	08:30	Continuing Claims (000s)	26-Mar	3730	--	3714
MX	04/07	10:00	Consumer Prices Core (MoM)	MAR	0.4	0.4	0.4
MX	04/07	10:00	Consumer Prices (MoM)	MAR	0.3	0.3	0.4
MX	04/07	10:00	Consumer Prices (YoY)	MAR	3.1	3.2	3.6
US	04/07	15:00	Consumer Credit (USD billions)	FEB	--	4.5	5.0
US	04/07		ICSC Chain Store Sales (YoY)	MAR	--	--	4
CA	04/08	07:00	Net Change in Employment (000s)	MAR	20	30	15
CA	04/08	07:00	Full Time Employment Change (000s)	MAR	--	--	-24
CA	04/08	07:00	Unemployment Rate (%)	MAR	7.7	7.7	7.8
CA	04/08	08:15	Housing Starts (000s)	MAR	178.0	183.0	181.9
MX	04/08	09:00	Gross Fixed Investment (YoY)	JAN	--	8.3	5.4
US	04/08	10:00	Wholesale Inventories (MoM)	FEB	--	1.1	1.0

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

## Key Indicators for the week of April 4 - 8

Europe								
Country	Date	Time	Event	Period	BNS	Consensus	Latest	
RU	APR 01-04		GDP (YoY)	4Q p	--	4.8	4.5	
SP	04/04	03:00	Unemployment MoM Net (000s)	MAR	--	--	68.3	
IT	04/04	04:00	Deficit to GDP (year to date %)	4Q	5.0	--	5.1	
SP	04/04	04:00	Spain Consumer Confidence	MAR	--	--	73.4	
UK	04/04	04:30	PMI Construction	MAR	--	54.8	56.5	
UK	04/04	04:30	BoE Housing Equity Withdrawal (GBP billions)	4Q	--	-5.7	-6.1	
EC	04/04	04:30	Sentix Investor Confidence	APR	16.0	16.0	17.1	
EC	04/04	05:00	Euro-Zone PPI (MoM)	FEB	--	0.8	1.5	
EC	04/04	05:00	Euro-Zone PPI (YoY)	FEB	--	6.7	6.1	
RU	04/05	00:00	Russian Services PMI for March					
SP	04/05	03:15	Spain March Services PMI					
IT	04/05	03:45	PMI Services	MAR	--	--	53.1	
FR	04/05	03:50	PMI Services	MAR F	--	60.7	60.7	
GE	04/05	03:55	PMI Services	MAR F	--	60.1	60.1	
EC	04/05	04:00	PMI Composite	MAR F	57.5	57.5	57.5	
EC	04/05	04:00	PMI Services	MAR F	56.9	56.9	56.9	
UK	04/05	04:30	PMI Services	MAR	53.0	52.6	52.6	
UK	04/05	04:30	Official Reserves (US\$ millions)	MAR	--	--	904.0	
EC	04/05	05:00	Euro-Zone Retail Sales (MoM)	FEB	0.2	0.1	0.1	
IT	04/05	18:00	Generali Expected to Hold Special Board Meeting on Governance					
PD	04/05		Poland Base Rate Announcement (%)	6-Apr	4.00	4.00	3.75	
RU	APR 05-08		Consumer Price Index Core (MoM)	MAR	--	0.6	0.7	
RU	APR 05-08		Consumer Prices (MoM)	MAR	--	0.6	0.8	
SP	04/06	3:00	Industrial Output WDA (YoY)	FEB	--	2.2	3.8	
UK	04/06	4:30	Industrial Production (MoM)	FEB	--	0.4	0.5	
EC	04/06	5:00	Euro-Zone GDP s.a. (QoQ)	4Q F	0.3	0.3	0.3	
GE	04/06	6:00	Factory Orders sa (MoM)	FEB	--	0.5	2.9	
UK	04/06		New Car Registrations (YoY)	MAR	--	--	-7.7	
FR	04/07	2:45	Trade Balance (Euros)	FEB	--	-5600	-5890	
GE	04/07	6:00	Industrial Production sa (MoM)	FEB	--	0.5	1.8	
UK	04/07	7:00	BOE Asset Purchase Target (GBP billions)	APR	200	200	200	
UK	04/07	7:00	BOE Announces Interest Rates (%)	7-Apr	0.50	0.50	0.50	
EC	04/07	7:45	ECB Announces Interest Rates (%)	7-Apr	1.25	1.25	1.00	
IT	APR 07-08		Fed's Pianalto, Taylor at Bank of Italy-Cumberland Conference					
GE	04/08	2:00	Current Account (EURO billions)	FEB	--	12.0	7.2	
GE	04/08	2:00	Trade Balance (EURO billions)	FEB	--	13.0	10.1	
FR	04/08	2:30	Bank of France Bus. Sentiment	MAR	--	--	110.2	
FR	04/08	2:45	Central Govt. Balance (EURO billions)	FEB	--	--	-13.4	
UK	04/08	04:30	PPI Input NSA (MoM)	MAR	--	2.1	1.1	
UK	04/08	04:30	PPI Input NSA (YoY)	MAR	--	12.5	14.6	

