Scotiabank Group

Global Views

Weekly commentary on economic and financial market developments

April 29, 2011

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

Karen Cordes Woods (416) 862-3080
karen_woods@scotiacapital.com

Derek Holt (416) 863-7707
derek_holt@scotiacapital.com

Central Banks, Canada's Federal Election, And High Global Data Risk On Tap

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

Global central banks, global manufacturing data, Canada's federal election, and North American jobs data will be the key potential market movers next week, on top of determining whether the USD's slide will continue to disrupt global markets.

Canada will be in the spotlight all week, starting right off the bat with the focus upon Monday's federal election. The latest polls are suggesting the Conservatives will garner just over 36% of the vote, the NDP 30%, the Liberals 22%, the Bloc Quebecois 6% and the Green Party 4%. We again caution that while polling is big business, the polls have been sharply wrong many times and count votes not seats which is a vital distinction in Canada's first-past-the-post electoral system in contrast to European-style proportional representation. Attempts to translate votes into seats are marketing guesses at best. Markets have largely ignored polling results throughout the past week since larger global events like the Fed's statement and press conference have dominated attention. That could change come Monday night. Friday's job report for April could change that again in either direction. While it will be buried behind the election, we'll also be watching Monday's producer prices in order to ascertain whether limited pass-through of raw and intermediate price increases into finished goods prices remains a safe assumption.

US markets will be sensitive to both data and Fed speech risk throughout the week. There are no fewer than four speeches by voting FOMC members including Chairman Bernanke, Chicago Fed President Evans, Atlanta Fed President Lockhart, and Minnesota Fed President Kocherlakota. Monday is expected to witness a moderation in the key ISM manufacturing gauge. Tuesday could bring forth a rise in factory orders. But the key days include expectations for continued disappointment on the pace of job growth when ADP lands on Wednesday and nonfarm payrolls arrives on Friday. Markets are expecting both readings to put in prints of 200k or lower on the pace of monthly job gains which remains too low to materially dent the unemployment rate. That therefore leaves the full employment portion of the Fed's dual mandate challenged.

Central banks and data risk will dominate attention in **Europe**. The week starts slowly with May Day holidays (or International Labour Day) with London markets shut. Across Europe, purchasing manager indices for the manufacturing sector will be released on Monday morning, or in the case of the UK, Tuesday morning, and are expected to remain unchanged and still signaling solid manufacturing growth. Data risk is low for the rest of the week, but then central banks take over. After hiking by 25bps on April 7th, the ECB is expected to take a pass at its meeting next week. Trichet's press conference will be key, however, in that it will be important to hear whether he is concerned about the lagged effects of Euro appreciation on growth and inflation. The Euro has appreciated by about 29 cents US since June of last year, 14 cents US so far this year, and five cents since the last rate announcement. It would be prudent to be concerned about the lagged effects on German growth and inflation, so the length of pause signaled by Trichet is at risk. The Bank of England meets on the same day, Thursday. No economists within consensus are calling for an ECB hike next week, and only one of 37 is expecting the BoE to hike. The BoE's guidance on inflation risk has been similar to the Fed's by way of looking through the near-term gains toward commodity price moderation and weaker inflation readings into next year. Since May of last year, pound sterling has appreciated by 16%, and is up 7% so far this year. Indeed, the pound is approaching its highest since late 2009.

Asian markets will only really be in the limelight in Monday's markets when state and private sector versions of the manufacturing sector's purchasing managers' index are digested. Will Chinese manufacturing face downside risk stemming from Japan's shocks, or pick up market share? The RBA is expected to hold its key cash target rate at 4.75% on Tuesday, but key will be how Governor Stevens views the recent modest acceleration in inflation. The Reserve Bank of India is expected to hike its reverse repo rate by 25bps to 6%. Bangko Sentral ng Pilipinas is expected to raise its overnight repo rate by 25bps to combat rising inflation, while Bank Negara Malaysia is expected to remain on hold, having instead hiked its reserve ratio in March. Updates on Asian trade prospects are also on tap from India, Indonesia and South Korea.

Karen Cordes Woods (416) 862-3080
karen_woods@scotiacapital.com

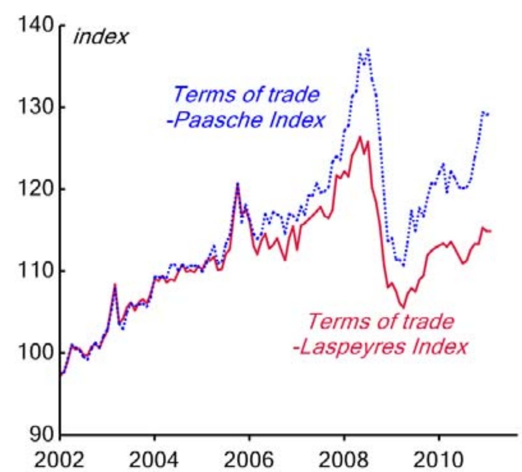
Derek Holt (416) 863-7707
derek_holt@scotiacapital.com

Will An Improved Terms Of Trade Lift Canadian Growth?

- **More bullish growth views than ours assume that a rising terms of trade trend will positively influence Canadian growth and lead the BoC to hike earlier by lessening its worries about CAD appreciation. We disagree.**

Canada's terms of trade (export prices relative to import prices) has sharply improved during the recovery period largely due to rising commodity prices (see chart for two measures using different price deflator concepts). The BoC's old framework that entailed looking at currency movements in a Type 1-Type 2 context generally looked through CAD appreciation if it was driven by fundamentals such as an improvement in the terms of trade. CAD appreciation would only worry the BoC if it was not driven by fundamentals, thus imposing net tightening on the Canadian economy. But the experience of 2008 lessened the value of the type 1-2 terminology which may be one reason why it barely gets mentioned today, and for the same reasons we don't currently buy into the more bullish street forecasts for Canadian growth that are assuming that a strong terms of trade will rain manna from heaven down upon the Canadian economy.

Canadian Terms of Trade



Source: Statistics Canada, Scotia Capital Economics

There are two reasons for our views. For one, in order for a strong terms of trade position to positively impact the economy, accelerated wage growth is necessary. We're still not seeing that with wage growth at the lower bound of annual increases registered over the past decade. Wage growth is running shy of 2½% y/y compared to double that pace leading up to and just into the crisis phase. Without nominal wage growth reflecting trickle down economics stemming from an improved terms of trade, the multiplier effects throughout the rest of the economy are muted. Indeed, higher food and energy bills with no nominal wage acceleration serve to erode real wages, and dampen consumer spending power. We do not see this changing given the degree of slack that still exists in the job market via a 7.7% unemployment rate.

Second, one must differentiate between margins and volumes in evaluating the impact of improved terms of trade on the Canadian economy. The fact that Canada is able to sell into world markets at higher commodity export prices than what the country is paying for imports does not readily translate into bullish implications for Canadian growth. That's the mistake analysts made in 2008. Key here is that a terms of trade boon to Canada is a bane to the US given the latter's net energy importer status. Higher commodities ding US growth by squeezing out real wages and profits and thus damaging growth prospects as we are starting to witness. So selling at higher margins in Canada — in the short-term — begets selling lower volumes into the US on second-round effects. That's exactly what happened in 2008. In the current context, if the terms of trade was all that mattered, then why is Canada's monthly real trade deficit at an all-time high? Canada should be shipping product fast and furious out the door with little import leakage, but it is not, as demonstrated by horrible trade numbers that likely don't even as yet reflect the full lagged influences of CAD's rise.

Should commodities climb much further, then Canada is staring at an even greater than already apparent degree of demand destruction in its biggest export market on top of the effects of lost export competitiveness through moribund productivity growth and a strong CAD. That's without even getting into our view that CAD is overshooting the terms of trade fundamentals. Further, to pin CAD's appreciation upon monetary policy is also countered by the fact that 2-year CAD-USD spreads have gone nowhere since November despite CAD appreciation, demonstrating that monetary policy has had little effect in distorting hot money flows in favour of short-term returns. Commodities, improved global risk tolerance, US fiscal worries, and over-shooting are driving CAD higher.

Karen Cordes Woods (416) 862-3080
karen_woods@scotiacapital.com

Derek Holt (416) 863-7707
derek_holt@scotiacapital.com

To What Degree Will A Strong CAD Keep Canadian Inflation At Bay?