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

## Key Indicators for the week of April 4 - 8

## Asia Pacific

Country	Date	Time	Event	Period	BNS	Consensus	Latest
CH	04/02	21:00	China Non-manufacturing PMI	MAR	--	--	44.1
SK	APR 02-06		South Korea FDI (YoY)	1Q	--	--	62.0
SK	04/03	17:00	Foreign Exchange Reserve (USD billions)	MAR	--	--	297.7
JN	04/03	19:50	Monetary Base (YoY)	MAR	--	--	5.6
HK	APR 03-05		Purchasing Managers Index	MAR	--	--	53.7
JN	APR 03-08		Machine Tool Orders (YoY)	MAR P	--	--	73.9
JN	APR 03-08		Tokyo Avg Office Vacancies (%)	MAR	--	--	9.10
PH	APR 03-08		Budget Deficit/Surplus (PHP billions)	FEB	--	--	13.4
IN	04/04	01:00	India March Markit Manufacturing PMI (Table)				
PH	04/04	21:00	Consumer Price Index (YoY)	MAR	--	4.6	4.3
PH	04/04	21:00	Consumer Price Index NSA (MoM)	MAR	--	0.6	1.1
AU	04/04	21:30	Trade Balance (AUD millions)	FEB	--	1200	1875
AU	04/05	00:30	RBA CASH TARGET (%)		4.75	4.75	4.75
MA	04/05	06:01	Trade Balance (MYR billions)	FEB	--	8.8	9.2
AU	04/05	21:30	Home Loans (MoM)	FEB	--	-2.0	-4.5
AU	04/05	21:30	Investment Lending (MoM)	FEB	--	--	-6.8
AU	04/05	21:30	Owner-Occupied Home Loan Value (MoM)	FEB	--	--	-4.6
CH	04/05	22:30	China HSBC Services PMI	MAR	--	--	51.9
VN	APR 05-08		Domestic Vehicle Sales (YoY)	MAR	--	--	55.6
IN	04/06	01:00	India March Markit Services PMI (Table)				
TA	04/06	04:00	CPI (YoY)	MAR	--	1.7	1.3
AU	04/06	21:30	Employment Change (000s)	MAR	--	24.0	-10.1
AU	04/06	21:30	Unemployment Rate (%)	MAR	--	5.0	5.0
TH	04/06	23:30	Consumer Confidence Economic	MAR	--	--	72.2
JN	APR 06-07		BOJ Target Rate (%)		0.10	--	0.10
SK	04/07	17:00	Producer Price Index (YoY)	MAR	--	--	6.6
JN	04/07	19:50	Current Account Total (JPY billions)	FEB	--	1719.1	461.9
JN	04/07	19:50	Trade Balance - BOP Basis (JPY billions)	FEB	--	746.9	-394.5
PH	APR 07-08		Bank Lending (YoY)	FEB	--	--	12.4
JN	04/08	00:30	Bankruptcies (YoY)	MAR	--	--	-9.4

## Asia Pacific

Country	Date	Time	Event	Period	BNS	Consensus	Latest
BZ	04/04	07:30	Central Bank Weekly Economists Survey				
CL	04/04	08:30	Central Bank Monetary Policy Report				
BZ	04/04	10:00	Trade Balance (FOB) - Weekly	3-Apr	--	--	-100.0
CO	04/04	17:00	Producer Price Index (MoM)	MAR	--	--	1.1
CO	04/04	17:00	Producer Price Index (YoY)	MAR	--	--	4.6
CL	04/05	08:30	Economic Activity (YoY)	FEB	--	6.4	6.8
CO	04/05	21:00	Consumer Price Index (MoM)	MAR	--	0.5	0.6
CO	04/05	21:00	Consumer Price Index (YoY)	MAR	--	3.4	3.2
BZ	04/07	09:30	Vehicle Sales (Anfavea)	MAR	--	--	274153
BZ	04/07	09:30	Vehicle Production (Anfavea)	MAR	--	--	310657
BZ	04/07	09:30	Vehicle Exports (Anfavea)	MAR	--	--	64564
BZ	04/07	08:00	IBGE Inflation IPCA (MoM)	MAR	--	0.7	0.8
BZ	04/07	08:00	IBGE Inflation IPCA (YoY)	MAR	--	6.12	6.01
CL	04/07	08:30	Trade Balance in (USD million)	MAR	--	1000	1173
PE	04/07		Reference Rate (%)	APR	4.00	4.00	3.75
CL	04/08	08:00	CPI (MoM)	MAR	--	0.8	0.2
CL	04/08	08:00	CPI (YoY)	MAR	--	3.4	2.7

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

## Global Auctions for the week of April 4 - 8

## North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	04/04	11:00	U.S. Fed to Purchase USD6.5-8.5 Bln Notes/Bonds
US	04/04	11:30	U.S. to Sell 3-Month Bills
US	04/04	11:30	U.S. to Sell 6-Month Bills
US	04/05	11:00	U.S. Fed to Purchase USD6.5-8.5 Bln Notes/Bonds
US	04/05	11:30	U.S. to Sell 4-Week Bills
US	04/06	11:00	U.S. Fed to Purchase USD1.5-2.5 Bln Notes/Bonds
US	04/07	11:00	U.S. Fed to Purchase USD5.5-7.5 Bln Notes/Bonds

## Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
GE	04/04	05:15	Germany to Sell Add'l EU2 Bln 12-Mth Bills
EC	04/04	06:00	Netherlands to Sell Bills
FR	04/04	09:00	France to Sell EUR4 Bln 91-Day Bills
FR	04/04	09:00	France to Sell EUR2 Bln 182-Day Bills
FR	04/04	09:00	France to Sell EUR2 Bln 364-Day Bills
AS	04/05	05:00	Austria to Sell 3.65% Bonds Due 2022
AS	04/05	05:00	Austria to Sell 3.2% Bonds Due 2017
IT	04/05	05:00	Italy to Sell Bond via Exchange Auction
SZ	04/05	05:30	Switzerland to Sell 3-Month Bills
UK	04/05	05:30	U.K. to Sell GBP3.5 Bln 3.75% 2021 Bonds
BE	04/05	06:00	Belgium to Sell Bills
SW	04/06	05:10	Sweden to Sell SEK2 Bln 3% 2016 Bonds
GE	04/06	05:15	Germany to Sell Add'l EU5 Bln 2-Year Notes
UK	04/06	05:30	U.K. to Sell GBP1 Bln 1.125% I/L 2037 Bonds
FI	04/06	05:30	Finland to Sell 4% 2025 Bonds
FI	04/06	05:30	Finland to Sell 1.75% 2016 Bonds
PO	04/06	05:30	Portugal to Sell Up to EUR1 Bln Bills
PO	04/06	05:30	Portugal Holds Auctions for Bills Due Oct. 2011, March 2012
SP	04/07	04:30	Spain to Sell 3.4% 2014 Bonds
FR	04/07	05:00	France to Sell Bonds
UK	04/08	06:10	U.K. to Sell Bills

Source: Bloomberg, Scotia Economics.