- **Our forecast remains for the first hike to occur in October, but the tail risk is later, rather than the earlier Consensus call in our view. Evaluating exchange rate pass-through effects into core inflation is one key part of this view.**

How much of an effect CAD appreciation has upon core inflation is key to the outlook for the Bank of Canada. There are four related issues to address in evaluating this complicated and uncertain question. One is how much has CAD effectively appreciated relative to business expectations, two is how long do the effects take to materialize, three concerns the magnitude of the effect once it does arise, and fourth entails addressing whether this effect has changed over time.

The first question isn't as easy to answer as it may sound. Of CAD's 35 cents appreciation over about the past two years, about one-third of that has occurred since later last summer. But how much of this appreciation has been a shock *relative to business plans*? This is the key, and it depends upon the degree to which businesses looked through the sharp plunge in CAD over the back half of 2008 and first half of 2009 as a temporary phenomenon while still sticking to pre-crisis CAD planning assumptions. In other words, did they think the weakening to 1.30 against the greenback by March 2009 was going to stick, or not? While some part but likely not all of the 35 cent rise in CAD since March 2009 reflects real currency appreciation, some part of it was smoothed through by business planning assumptions compared to the pre-crisis CAD environment that was cruising just weaker than parity. Also, did businesses view some of the pre-crisis strength as being over-valued and thus not fully reflective of its value then? Because of these uncertainties, in a moment we'll look at the effect of a 10% rise in CAD on core inflation which is roughly the degree of appreciation witnessed since just late last summer, and the extreme 35 cent (just over 25% appreciation) scenario. Our bias is to go somewhere in the middle of the scenarios, but much closer to 10% than the full 25%.

This leads into assessing the next two questions regarding the length of the lag effects and their magnitudes. BoC research has tended to argue that very little effect of currency appreciation is felt on inflation within the first year, somewhat more in the second year, and then greater lagged effects may materialize. The original estimation parameters for the Bank of Canada's Terms-of-Trade Economic Model (ToTEM), which replaced the Quarterly Projection Model (QPM) in December 2005 as the Bank's principal model for the Canadian economy, predicts that exchange rate pass-through into core inflation is about 0.05% in the first year and about 0.09% in the second year for each 1% change in the exchange rate at the beginning point (see table). The older QPM model, on the other hand, matches ToTEM's results for the first year but suggests a larger pass-through in the second year at 0.18% with the differences widening further with the time horizon. Finally, the latest reference to the sensitivities of core inflation to CAD movements in the Autumn 2010 Bank of Canada Review (see references in footnote below) suggests that the BoC's pass-through assumption within the ToTEM model weakened to 0.03% in the first year and 0.05% in the second year for each 1% appreciation in CAD.

A 1% change in the exchange rate causes what % change in core CPI?

	Quarterly Projection Model	Terms of Trade Economic Model - Dec'06	Terms of Trade Economic Model - Dec'10
1 year	0.05	0.05	0.03
2 years	0.18	0.09	0.05

A 10% change in the exchange rate causes what % change in core CPI?

	Quarterly Projection Model	Terms of Trade Economic Model - Dec'06	Terms of Trade Economic Model - Dec'10
1 year	0.5	0.5	0.3
2 years	1.8	0.9	0.5

A 25% change in the exchange rate causes what % change in core CPI?

	Quarterly Projection Model	Terms of Trade Economic Model - Dec'06	Terms of Trade Economic Model - Dec'10
1 year	1.25	1.25	0.75
2 years	4.5	2.25	1.25

Karen Cordes Woods (416) 862-3080
karen_woods@scotiacapital.com

Derek Holt (416) 863-7707
derek_holt@scotiacapital.com

… continued from previous page

The next section of the table provides the estimated impact on core inflation stemming from a 10% currency movement, and the results point to at least a 0.5% downward influence upon core inflation within two years. Older estimates of pass-through effects pushed this estimate to roughly between 1-2%. The third section to the table evaluates the extreme 25% appreciation in the exchange rate which we do not think is realistic.

But to our fourth question, why have the BoC's estimates of pass-through effects diminished over time? This is an area of considerable controversy and ongoing research, but the Bailliu, Dong and Murray paper cited below provides an excellent overview of the reasons drawn from the literature. Several studies suggest that exchange rate pass through (ERPT) into import and consumer prices has declined in recent years due to increased trade integration, pricing practices of large import conglomerates exercising their market power, large distribution margins, inflation-focused monetary policy, increased competition among retailers in local markets, and more credible monetary policy regimes.

That all said, the evidence of pass-through effects remains material. Should we witness a half point decline in y/y core inflation two years following a roughly 10% currency appreciation using the latest BoC estimates, then this would be highly material to the BoC's ability to sustainably witness y/y inflation returning to target into 2012.

While the latest inflation report was somewhat disconcerting, we provide three cautions. One is that it may have reflected the waning effect of refunded HST tax credits related to the July 1st introduction of the harmonized sales tax in Ontario and BC last year that helped to push core inflation lower. If so, then this waning effect is just a one-off adjustment higher on the level of prices that could take more than just one month to unfold but which would then require interpreting higher current inflation readings as being transitory. Second is that it could have just been noise, or companies testing their pricing power perhaps to be disappointed by resistance by households through reduced spending on second round effects. Third is that we simply haven't given enough time for CAD's appreciation to impact core inflation readings. If one or all of these arguments are correct, it could well be highly inadvisable for the BoC to tighten policy prematurely versus biding its time. A period of benign neglect over short-term inflation readings may be perfectly justified.

That puts us where we are now and into next year. CAD strength, and its lagged effects on growth and inflation, may make it reasonable to take the BoC entirely out of the picture for 2011. While we are still forecasting the next hike to occur only in October of this year, and hence later than the July consensus, we judge the tail risks to be more appropriately skewed to be later than our call than earlier.

Second in the debate is the role of output gaps. Output gaps have to be interpreted not in terms of the push to closing off spare capacity but in terms of the exceptionally straightforward guidance provided by the BoC that once balance is reachieved, the output gap will ride roughly flat into 2013 as actual GDP growth rides in tandem with potential GDP growth. That means the BoC does not expect the economy to slip materially into a period of excess demand in the Canadian economy, and thus current monetary policy may be entirely appropriate for some time. Indeed, one would be challenged to think of a point in time in past monetary policy cycles in which the BoC has engineered a fresh tightening cycle after providing such clear output gap guidance and simultaneously when CAD is so strong.

Sources:
1. "ToTEM: The Bank of Canada's New Quarterly Projection Model," by Stephen Murchison and Andrew Rennison, Bank of Canada, December 2006.
2. "Has Exchange Rate Pass-Through Really Declined? Some Recent Insights From The Literature," by Jeannine Bailliu, Wei Dong, and John Murray, Bank of Canada Review, Autumn 2010.

Karen Cordes Woods (416) 862-3080
karen_woods@scotiacapital.com

Derek Holt (416) 863-7707
derek_holt@scotiacapital.com

Will Markets Wilt Post-QE2?

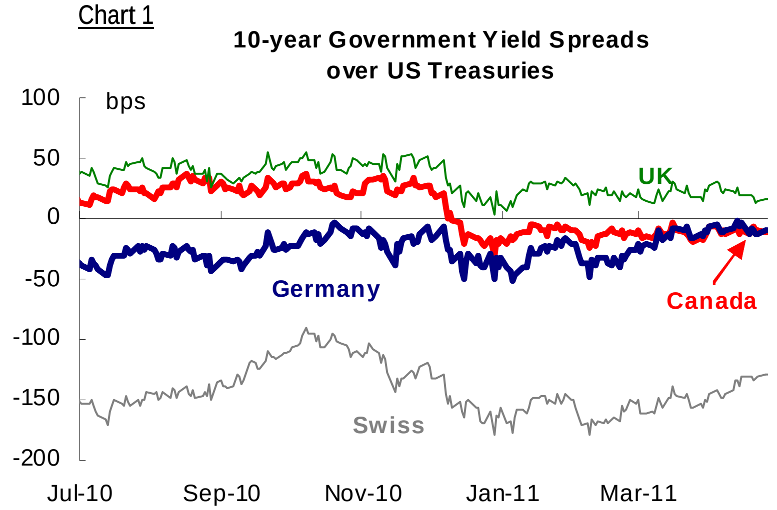
As largely expected, this week's FOMC statement and the ensuing first-ever press conference carried no material surprises. Indeed, our comparison of the current statement with the prior statement offers thin gruel and maintains a generally dovish bias (see the Appendix). With the reinforced commitment to allow QE2 to expire by the end of June, however, the focus remains upon what market impact this may have. On this, the gauntlet has been dropped, and high profile firms and portfolio managers have staked out their positions. The expiration of QE2 is either going to lead to a bull flattener or a bear steepener, further depreciation or appreciation in the USD, and a risk-on or risk-off environment in commodities and equities. Clearly one side of the debate is going to be very, very wrong. In our view, the debate should have never become so polarized to begin with, as we don't see the expiration of QE2 as having a material market impact in isolation of other developments that themselves will be more important in shaping the outlook.