## Global Auctions for the week of April 4 - 8

## Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
SK	04/03	22:30	Korea to Sell KRW1.4 Tln 3-Year Bonds
HK	04/03	23:30	Hong Kong to Sell HKD27.429 Bln 91-D Bills
HK	04/03	23:30	Hong Kong to Sell HKD9 Bln 183-D Bills
IN	APR 03-08		India to Sell INR 20-30Bln 20 Year Bonds
IN	APR 03-08		India to Sell INR 40-50Bln 5-9 Year Bonds
MA	04/04		Bank Negara to Sell MYR2 Bln 91-Day Islamic Notes
MA	04/04		Bank Negara to Sell MYR1 Bln 210-Day Notes
MA	04/04		Bank Negara to Sell MYR2 Bln 210-Day Notes
SI	04/04		Singapore To Sell S\$3.9 billion 91-Day T-Bills
PH	04/04	01:30	Philippines Plans to Sell PHP1.5 Bln 91-Day Bills Due 2011
PH	04/04	01:30	Philippines Plans to Sell PHP4.0 Bln 364-Day Bills Due 2012
JN	04/04	23:35	Japan to Sell 3-Month Bills
JN	04/04	23:45	Japan to Sell 10-Year Bond
IN	APR 04-08		India to Sell INR 50-60Bln 10-14 Year Bonds
ID	04/05	04:30	Indonesia to Sell 10-Yr to Maturity Government Bond
ID	04/05	04:30	Indonesia to Sell 20-Yr to Maturity Government Bond
ID	04/05	04:30	Indonesia to Sell 1-Yr to Maturity Treasury Bills
JN	04/05	23:35	Japan to Sell 6-Month Bills
MA	04/06		Bank Negara to Sell MYR500 Mln 154-Day Islamic Notes
MA	04/06		Bank Negara to Sell MYR1 Bln 210-Day Notes
MA	04/06		Bank Negara to Sell Additional MYR2 Bln 210-Day Notes
IN	04/06	07:30	India to Sell INR 40Bln 91-Day Bills
IN	04/06	07:30	India to Sell INR 20Bln 364-Day Bills
NZ	04/06	21:30	New Zealand Plans to Sell Government Bonds
MA	04/07		Malaysia to Sell MYR100 Mln 364-Day Islamic Bills
TA	04/07	00:30	Taiwan to Sell TWD30 Bln 364-Day Treasury Bills
CH	04/07	23:00	Agricultural Dev Bank to Sell CNY15 Bln 5-Year Bonds
JN	04/08	04:00	Japan Auction for Enhanced-Liquidity

Source: Bloomberg, Scotia Economics.

## Events for the week of April 4 - 8

## North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	04/04	09:05	Fed's Lockhart Speaks on Economy in West Palm Beach, Florida
US	04/04	09:30	Fed's Evans Speaks at Money Smart Week
US	04/04	15:15	Fed's Evans Speaks With Maria Bartiromo on CNBC
US	04/04	19:15	Fed's Bernanke Speaks at Atlanta Fed's Markets Conference
US	04/05	12:45	Fed's Kocherlakota Gives Welcome Remarks in Minneapolis
US	04/05	12:45	Fed's Lockhart to Give Welcome at Stone Mountain, Georgia
US	04/05	13:00	Fed's Plosser to Moderate Panel at Stone Mountain, Georgia
US	04/05	14:00	Minutes of FOMC Meeting
CA	04/05		Nova Scotia Releases Provincial Budget for 2011-12 Fiscal Year
US	04/06	07:00	Fed's Lockhart to Meet with Media at Stone Mountain, Georgia
CA	04/06		Prince Edward Island Releases Provincial Budget for 2011-12 Fiscal Year
IT	APR 07-08		Fed's Pianalto, Taylor at Bank of Italy-Cumberland Conference
US	04/07	08:20	Fed's Lacker Speaks on Financial Regulation in Roanoke
US	04/08	08:00	Fed's Lockhart to Speak on Economy in Knoxville, Tennessee

## Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
IT	04/02	02:30	ECB's Stark Speaks in Cernobbio, Italy
GE	04/03	12:00	Merkel, Fillon Speak at Hanover Trade Fair
EC	APR 04-07		Finance Conference in Brussels, Organized By Risk Europe
IT	04/05	12:30	Financial Stability Board's Draghi Holds Press Conference
PD	04/05		Poland Base Rate Announcement
EC	04/07	06:00	European Commission Issues Quarterly Report on Euro Area
EC	04/07	07:45	BOE Announces Interest Rates
UK	04/07	07:00	BOE Asset Purchase Target
EC	04/07	07:45	ECB Announces Interest Rates
EC	04/07	08:30	Trichet Speaks at ECB Monthly News Conference
EC	04/08	02:00	ECB's Tumpel-Gugerell, Gonzalez-Paramo Speak in Berlin
EC	04/08	03:00	Euro-Area Finance Ministers Meet in Budapest, Hungary
EC	04/08	06:30	EU Finance Ministers, Central Bankers Meet in Budapest

## Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
AU	04/05	0:30	RBA CASH TARGET
JN	06-07 APR		BOJ Target Rate

## Latin America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
PE	04/07		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	April 12, 2011	1.00	--
Federal Reserve – Federal Funds Target Rate	0.25	April 27, 2011	0.25	--
Banco de México – Overnight Rate	4.50	April 15, 2011	4.50	--

This week's two BoC speeches traded off against one another. BoC Governor Mark Carney's speech was not hawkish on Canada so much as it was a prescription for Latin American central banks, while BoC Deputy Governor Jean Boivin's speech was consistent with prior BoC messaging. Speaking on policy debate, St. Louis Fed President James Bullard turned more hawkish, suggesting that the Fed could stop the QE2 program US\$100 billion below its original US\$600 billion target. The program is scheduled to expire in June.

## 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	April 7, 2011	1.25	1.25
Bank of England – Bank Rate	0.50	April 7, 2011	0.50	0.50
Swiss National Bank – Libor Target Rate	0.25	June 16, 2011	0.25	--
Central Bank of Russia – Refinancing Rate	8.00	April 29, 2011	8.25	--
Hungarian National Bank – Base Rate	6.00	April 18, 2011	6.00	6.00
Central Bank of the Republic of Turkey – 1 Week Repo Rate	6.25	April 21, 2011	6.25	--

We have revised our forecasts regarding the beginning of the monetary tightening cycles in the euro zone and the UK, as monetary authorities are becoming increasingly concerned about the inflation outlook. We now expect that the ECB will start a monetary normalization process in the second quarter of 2011, followed by the BoE in the third quarter of 2011.

## 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	April 7, 2011	0.10	--
Reserve Bank of Australia – Cash Target Rate	4.75	April 5, 2011	4.75	4.75
Reserve Bank of New Zealand – Cash Rate	2.50	April 27, 2011	2.50	--
People's Bank of China – Lending Rate	6.06	TBA	6.06	--
Reserve Bank of India – Repo Rate	6.75	May 3, 2011	6.50	--
Hong Kong Monetary Authority – Base Rate	0.50	TBA	0.50	--
Central Bank of China Taiwan – Discount Rate	1.63	June 24, 2011	1.75	--
Bank Negara Malaysia – Overnight Policy Rate	2.75	May 5, 2011	2.75	--
Bank of Korea – Bank Rate	3.00	April 11, 2011	3.00	--
Bank of Thailand – Repo Rate	2.50	April 20, 2011	2.50	--
Bank Indonesia – Reference Interest Rate	6.75	April 12, 2011	6.75	--

We expect the Reserve Bank of Australia to remain on the sidelines next week on the back of slowly improving economic momentum after the setback from the Queensland floods and the indirect effect of Japan's calamity. The latest headline and core inflation measures displayed a fall in the final quarter of last year, with some price and wage pressures due to emerge as a result of crop destruction and labour displacements.

## 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	11.75	April 20, 2011	12.25	--
Banco Central de Chile – Overnight Rate	4.00	April 12, 2011	4.25	4.50
Banco de la República de Colombia – Lending Rate	3.50	April 29, 2011	3.50	--
Banco Central de Reserva del Perú – Reference Rate	3.75	April 7, 2011	4.00	4.00

Monetary authorities' reports will indicate the pace of further monetary tightening in Latin America. Peru and Brazil will release inflation data for March, while Colombia's and Chile's Monetary Policy Meeting Minutes will provide more information regarding forthcoming policy action.