1. QE2 Doesn't Deserve The Blame For A Weak USD

Let's start with the impact on the USD. In assessing monetary policy implications for the USD, it is vital to separate the implications of conventional monetary policy from unconventional monetary policy in the US versus elsewhere. Conventional monetary policy — mostly measured by overnight rates — has indeed been one of the factors inducing USD weakness as short-term hot money spreads have favoured other crosses like CAD, the A$ and the Euro over time. But unconventional monetary policy is simplistically blamed as being bearish for the USD. Consider chart 1. Since the period of time in which QE2 was first speculated upon and then introduced on November 3rd 2010, US Treasury yields rose at a faster pace than elsewhere and thus foreign spreads over the Treasury market narrowed. Narrower spreads over the US should have induced relative USD strength via attracting capital flows at the expense of other markets as yields at the margin became more attractive in favour of holding US debt. The exact opposite clearly happened through broad based USD weakness, which demonstrates that other factors of greater importance in driving weakness in the USD against several crosses have been at play. This is true for the Euro, the Swiss Franc, the UK Pound, and CAD, among others. Therefore, since QE2 is unlikely what drove USD weakness, we don't see QE2's expiration as having a big impact on the USD relative to other drivers. Indeed, contrary to some opinions, we don't see a USD renaissance following the expiration of QE.

There is a related issue to this that entails addressing complaints across emerging markets that the Fed is intentionally debasing the USD and sparking unwanted capital flows into their own markets. We've addressed this issue before in our piece "Is The Fed Really To Blame For EM Headaches?", November 5th 2010 (co-authored with Scotia's EM Strategist Joe Kogan). Our main point then was that capital flows into EMs began to accelerate long before the Fed's Zero Interest Rate Policy, long before QE1, and even longer before QE2. What has attracted flows into EM currencies are more attractive relative growth prospects in what is best characterized as a pull effect on capital out of the US driven by opportunity rather than a push effect driven by Fed policy.

Chart 1



Source: Bloomberg, Scotia Capital Economics

While the US is in no position to lecture others on fiscal policy, EM fiscal largesse in several cases hasn't helped their inflation problems and made tighter monetary policy necessary albeit adding to currency strength.

Indeed, on a trade weighted basis, the USD is no weaker today following QE1 and QE2 than it was in the early days of the crisis during 2008, and has experienced two rallies during the period in which quantitative easing was being implemented. We repeat, other factors have been far more important to driving the USD's ups and downs in recent

Karen Cordes Woods (416) 862-3080
karen_woods@scotiacapital.com

Derek Holt (416) 863-7707
derek_holt@scotiacapital.com

… continued from previous page

years than misplaced views on QE. Factors driving the 17% deprecation in the USD on a DXY trade weighted basis over the past year have included a combination of relative growth prospects in the US versus elsewhere such as EMs and Germany that have driven pull effects on capital, differences in conventional monetary policy between the Fed versus some other central banks especially the ECB's stricter (possibly too narrow) focus on headline inflation, and improved risk tolerance that always sparks a reversal of safe haven flows out of the USD elsewhere. In my view, most commodity strength is driven by fundamental demand from EMs particularly China, as well as a variety of supply shocks, and not speculation or loose talk of USD debasement.

This returns us to Scotia's currency call for the USD to continue depreciating into 2012 against most crosses. We are at the upper end of the forecast range for crosses such as USDCAD with the strongest forecast on the street, and well above the lowest forecast. This is not because of QE2's expiration for reasons gone over, and is at best only partly due to differences in conventional monetary policy in the US versus Canada. Even though we have a later call for the BoC than others, shops forecasting earlier BoC hikes and higher end points than we are have materially weaker forecasts for CAD despite more aggressive spread views than Scotia's. Rather, I think USD weakness against most crosses is related partly to differential expectations on conventional monetary policy, but also what we think will be strong fiscal headwinds operating against appetite for Treasurys and the USD.

2. QE Has Theoretically Indeterminate Effects On Yields

In judging the effects on Treasurys and borrowing costs stemming from the expiration of QE2 at the end of 2011Q2, it seems logical to start by pointing out that the theoretical impact of QE on base yields and the cost of borrowing is indeterminate and the rationale for pursuing QE has proven to be malleable according to the ex-post evidence and the circumstances under which it has been imposed. We'll explain this view by noting what happened during QE1 and then QE2.

2.a. The QE1 Experience

When QE1 was pursued starting on November 25th 2008, the rationale was to spark credit spread compression and lower borrowing costs by leaning the Fed's balance sheet into a private market failure insofar as the pricing of risky assets was concerned. That was supposed to engineer lower borrowing costs that would stimulate money demand and grease the wheels of recovery in markets and the economy. We had forecast this move, and were strong supporters at the time. We had also argued that in addition to purchasing private credit, Treasuries had to be purchased or else the effect of distorted capital flows sucking away funds from what wasn't being targeted toward what was being targeted would negate the desired outcome. It may have worked, but there are three cautions in evaluating its impact. One is that we'll never really know how much of the desired outcome was due to Fed policy, versus automatic stabilizers in the global economy and markets that brought us back from the brink once the inventory cycle had run its course, factory production recovered, and a positive earnings cycle that was supportive of the risk trade was put in place. This was the rationale behind why in late 2008 we published our bullish *Turning Points* paper that argued that while we were not quite at a market bottom yet, the end to the recession would occur later in 2009 and a major rally in the risk trade would unfold in advance of this. But we're still at best half way in evaluating the long-run success or failure of the policy in terms of trading off a possible short-term confidence boost to markets versus a complicated exit policy and long-run inflation risks. Further, the impact of QE1 was more focused upon perhaps assisting market pricing rather than igniting volumes. Money demand in the key household sector has proven to be interest inelastic, or largely insensitive to lower rates, and the recovery in business financing was largely driven by bond rollover and at the expense of short term loans and CP such that the outcome was no material recovery in net business financing. The results are clear in terms of a lackluster growth environment that has oscillated erratically from moderately bullish to bearish prints on GDP growth especially considering the sheer volume of stimulus thrown at the US economy. In this regard, we're not left with a terribly different outcome to this point than what the Bank of Japan's application of QE did to the Japanese economy and markets through repeated applications.

2.b. The QE2 Experience

Now fast forward to QE2, and a funny thing happened on the way to policy nirvana: the story totally changed. Focused Treasury buying didn't push base yields lower or keep them low — in fact US 10s as one example climbed from about 2½% just prior to the point at which QE2 expectations started to be priced into the market, to

Karen Cordes Woods (416) 862-3080
karen_woods@scotiacapital.com

Derek Holt (416) 863-7707
derek_holt@scotiacapital.com

… continued from previous page

around the 3½% zone since December. This is why I'm amazed to see market participants argue that a bear steepener must unfold following the expiration of QE2 on the supposition that less buying by the Fed should push Treasury prices lower and yields higher; QE2 did the exact opposite when the Fed *was* actively starting to buy Treasurys. Now, we're asked to believe, QE2 worked by pushing yields higher — not lower — because it raised inflation expectations and diverted the trade away from the deflation bias that had been creeping into markets late last summer. Maybe, but the cost was higher borrowing costs as manifest in the rise in 30 year fixed mortgage rates from last Fall through to today. One wouldn't have thought the US needed higher mortgage rates as a policy goal, but this is what happened during the QE2 experience. We'll give the bright minds at the Fed the benefit of the doubt that QE2 really did avert deflation risk, but with the strong caveat that we'd attach at least as much weight to the view that deflation risk could well have solved itself through soft base effects off of which prices could rise in future in the absence of QE2 — without incurring market concerns over the Fed's exit policies.