## 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	May 12, 2011	5.50	--

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

	2000-09	2010e	2011f	2012f	2000-09	2010e	2011f	2012f
<b>Output and Inflation (annual % change)</b>	<b>Real GDP</b>				<b>Consumer Prices<sup>2</sup></b>			
World <sup>1</sup>	3.6	4.9	4.4	4.4				
Canada	2.1	3.1	3.1	2.6	2.1	1.8	2.5	2.3
United States	1.8	2.9	2.9	2.7	2.6	1.6	2.3	1.9
Mexico	1.9	5.5	4.3	3.8	4.9	4.4	4.1	4.1
United Kingdom	2.7	1.3	1.4	1.7	2.2	3.7	3.7	2.9
Euro zone	1.2	1.7	1.4	1.6	2.1	2.2	2.4	2.3
Japan	0.7	3.4	1.0	2.9	-0.3	-0.5	0.5	1.2
Australia	3.0	3.0	3.8	3.5	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	8.7	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	4.0	4.5	6.6	5.9	6.0	5.0
Chile	3.6	5.2	6.0	5.5	3.4	3.0	4.5	3.0
Peru	5.1	8.8	7.0	7.2	2.5	2.1	3.5	3.0
<b>Central Bank Rates (% , end of period)</b>	<b>11Q1f</b>	<b>11Q2f</b>	<b>11Q3f</b>	<b>11Q4f</b>	<b>12Q1f</b>	<b>12Q2f</b>	<b>12Q3f</b>	<b>12Q4f</b>
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	1.25	1.50	1.75	2.00	2.25	2.50	2.50
Bank of England	0.50	0.50	0.75	1.00	1.25	1.50	1.75	2.00
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
<b>Exchange Rates (end of period)</b>								
Canadian Dollar (USDCAD)	0.98	0.97	0.96	0.95	0.95	0.94	0.93	0.92
Canadian Dollar (CADUSD)	1.02	1.03	1.04	1.05	1.05	1.06	1.08	1.09
Euro (EURUSD)	1.35	1.42	1.44	1.45	1.45	1.46	1.47	1.48
Sterling (GBPUSD)	1.58	1.60	1.61	1.63	1.65	1.67	1.69	1.70
Yen (USDJPY)	82	79	82	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	12.7
Brazilian Real (USDBRL)	1.63	1.64	1.64	1.65	1.67	1.70	1.72	1.75
<b>Commodities (US\$, annual average)</b>	<b>2000-09</b>	<b>2010</b>	<b>2011f</b>	<b>2012f</b>				
WTI Oil (/bbl)	51	79	102	105				
Brent Oil (/bbl)	50	80	112	115				
Nymex Natural Gas (/mmbtu)	5.95	4.40	4.40	4.75				
Copper (/lb)	1.78	3.42	4.40	4.15				
Zinc (/lb)	0.73	0.98	1.09	1.09				
Nickel (/lb)	7.11	9.89	11.25	8.90				
Gold, London PM Fix (/oz)	522	1,225	1,425	1,350				
Pulp (/tonne)	668	960	1,000	1,000				
Newsprint (/tonne)	572	607	665	705				
Lumber (/mfbm)	275	254	270	300				