As far as the risk trade is concerned, it isn't clear that boosting discount rates such as the BAA corporate benchmark from about 5½% last August to the 6% mark by December as a correlated consequence to QE2 would have boosted equity multiples. Thus, we are also skeptical that the end to QE2 would have a material impact upon equities.

Our point is that either the policy justification totally changed with merit from QE1 to QE2, or it out-smarted itself and became too cute by half in changing the story to what supported policy actions, or the impact of QE is dependent upon the circumstances under which it is imposed and dependent upon the time frame being evaluated in terms of very short term consequences versus the impact over ensuing weeks and months. We're biased toward the latter interpretation. Text book theory might say that more demand for an asset class from a potential buyer like the Fed could push its yields lower. But text book theory would also postulate that the effects depend upon where the economy sits in terms of its current aggregate demand and aggregate supply balance, where markets sit in terms of other sources of demand and supply, and where prevailing market sentiment resides on key issues like future inflation expectations that themselves can be influenced by the very way in which the Fed is funding its Treasury purchases — through sharply expanding narrow money.

3. The Fed Won't Just Disappear

After rejecting the role of QE in debasing the USD and having a clear unambiguous impact upon Treasury yields, there are other reasons to discount the importance of the expiration of QE2 to the markets. One is that the Fed won't just roll over and die when QE2 withers. It may well retain its influence over markets through emphasizing communication tools including FOMC statements and speeches that keep the credible threat of intervention against rising yields alive. Also, a well discussed option would be for the Fed to continue to reinvest coupon into Treasurys. In his press conference following the FOMC statement, Chairman Bernanke alluded to the possibility of ceasing this practice as the first sign of tightening policy. Continuing it, however, may have the effect of mitigating market concerns over the impact of the expiration of QE2 on market yields. We caution that such Fed tools may well not have the effect of calming Treasury market concerns for the reasons cited in #2, but simply wish to point out that the Fed may not be totally powerless to control the curve at least for a time.

4. Well Telegraphed Expiration of QE2

Fourth, Chairman Bernanke has repeatedly noted that the expiration of QE2 is well telegraphed in advance and thus should be largely priced in, barring minority speculation on prospects for QE3.

5. The Perils To QE3

There are some suggestions that the Fed should contemplate QE3 despite guidance from the Fed that bond buying will cease by the end of the current quarter. We find this option to be untenable at this juncture. The impact could well split the FOMC given that several FOMC members have been fairly blunt about their opposition to such an idea. Indeed, the potential exists for the most divided Fed since the crisis unfolded should QE3 be pursued, and that raises the possibility of being sharply destabilizing to markets. Not surprisingly, the more dovish members, including Fed Vice Chairman Dudley (voting), Fed Governor Tarullo (voting), Fed Governor Duke (voting), Fed Governor Yellen (voting), Atlanta Fed President Lockhart (alternate), New York Fed First Vice President Cumming (alternate) and Boston Fed President Rosengren (non-voting), will likely stand behind Fed Chairman Bernanke should QE3 be

Karen Cordes Woods (416) 862-3080
karen_woods@scotiacapital.com

Derek Holt (416) 863-7707
derek_holt@scotiacapital.com

… continued from previous page

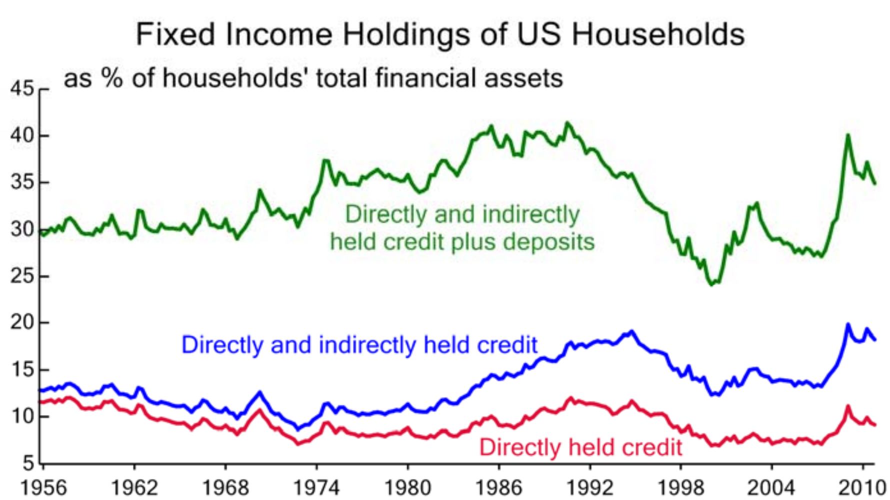
deemed necessary. However, many of the more hawkish and outspoken members have already hinted that they would oppose QE3 or, at this point, they don't think it's necessary. These include Dallas Fed President Fisher (voting), Philadelphia Fed President Plosser (voting), Minneapolis Fed President Kocherlakota (voting), Chicago Fed President Evans (voting), Richmond Fed President Lacker (alternate) and Kansas City Fed President Hoenig (non-voting). Fed Governor Raskin (voting), St. Louis Fed President Bullard (non-voting), Cleveland Fed President Pianalto (alternate) and new San Francisco Fed President Williams (alternate) have spoken little on this topic but we think all but Bullard would likely support QE3 should it be proposed.

Further, we think the likely outcome to imposing QE3 at this stage would be to raise concern in markets that the Fed's exit strategy has become ever more complicated, and that longer-run inflation risk would rise. We are not currently in an environment in which the concerns of markets or agents in the economy are focused upon deflation risk; indeed, the bias of risks ranges from upwardly tilted risks to at best hope that inflation risk subsides into next year but nonetheless remains on the positive side of the ledger. Thus, QE3 would likely push Treasury yields — and other borrowing costs — materially higher.

6. US Treasury Curve Forecast

We close with our forecast for the US Treasury curve in the accompanying table. Because the risk is pointed toward softer than expected growth in the first half of this year, we believe Treasury yields could move somewhat lower before rising into the back half of this year and into next. This has nothing to do with QE views, but everything to do with our concerns about the US fiscal position heading into an election year, and our view that austerity talk is over-rated at the moment as President Obama will be challenged as a Democrat to campaign into 2012 on a meaningful austerity agenda (in contrast to recent token measures) that could disproportionately hit his support base. We are also of the view that greater competition for capital through a gradual private credit recovery and less willingness of households to supply capital to the Treasury market given they are at cycle tops on fixed income asset allocation (chart 2) will combine to put upward pressure upon Treasury yields into next year.

Chart 2



Source: U.S. Federal Reserve, Scotia Capital Economics

United States	10q1f	10q2f	10q3f	10q4f	11q1f	11q2f	11q3f	11q4f	12q1f	12q2f	12q3f	12q4f
Fed Funds Target Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.75	1.25	1.75	2.00
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.75	4.25	4.75	5.00
3-month T-Bill	0.15	0.17	0.15	0.12	0.09	0.15	0.20	0.40	0.90	1.40	1.90	2.20
2-year Treasury	1.02	0.60	0.42	0.59	0.82	0.70	0.85	1.00	1.40	1.75	2.00	2.20
5-year Treasury	2.54	1.77	1.26	2.00	2.28	2.10	2.20	2.25	2.50	2.75	2.85	2.90
10-year Treasury	3.83	2.93	2.51	3.29	3.47	3.40	3.65	3.75	4.00	4.10	4.30	4.65
30-year Treasury	4.71	3.89	3.68	4.33	4.51	4.50	4.65	4.75	4.95	5.05	5.20	5.35

Karen Cordes Woods (416) 862-3080
karen_woods@scotiacapital.com

Derek Holt (416) 863-7707
derek_holt@scotiacapital.com

Appendix — FOMC: Side-By-Side Statement Comparison

Release Date: April 27, 2011	Release Date: March 15, 2011
Information received since the Federal Open Market Committee met in March indicates that the ***economic recovery is proceeding at a moderate pace*** and overall conditions in the labor market are improving gradually. Household spending and business investment in equipment and software continue to expand. However, investment in nonresidential structures is still weak, and the housing sector continues to be depressed. Commodity prices have risen significantly since last summer, and concerns about global supplies of crude oil have contributed to a further increase in oil prices since the Committee met in March. ***Inflation has picked up in recent months***, but longer-term inflation expectations have remained stable and measures of underlying inflation are still subdued.	Information received since the Federal Open Market Committee met in January suggests that the ***economic recovery is on a firmer footing,*** and overall conditions in the labor market appear to be improving gradually. Household spending and business investment in equipment and software continue to expand. However, investment in nonresidential structures is still weak, and the housing sector continues to be depressed. Commodity prices have risen significantly since the summer, and concerns about global supplies of crude oil have contributed to a sharp run-up in oil prices in recent weeks. Nonetheless, longer-term inflation expectations have remained stable, and measures of underlying inflation have been subdued.
Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The unemployment rate remains elevated, and measures of underlying inflation continue to be somewhat low, relative to levels that the Committee judges to be consistent, over the longer run, with its dual mandate**.** Increases in the prices of energy and other commodities have pushed up inflation in recent months. The Committee expects these effects to be transitory, but it will pay close attention to the evolution of inflation and inflation expectations. The Committee continues to anticipate a gradual return to higher levels of resource utilization in a context of price stability.	Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. Currently, the unemployment rate remains elevated, and measures of underlying inflation continue to be somewhat low, relative to levels that the Committee judges to be consistent, over the longer run, with its dual mandate. The recent increases in the prices of energy and other commodities are currently putting upward pressure on inflation. The Committee expects these effects to be transitory, but it will pay close attention to the evolution of inflation and inflation expectations. The Committee continues to anticipate a gradual return to higher levels of resource utilization in a context of price stability.
To promote a stronger pace of economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate, the Committee decided today to continue expanding its holdings of securities as announced in November. In particular, the Committee is maintaining its existing policy of reinvesting principal payments from its securities holdings and will complete purchases of $600 billion of longer-term Treasury securities by the end of the current quarter. The Committee will regularly review the size and composition of its securities holdings in light of incoming information and is prepared to adjust those holdings as needed to best foster maximum employment and price stability.	To promote a stronger pace of economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate, the Committee decided today to continue expanding its holdings of securities as announced in November. In particular, the Committee is maintaining its existing policy of reinvesting principal payments from its securities holdings and intends to purchase $600 billion of longer-term Treasury securities by the end of the second quarter of 2011. The Committee will regularly review the pace of its securities purchases and the overall size of the asset-purchase program in light of incoming information and will adjust the program as needed to best foster maximum employment and price stability.
The Committee will maintain the target range for the federal funds rate at 0 to 1/4 percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels for the federal funds rate for an extended period.	The Committee will maintain the target range for the federal funds rate at 0 to 1/4 percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels for the federal funds rate for an extended period.
The Committee will continue to monitor the economic outlook and financial developments and will employ its policy tools as necessary to support the economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate.	The Committee will continue to monitor the economic outlook and financial developments and will employ its policy tools as necessary to support the economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate.
Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; William C. Dudley, Vice Chairman; Elizabeth A. Duke; Charles L. Evans; Richard W. Fisher; Narayana Kocherlakota; Charles I. Plosser; Sarah Bloom Raskin; Daniel K. Tarullo; and Janet L. Yellen.	Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; William C. Dudley, Vice Chairman; Elizabeth A. Duke; Charles L. Evans; Richard W. Fisher; Narayana Kocherlakota; Charles I. Plosser; Sarah Bloom Raskin; Daniel K. Tarullo; and Janet L. Yellen.

Oscar Sánchez (416) 862-3174
oscar_sanchez@scotiacapital.com

Mary Webb (416) 866-4202
mary_webb@scotiacapital.com

A Steep Climb Ahead for Japan's Economic Recovery

- **As Japan embarks upon supplementary budgets and the accompanying financing challenges, an accommodative monetary policy stance will be key.**

The Japanese economy will remain in reconstruction mode as authorities grapple with the aftermath of the March 11th earthquake/tsunami and the lingering energy crisis. Government estimates of the damage place the loss at about ¥25 trillion (just over US$300 billion) or 5.5% of the country's GDP, making it the most costly natural disaster on record. Latest information on the state of economic conditions gives a new meaning to the term "supply chain disruption" as industrial production figures for March dropped dramatically. Factory output fell a stunning 15% m/m on a seasonally adjusted basis. On the demand side, retail sales reports also inked double-digit monthly contractions, deeper than the downturns reported over the last 13 years.

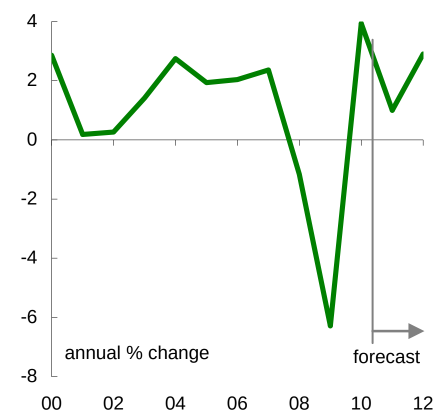
While an eventual economic rebound still hinges on restoring a reliable electricity grid and a functioning transportation network, recent Japanese yen (JPY) strengthening – the JPY has retraced most of the G7 intervention-induced weakness and trades at 81 at the time of writing – threatens the viability of an expeditious recovery given the economy's export dependence. We envisage this initial JPY appreciation to be eventually countered by the blow to the country's infrastructure, concerns over the nation's fiscal path and elevated uncertainty about the nation's capacity for a quick recovery. After the Kobe earthquake, industrial production did drop, but it climbed back to pre-disaster levels within the first quarter. We expect Japan's real GDP to contract in Q2 2011 on a quarterly basis, and a recovery from then on, leading to a 1.0% overall advance in 2011, followed by a 2.9% gain in 2012. Near-term foreign exchange volatility will remain in place as the Bank of Japan (BoJ) battles excessive appreciation, with further exchange rate intervention to be expected in case the JPY reaches under 79 per US dollar.

Japan's ¥4 trillion supplementary *Budget* illustrates the hurdles ahead for the central government. It is a first installment, with the second round likely in June, and it is focused on disaster relief. It includes ¥0.6 trillion for disaster-related loans, ¥1.2 trillion to fix roads and bridges and more than ¥0.7 trillion for clearing rubble and building temporary housing, with 30,000 units targetted for the end of May and a further 70,000 units by the end of June. The government's eventual direct costs over the next five to six years will likely be at least 2½ times the first supplementary *Budget*, alongside a host of indirect expenses, including foregone revenue. Expectations are for extensive government guarantees for small- and mid-sized companies.

The first supplementary *Budget* avoids new bond issuance, reflecting Japan's limited fiscal flexibility. Instead, emergency reserves and ¥2.5 trillion from pension funds will be tapped, with sources such as highway tolls and the cancelation of a planned allowance increase for families with children making up the remainder. With a decline in Japan's general government deficits now harder to accomplish and its gross debt, according to the IMF, now expected to exceed 230% of GDP this year, concern is heightened over whether Japan's debt-to-GDP can be stabilized by 2020.

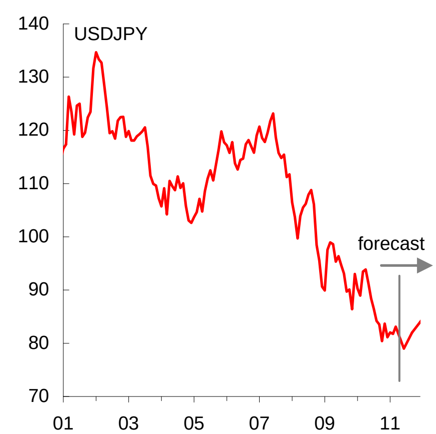
Thus, a credible fiscal repair strategy will facilitate reconstruction. A significant risk for Japan is rising government funding costs in the

Japan's Real GDP ...



Source: Bloomberg, Scotia Economics.

... and the Yen



Source: Bloomberg, Scotia Economics.