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

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

<b>Canada</b>	<b>2010</b>	<b>10Q3</b>	<b>10Q4</b>	<b>Latest</b>	<b>United States</b>	<b>2010</b>	<b>10Q3</b>	<b>10Q4</b>	<b>Latest</b>
Real GDP (annual rates)	3.1	1.8	3.3		Real GDP (annual rates)	2.9	2.6	3.1	
Current Acc. Bal. (C\$B, ar)	-50.0	-67.9	-44.2		Current Acc. Bal. (US\$B, ar)	-470	-502	-453	
Merch. Trade Bal. (C\$B, ar)	-9.1	-26.1	0.1	1.4 (Jan)	Merch. Trade Bal. (US\$B, ar)	-647	-683	-625	-717 (Jan)
Industrial Production	4.7	7.9	6.0	6.9 (Jan)	Industrial Production	5.3	6.7	6.3	5.6 (Feb)
Housing Starts (000s)	192	192	179	182 (Feb)	Housing Starts (millions)	0.59	0.59	0.53	0.48 (Feb)
Employment	1.4	1.8	1.7	1.9 (Feb)	Employment	-0.8	-0.1	0.5	1.0 (Mar)
Unemployment Rate (%)	8.0	8.0	7.7	7.8 (Feb)	Unemployment Rate (%)	9.6	9.6	9.6	8.8 (Mar)
Retail Sales	5.1	3.7	4.5	3.5 (Jan)	Retail Sales	6.9	6.1	8.1	9.5 (Feb)
Auto Sales (000s)	1559	1609	1556	1513 (Dec)	Auto Sales (millions)	11.5	11.6	12.3	13.4 (Feb)
CPI	1.8	1.8	2.3	2.2 (Feb)	CPI	1.6	1.2	1.3	2.1 (Feb)
IPPI	1.0	1.0	2.6	-3.4 (Feb)	PPI	4.2	3.8	3.9	5.6 (Feb)
Pre-tax Corp. Profits	18.4	15.3	16.2		Pre-tax Corp. Profits	36.8	34.8	16.1	
<b>Mexico</b>					<b>Brazil</b>				
Real GDP	5.5	5.3	4.6		Real GDP	6.7	5.9	4.2	
Current Acc. Bal. (US\$B, ar)	-5.7	-7.7	-14.5		Current Acc. Bal. (US\$B, ar)	-47.5	-45.6	-47.9	
Merch. Trade Bal. (US\$B, ar)	-3.1	-9.2	-4.6	3.3 (Feb)	Merch. Trade Bal. (US\$B, ar)	20.3	19.6	30.1	18.6 (Mar)
Industrial Production	6.1	6.2	4.7	6.6 (Jan)	Industrial Production	10.5	8.1	3.6	3.1 (Feb)
CPI	4.2	3.7	4.2	3.6 (Feb)	CPI	5.1	5.0	6.1	6.9 (Feb)
<b>Argentina</b>					<b>Italy</b>				
Real GDP	9.2	8.6	9.2		Real GDP	1.2	1.4	1.5	
Current Acc. Bal. (US\$B, ar)	3.6	3.7	-0.8		Current Acc. Bal. (US\$B, ar)	-0.07	-0.05	-0.08	-0.13 (Jan)
Merch. Trade Bal. (US\$B, ar)	12.1	12.0	6.2	7.3 (Feb)	Merch. Trade Bal. (US\$B, ar)	-36.6	-22.9	-44.4	-105.0 (Jan)
Industrial Production	9.8	9.3	10.6	8.9 (Feb)	Industrial Production	5.4	6.3	4.1	0.9 (Jan)
CPI	66.4	89.8	54.9	0.0 (Jun)	CPI	1.6	1.6	1.8	2.3 (Feb)
<b>Germany</b>					<b>France</b>				
Real GDP	3.5	3.9	4.0		Real GDP	1.7	2.0	1.7	
Current Acc. Bal. (US\$B, ar)	188.0	165.7	250.8	115.2 (Jan)	Current Acc. Bal. (US\$B, ar)	-52.7	-41.8	-88.6	-60.9 (Jan)
Merch. Trade Bal. (US\$B, ar)	201.5	207.6	219.8	189.6 (Jan)	Merch. Trade Bal. (US\$B, ar)	-38.7	-42.0	-38.3	-52.9 (Jan)
Industrial Production	10.0	10.2	11.5	12.4 (Jan)	Industrial Production	5.8	5.2	5.8	5.4 (Jan)
Unemployment Rate (%)	7.7	7.6	7.5	7.1 (Mar)	Unemployment Rate (%)	9.8	9.8	9.6	9.6 (Feb)
CPI	1.1	1.2	1.5	2.1 (Mar)	CPI	1.5	1.5	1.6	1.7 (Feb)
<b>Euro Zone</b>					<b>United Kingdom</b>				
Real GDP	1.7	1.9	2.0		Real GDP	1.3	2.5	1.5	
Current Acc. Bal. (US\$B, ar)	-77	-43	-41	-314 (Jan)	Current Acc. Bal. (US\$B, ar)	-56.2	-55.7	-62.3	
Merch. Trade Bal. (US\$B, ar)	0.0	43.0	53.2	-216.0 (Jan)	Merch. Trade Bal. (US\$B, ar)	-151.4	-159.3	-169.6	-133.6 (Jan)
Industrial Production	7.2	7.1	8.0	6.2 (Jan)	Industrial Production	2.0	3.0	3.3	4.5 (Jan)
Unemployment Rate (%)	9.9	9.9	9.9	9.8 (Feb)	Unemployment Rate (%)	7.9	7.8	7.9	8.0 (Dec)
CPI	1.6	1.7	2.0	2.4 (Feb)	CPI	3.3	3.1	3.4	4.3 (Feb)
<b>Japan</b>					<b>Australia</b>				
Real GDP	4.0	4.7	2.5		Real GDP	2.7	2.7	2.7	
Current Acc. Bal. (US\$B, ar)	194.8	227.5	172.5	67.1 (Jan)	Current Acc. Bal. (US\$B, ar)	-31.8	-29.2	-34.4	
Merch. Trade Bal. (US\$B, ar)	74.7	70.4	67.2	80.8 (Feb)	Merch. Trade Bal. (US\$B, ar)	19.1	27.5	25.7	18.4 (Jan)
Industrial Production	16.0	12.9	5.0	2.9 (Feb)	Industrial Production	4.3	4.2	-0.3	
Unemployment Rate (%)	5.1	5.0	5.0	4.6 (Feb)	Unemployment Rate (%)	5.2	5.2	5.2	5.0 (Feb)
CPI	-0.7	-0.8	0.1	0.0 (Feb)	CPI	2.8	2.8	2.7	
<b>China</b>					<b>South Korea</b>				
Real GDP	10.3	9.6	9.8		Real GDP	6.2	4.4	4.7	
Current Acc. Bal. (US\$B, ar)	290.0				Current Acc. Bal. (US\$B, ar)	28.2	39.7	36.6	14.1 (Feb)
Merch. Trade Bal. (US\$B, ar)	182.5	260.4	249.6	-87.9 (Feb)	Merch. Trade Bal. (US\$B, ar)	41.2	42.5	52.1	37.2 (Mar)
Industrial Production	13.5	13.3	13.5	14.9 (Feb)	Industrial Production	16.6	12.9	9.9	9.6 (Feb)
CPI	4.6	3.6	4.6	4.9 (Feb)	CPI	3.0	2.9	3.6	4.7 (Mar)

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

Source: Bloomberg, Scotia Economics.