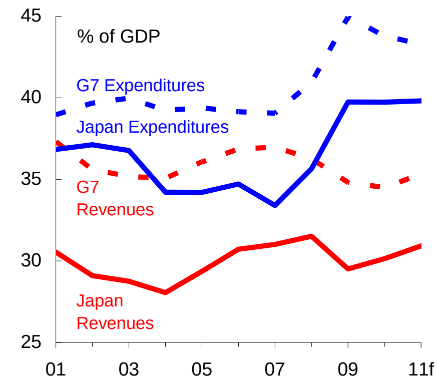
Oscar Sánchez (416) 862-3174
oscar_sanchez@scotiacapital.com

Mary Webb (416) 866-4202
mary_webb@scotiacapital.com

… continued from previous page

future, with its debt service already accounting for over 20% of pre-disaster General Account outlays this fiscal year. Comprehensive fiscal restraint will have to include tighter program spending limits, stepped-up reforms of social security (given outlays presently absorbing just over 30% of Japan's pre-disaster General Account Expenditures) and tax increases. Japan's government receipts relative to GDP are currently considerably lower than the G7 average, offering some room for higher taxes and levies. One option is a rise in the consumption tax from 5% towards 10%, a previously contentious policy move that might garner approval in the current environment.

Japan's Budget Gap



Source: IMF, April 2011.

The setback resulting from the recent disasters will exacerbate deflationary forces. However, as economic momentum gathers, cost-push inflation could prevail given higher power costs, import and production disruptions and Japan's dependence on imported fuel amid persistent elevated global oil costs. The BoJ will retain a loose monetary policy stance, with the economy's dependence on exports raising the relevance of unsterilized central bank currency interventions. While the monetary policy committee of the BoJ decided to leave the amount of its asset purchasing programme unchanged after this week's meeting, the Board did discuss the possibility of an increase in the program, opening the door for a possible further loosening move in coming months. The current economic situation seems to almost certainly require such a move.

Gorica Djeric (416) 866-4214
gorica_djeric@scotiacapital.com

Alex Koustas (416) 866-4212
alex_koustas@scotiacapital.com

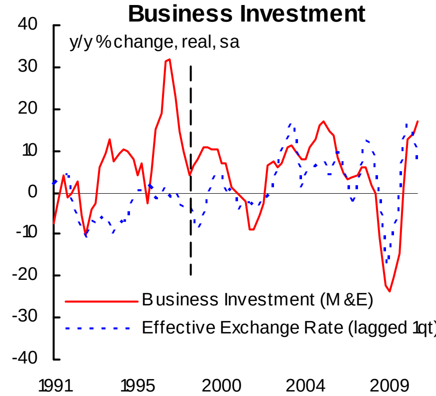
Canadian Firms Find There's No Time Like the Present for Business Investment

- **Machinery & equipment investment will likely lead Canadian GDP growth in 2011.**

Taking into account what we know so far about the first quarter, and conservatively assuming no change in March, the economy is set to post annualized quarterly growth of around 4%, an acceleration over the prior quarter. While Canada seems to be relatively well placed on a path of sustained recovery, underlying details are expected to reveal a shift in factors driving growth. The housing market and consumer activity pulled the economy from the recession, but evidence points to a moderation to varying degrees, with business investment in machinery and equipment (M&E) expected to pick up the slack. A strong Canadian dollar, a more accommodative tax environment, improving credit conditions and healthy corporate balance sheets are enticing firms to build towards increased labour productivity, one of the Bank of Canada's key concerns.

The loonie has appreciated roughly 30 cents against the greenback since March 2009, with one-third of that increase taking place since the end of August of last year, in part supported by rising commodity prices. With Canadian firms importing 40% of M&E from the United States, a strong Canadian dollar has proven to be a catalyst for business investment in the past. Since 1998, roughly the time when the North American Free Trade Agreement (NAFTA) became fully implemented, the correlation between the Canadian dollar and business investment in M&E has strengthened considerably (see chart). Assuming firms require one quarter to incorporate currency changes in their medium-term purchasing decisions, thereby looking through the day-to-day volatility to more of a trend, one derives a solid correlation coefficient of 0.8 and a statistically significant estimator, in line with several studies [1].

Stronger CAD Could Support Business Investment



Source: OECD, Statistics Canada, Scotia Economics.

For all of Canada, the 100% expensing allowed on business computer purchases up to January 31, 2011, and the accelerated depreciation offered on M&E investments by manufacturers and processors should boost investment. Ontario's and British Columbia's shift to a Harmonized Sales Tax (HST), in addition to their corporate income tax reductions and the elimination of their corporate capital taxes, represents an additional boost to operating profits as well as more affordable capital investment. Under this new taxation policy, inputs will no longer be subjected to provincial sales taxes, with the burden being shifted to final goods — provincial estimates place the total annual tax savings for businesses at over C$6 billion. Past evidence from Atlantic Canada suggests a bump in investment in the first year, followed by a steeper sustained path of growth in the ensuing years. Given that Ontario and British Columbia account for roughly 50% of total M&E investment in Canada, these new measures should produce notable gains in 2011. A key uncertainty, however, is the upcoming referendum on the HST in British Columbia during the latter half of June and most of July, with the possibility of a "yes" vote returning the Province to a Retail Sales Tax.

Improving credit conditions and healthy corporate balance sheets are also supportive of increased business investment. The latest, first-quarter Senior Loan Officer Survey, published by the BoC, revealed that overall business lending conditions continued to ease for the sixth quarter in a row. Progress was noted in price and non-price aspects, and across borrower categories. Despite more optimistic business sentiment — capital spending intentions are at their highest since early 2007, before the onset of the recession — and looser credit conditions, the demand for loans remains relatively modest. Improving profit margins — closing on pre-recessionary levels — balance sheets flush with cash and favourable capital inflows can explain this apparent lack of enthusiasm.

With competition in global export markets picking up, Canada's competitiveness should enjoy a much-needed boost from stepped-up business investment. We expect business investment in M&E to contribute nearly a full percentage point to Canadian GDP growth this year and next.

Araceli Espinosa (5255) 9179-5237
araceli_espinosa@scotiacapital.com

Joe Kogan (212) 225-6541
joe_kogan@scotiacapital.com

Leonor Lopez (5255) 5229-2202
leonor_lopez@scotiacapital.com

From US Bond Investors to Mexico's Poorest

The following article was published on April 28, 2011.

We review the business strategies of Mexican companies that lend money to the poor. Despite the rally that has already occurred in these firms' global bonds over the past year, we believe that yields on the bonds are still high enough to offset risks stemming from operations, firm growth, and industry evolution.

Microcredit Business Strategy

It is really quite remarkable that money lent by international institutional investors in the form of dollar denominated Global bonds, with the help of Mexican financing companies, permits the lower class in Mexico to take out small loans of say 5,000 pesos to start a small business, buy a refrigerator, or finance emergency medical expenses. In assessing the risks to the bondholder, we start with a brief explanation of how the Mexican firms are actually able to operate such a business profitably.

The key to success in this industry is correctly assessing creditworthiness and then efficiently collecting payments on those loans. The three companies we met with in Mexico City, Financiera Independencia (Findep), Credito Real, and Compartamos, accomplish this in different ways. For example, Findep has its own sales force while Credito Real outsources product distribution. Yet, what all of their methodologies have in common is close and frequent contact with the customer to verify personal information and ensure timely repayment. It is not only the customer that needs monitoring, but also the salespeople and debt collectors themselves, whose compensation scheme must be carefully calibrated to incentivize higher sales while at the same time managing credit risk. Such monitoring, while aided by technology, is labor intensive, and since the loans are small, the monitoring cost may well be comparable to the actual amount of the loan, leading to the need for high interest rates. As Figure 1 shows, the biggest cost for these firms is not usually financing nor loan losses, but rather administrative personnel and systems. In the case of Findep, these systems include a data entry center, procedures for home visits, a credit scoring system, and a call center, among many other components. It is thanks to these personnel and systems that loan losses are low and that the firm is able to borrow at much lower interest rates than that at which it lends.

Figure 2 provides comparative figures for the different loans offered by the three firms. Controlling for the size of the loan, certain types of loans have higher repayment rates and therefore lower interest rates. In particular, group loans have higher repayment rates than individual loans, probably both because the group members monitor each other and because group loans also have an "education" component that encourages savings and repayment. Payroll loans also fare well, since the payments from these are automatically deducted from the paychecks of unionized government employees whose jobs are secure.