## Interest Rates (% , end of period)

	10Q4	11Q1	Mar/25	Apr/01*		10Q4	11Q1	Mar/25	Apr/01*
<b>Canada</b>					<b>United States</b>				
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	1.05	0.96	0.93	0.95	3-mo. T-bill	0.12	0.09	0.08	0.07
10-yr Gov't Bond	3.12	3.35	3.24	3.38	10-yr Gov't Bond	3.29	3.47	3.44	3.47
30-yr Gov't Bond	3.53	3.76	3.70	3.78	30-yr Gov't Bond	4.33	4.51	4.50	4.52
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	60.2	(Feb)	FX Reserves (US\$B)	122.1	121.4	123.6	(Feb)
<b>Germany</b>					<b>France</b>				
3-mo. Interbank	0.96	1.26	1.19	1.23	3-mo. T-bill	0.51	0.40	0.82	0.80
10-yr Gov't Bond	2.96	3.35	3.28	3.38	10-yr Gov't Bond	3.36	3.71	3.64	3.73
FX Reserves (US\$B)	62.4	62.3	63.0	(Feb)	FX Reserves (US\$B)	52.2	55.8	58.4	(Feb)
<b>Euro-Zone</b>					<b>United Kingdom</b>				
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	0.67	0.90	3-mo. T-bill	4.85	4.85	4.85	4.85
FX Reserves (US\$B)	300.1	300.3	308.9	(Feb)	10-yr Gov't Bond	3.40	3.69	3.61	3.72
<b>Japan</b>					<b>Australia</b>				
Discount Rate	0.30	0.30	0.30	0.30	Cash Rate	4.50	4.75	4.75	4.75
3-mo. Libor	0.13	0.14	0.14	0.14	10-yr Gov't Bond	5.55	5.49	5.44	5.54
10-yr Gov't Bond	1.13	1.26	1.23	1.29	FX Reserves (US\$B)	38.1	38.7	36.9	(Feb)
FX Reserves (US\$B)	1077.4	1061.5	1056.8	(Feb)					

## Exchange Rates (end of period)

USDCAD	1.00	0.97	0.98	0.96	¥/US\$	81.16	83.13	81.34	84.16
CADUSD	1.00	1.03	1.02	1.04	US¢/Australian\$	102.33	103.29	102.60	103.75
GBPUSD	1.561	1.603	1.604	1.612	Chinese Yuan/US\$	6.59	6.55	6.56	6.55
EURUSD	1.339	1.416	1.409	1.420	South Korean Won/US\$	1125	1100	1109	1086
JPYEUR	0.92	0.85	0.87	0.84	Mexican Peso/US\$	12.360	11.905	11.992	11.837
USDCHF	0.93	0.92	0.92	0.93	Brazilian Real/US\$	1.660	1.632	1.663	1.617

## Equity Markets (index, end of period)

United States (DJIA)	11578	12320	12221	12409	U.K. (FT100)	5900	5909	5901	6010
United States (S&P500)	1258	1326	1314	1336	Germany (Dax)	6914	7041	6946	7180
Canada (S&P/TSX)	13443	14116	14039	14166	France (CAC40)	3805	3989	3972	4055
Mexico (Bolsa)	38551	37441	36784	37914	Japan (Nikkei)	10229	9755	9536	9708
Brazil (Bovespa)	69305	68587	67766	69142	Hong Kong (Hang Seng)	23035	23528	23159	23802
Italy (BCI)	1033	1048	1113	1120	South Korea (Composite)	2051	2107	2054	2121

## Commodity Prices (end of period)

Pulp (US\$/tonne)	960	960	960	960	Copper (US\$/lb)	4.42	4.26	4.41	4.23
Newsprint (US\$/tonne)	640	640	640	640	Zinc (US\$/lb)	1.10	1.05	1.07	1.06
Lumber (US\$/mfbm)	308	290	290	284	Gold (US\$/oz)	1405.50	1439.00	1436.00	1418.00
WTI Oil (US\$/bbl)	91.38	106.72	105.40	107.72	Silver (US\$/oz)	30.63	37.87	37.68	37.63
Natural Gas (US\$/mmbtu)	4.41	4.39	4.40	4.33	CRB (index)	332.80	359.43	359.57	361.05

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

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