Overall, the sector is doing quite well, with the size of loan portfolios growing at substantial rates without jeopardizing low delinquency rates (Figure 3). In fact it is remarkable that delinquency rates in many cases are actually lower than those for personal consumer loans offered by traditional banks in Mexico. Interest revenue is growing in line with that loan portfolio for all three firms. One worrisome trend is that while the ratio of net profit to the size of the loan portfolio has remained the same for Compartamos over the years and has increased for Credito Real, it has been falling for Financiera Independencia. We would have expected the ratio to increase over time, thanks to the effects of economies of scale on a growing portfolio of loans. Findep's performance is probably explained by the effects of recent acquisitions, and our concerns regarding falling profits are partly mitigated by the fact that it is still more profitable per dollar lent than Credito Real. The ratios for 2010 Compartamos, Findep, and Credito Real were 19%, 8%, and 5%, respectively, which were all higher than the 4.6% achieved by Bancomer, Mexico's largest bank, in the same year.

Araceli Espinosa (5255) 9179-5237
araceli_espinosa@scotiacapital.com
Joe Kogan (212) 225-6541
joe_kogan@scotiacapital.com
Leonor Lopez (5255) 5229-2202
leonor_lopez@scotiacapital.com

… continued from previous page

There is not much in the current financial statements that merits significant concern. Rapid growth, which could endanger profitability theoretically, seems under control so far, with no obvious threat to credit quality. While such operational risks will remain, the larger long-term risks come from outside. Microfinance is a relatively young and fast growing industry in Mexico, and the risks to the bondholder depend on the evolution of that industry and the firms' role in that industry, a topic we address next.

Investment Risks

First, there is political risk. Microfinance is currently a popular way to aid the poor; it receives support from various organizations including the Mexican government and multilateral organizations. Some loans provide working capital for a lower income person to open a business, which may be his or her only opportunity for employment. When the poor have few options by which they can save money, these loans also allow them to make large purchases which they could never otherwise afford. Both of these options surely improve the quality of life of the lower class. Their interest rates, while high, are lower than those offered by other providers that the poor may go to.

Nevertheless, government policies could potentially change quickly. Unlike more traditional social assistance programs, microfinance firms earn profits by charging high interest rates to the poor. The presence of such firms may be controversial, especially when people start abusing the loans. For example, allowing people to take out a 3-year loan at an interest rate of 70% to fund a daughter's quinceañera (sweet 15 birthday party) seems like a bad way to help the poor. The recent spate of suicides in India that some have attributed to aggressive microfinance lenders pushing borrowers to repay loans beyond their means demonstrates the political risk. Politicians in India took advantage of the suicides, encouraging borrowers not to repay. Calls for increased regulation followed, and while the government did not ultimately cap lending rates, such a risk always remains.

A second risk is the possibility of increased competition in the industry, not just from new microlenders, but also from large firms currently operating in related segments. So far, commercial banks have not shown much of an interest. Their business model currently is providing full service banking to clients at existing branches rather than hiring salespeople to go out to poor communities and solicit new business. In addition, banks are highly regulated, which may make certain kinds of businesses more difficult. Nevertheless, if Mexican banks suddenly became interested in this segment, they could presumably bring significant assets to bear. For example, in Brazil, Bradesco has paved the way by putting banking agents in post offices in rural communities that did not have branches before.

Considering how high administrative and transaction costs are in the industry, new competition could also come from technological advances that could reduce such costs. For example, mobile banking, which is already popular in Kenya, uses customers' existing cellular phones to store and transfer funds electronically. That innovation holds significant promise for the poor, according to some observers. Since mobile banking requires neither new branches nor new salespeople, transaction costs are significantly reduced. While the phones are currently more of a savings tool for customers than a borrowing mechanism, the phone companies do collect a lot of financial records that could be useful for credit analysis. In Kenya, the dominant mobile telecom company, Safaricom, quickly has became the largest bank in East Africa.

Conclusion

While opportunities for growth exist in Mexico for the mico-finance companies and we believe that the companies should perform well, those growth opportunities also pose some potential risks to debtholders in the long-term. In the near term, however, we do not expect any problems. The dollar bonds have performed well so far, with the 5Y bonds rallying 270bp and 250bp for Findep and Credito Real, respectively, relative to issuance levels from about one year ago. Still their current yields put them at 500bp above the sovereign

Araceli Espinosa (5255) 9179-5237
araceli_espinosa@scotiacapital.com

Joe Kogan (212) 225-6541
joe_kogan@scotiacapital.com

Leonor Lopez (5255) 5229-2202
leonor_lopez@scotiacapital.com

… continued from previous page

(ignoring the 35% call option) and 350bp above local banks. Traditional banks are of course quite a different business for a number of reasons: their industry is more established, they have access to cheap funding in the form of retail deposits, and some of their loans are backed by collateral. Yet, we are not sure what other businesses to compare microfinance to.

Consider an alternate analysis. For small loans, the legal costs of pursuing bad debtors exceed any possible collections on that debt. The only reason microfinance companies ever pursue such cases is simply to establish a credible threat in the eyes of their customers. For this reason, assume that the recovery rate on bonds in the event of default is zero. Current yields on Credito Real imply a 22% probability of default over the next four years until maturity in 2015. That seems a little high relative to a subjective estimate of default probabilities but not significantly so. Nevertheless, that calculation is based on an extremely conservative assumption of zero recovery rates. While collections on appliance loans or group loans could well be interrupted by a bankruptcy, we would think that automatically scheduled collections on existing payroll loans, which make up 76% of the portfolio, would continue. If we use a higher recovery rate assumption, we find that the yield on the bond still provides significant premia above that which would be necessary to compensate for a reasonable amount of default risk.

In comparing Findep and Credito Real fundamentals, we find that Findep's loans are more profitable, but Credito Real's loans have a more stable profile with much lower expected delinquency rates, both now and in the event of another macroeconomic downturn. With Credito Real's bonds trading 30bp wide to Findep, we think Credito Real represents better value at current market prices.

Araceli Espinosa (5255) 9179-5237
araceli_espinosa@scotiacapital.com

Joe Kogan (212) 225-6541
joe_kogan@scotiacapital.com

Leonor Lopez (5255) 5229-2202
leonor_lopez@scotiacapital.com

… continued from previous page

Figure 1. Characteristics and performance of different micro loans

Firm	Product	Total Portfolio	% of Total	Past Due (% Portf.)	Writeoffs (% Portf.)	Average tenor (months)	Interest rate (annual)
Compartamos	Group	8,055	83%	1.0%	0.4%	4	77%
	Home Improv.	1,257	13%	7.0%	1.9%	6-24	
	Individual	448	5%	4.3%	1.6%	4-24	
Findep	Individual Formal	2,893	50%	12.4%	16.4%		60%
	Individual Informa	1,620	28%	11.3%	(avg)	6-9	93%
	Group	1,260	22%	2.3%		4	60%
Credito Real	Payroll	2,789	76%	0.7%	1.8%	34	63%
	Appliance	734	20%	1.4%	(avg)	12	48%
	Group	147	4%	0.0%		3.5	82%

Source: Presentations and annual reports from Compartamos, Findep, Credito Real. Total portfolio is in millions of MXN. Firms have different standards by which to judge when to classify a loan as past due, and subsequently, how long to keep a long as past due before writing it off completely. Write off percentages for Findep and Credito Real are averages across all types of loans.

Figure 2. Comparative income statements for 2010

	Compartamos		Findep		Credito Real	
	MXN mn	%	MXN mn	%	MXN mn	%
Interest Income	6,109	100%	3,596	100%	1,196	100%
Interest Expense	302	5%	505	14%	546	46%
Financial Margin	**5,807**	**95%**	**3,091**	**86%**	**650**	**54%**
Loan Loss Reserves	299	5%	971	27%	68	6%
Financial Margin after reserves	**5,508**	**90%**	**2,120**	**59%**	**582**	**49%**
Administrative Expenses	2,776	45%	2,506	70%	315	26%
Personnel Expenses			1,708	48%		
Net Commissions Paid (Recvd)			-729	-21%	91	8%
Result of Operations	**2,588**	**42%**	**505**	**14%**	**188**	**16%**
Net Income	**1,883**	**31%**	**452**	**13%**	**200**	**17%**

Source: Annual reports. These income statements omit certain additional income and expenses. Since Credito Real outsources some sales/distribution functions, its net commissions paid should probably be added to administrative expenses in order to make comparisons with other firms.

Figure 3. Comparative financials over time

Financial	Product	Compartamos	Findep	Credito Real	Commercial Banking
Loan Portfolio Size	2008	5,733	4,474	3,159	101,148
(millions MXN)	2009	7,645	4,812	3,322	93,962
	2010	9,760	5,773	3,670	114,647
Delinquency Rate	2008	1.7%	12.5%	0.9%	6.6%
	2009	2.4%	12.0%	0.7%	5.3%
	2010	2.0%	9.9%	0.7%	3.7%
Delinquency Rate +	2009	4.8%	27.1%	2.9%	
Write off rate	2010	4.9%	23.4%	2.5%	
Interest Revenue	2008	3,623	2,716	762	
	2009	4,898	3,111	861	
	2010	6,109	3,596	1,196	
Net Profit	2008	1,120	623	148	
	2009	1,490	515	168	
	2010	1,883	452	200	

Source: Annual Reports. Commercial Banking column is data from BMV on personal consumer loans.

Vincent Delisle (514) 287-3628
vincent_delisle@scotiacapital.com

Thoughts on Tightening Cycles & Equities

- **Fed in no rush to raise rates**. Following the most recent FOMC meeting and comments from Chairman Bernanke, Fed policy is expected to continue to diverge from emerging markets, Europe, Australia, and Canada (BoC rate hikes expected late Q2/early Q3). The Fed's Treasury buying program (QE2) is slated to expire in June, but rate hikes are not about to enter the Fed's vocabulary. It will likely take a string of robust monthly payrolls report (sub 8% unemployment rate) before the Fed's dovish tone reverses. We expected the Fed to be more vocal about its planned exit strategy and use last week's meeting as an opportunity to acknowledge recent strength in the U.S. economy, to state the objective of normalizing interest rates, and slow the risk trade fuelled by the falling USD.
- **Suspicious correlations.** U.S. equities reacted positively to the Fed's comments this week alongside surging gold and silver prices. Although this positive correlation between the S&P500, bullion, and silver appears suspect, USD weakness could persist as long as Fed/ECB policy divergence continues. It happened in late '07, it is happening now. And here lies the conundrum. As long as the Fed sticks to its stimulative stance, commodity prices will find support from the lower USD, and inflation pressures will build. In our opinion, the Fed's perma-dovish view is hard to reconcile with the latest released data which no longer supports emergency stimulus conditions.
- **EM pressures building, tightening benchmarks underperforming.** Markets from Brazil (-2% this week versus +2.5% for S&P500) to China (down 5% in last 2 weeks) could feel heightened pressure from the Fed's perma-dovish stance. Tightening is not over in Asia and LatAm, and the upward trend in currencies and raw materials will impact profit margins and earnings growth. The S&P 500 and DAX should maintain their performance edge over EM at least until Fed policy reverses.
- **TSX impact.** Canada and Mexico have been amongst the best performers in the last 12-months (in USD) as proximity to the U.S. recovery and neutral monetary policy gave North American benchmarks an edge over EM powerhouses like Brazil, India, and China. Benchmarks that have been tightening have seen a shift to lower beta and large cap outperformance and this trend could hit the TSX when the BoC resumes tightening.

Fed tightening cycles & S&P500 returns

- Although the Fed is expected to stay on the sidelines this year, we expect rate hikes in 2012. In our opinion, tightening means we are passing the mid-way point of the equity cycle. The prospect of rate hikes does not initially hurt equity returns since the first set of rate hikes are typically implemented in reaction to robust macro data. Fundamentals (profits) remain equity supportive in the months leading to the start of rate hikes, and even through the early stage of tightening. In addition, the lagged effects of rate hikes lead to a period of complacency that occurs when growth remains solid despite a "series of rate hikes".
- Exhibit 1 offers a snapshot of market performance before and after the start of Fed tightening cycles. We looked at the last 10 Fed tightening cycles since 1945 and monitored the impacts on the yield curve, the S&P500, and Dow Utilities/Transport average performances. Sector average returns are from the last three tightening cycles ('94, '99, '04) and are somewhat skewed by the Technology/Media/Telecom bubble of the mid-to-late 1990's. Still, some key themes stand out from looking at what happens before and after the start of Fed tightening.
- Fed tightening cycles average roughly 2 years and yield curve flattening and equity returns are only impacted after rate hikes start. S&P500 average performance goes from double-digit gains in the 1 to 2-years leading to the start of tightening to mid-single digits after the first rate hike. In addition, probability of negative S&P500 returns rises to 50% in the 2nd year after the start of rate hikes. Finally, cyclical and defensive leadership shifts occur once rate hikes start. Dow Transports maintain a visible lead over Utilities until tightening starts.

Vincent Delisle (514) 287-3628
vincent_delisle@scotiacapital.com

… continued from previous page

Exhibit 1

Fed Tightening Cycles & Market Behaviour (since 1945)
Average Performance from 1st Fed Fund Rate Hike*

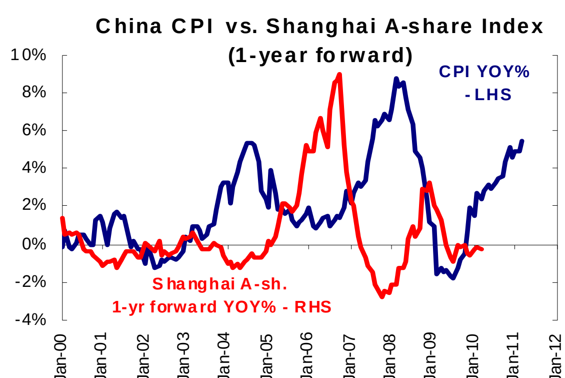
	2-yrs before	1-yr before	6-m after	1-yr after	2-yrs after
Yield Curve (10-1) (bp)	125	123	69	56	45
S&P 500	33%	15%	6%	6%	4%
Percentage of Negative Perf.	0%	0%	30%	20%	50%
TSX (C$)	19%	15%	4%	8%	7%
Percentage of Negative Perf.	10%	20%	50%	30%	20%
Dow Utilities	14%	7%	2%	3%	5%
Dow Transport	29%	17%	0%	2%	1%
Sectors**					
S&P 500 Energy	18%	15%	**5%**	**15%**	**33%**
S&P 500 Materials	13%	16%	**6%**	-7%	**10%**
S&P 500 Industrials	25%	**20%**	**3%**	0%	19%
S&P 500 Discretionary	**41%**	**17%**	**4%**	-4%	3%
S&P 500 Staples	5%	1%	**-1%**	-1%	**17%**
S&P 500 Health Care	12%	4%	**1%**	**12%**	**30%**
S&P 500 Financials	**29%**	8%	**1%**	0%	**25%**
S&P 500 Technology	61%	37%	16%	19%	13%
S&P 500 Telecom	**51%**	**20%**	6%	-3%	0%
S&P 500 Utilities	12%	1%	-1%	10%	**21%**

*1955, 1958, 1964, 1967, 1972, 1976, 1986, 1994, 1999, 2004 tightening cycles used
for Yield Curve, S&P 500, TSX (C$), Dow Utilities, Dow Transport average
**S&P 500 sector averages based on 1994, 1999, and 2004 tightening cycles
Source: Scotia Economics

PBoC tightening. A-Shares & CRB

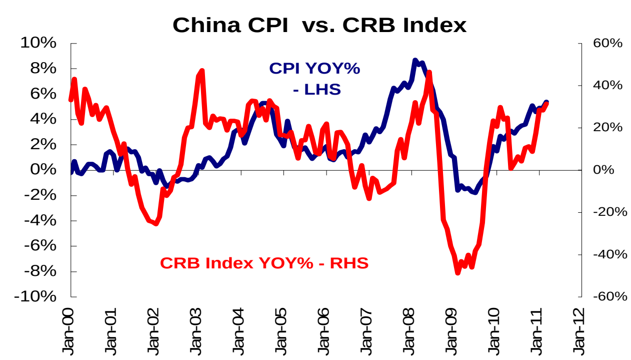
- Asian and LatAm central banks have been tightening since late 2009/early 2010. China's tightening cycle started in October 2009 (18 months ago) and does not appear to be over. While investors await the start of Fed tightening, and the ECB is only getting started, EM tightening appears to be in another phase, i.e. the second half. As highlighted in Exhibit 1, the S&P500's probability of negative returns increases notably in the second year after the start of Fed tightening.
- In China, the 1-Yr forward equity performance is negative when inflation peaks (Exhibit 2). Chinese A-Shares initially declined and lagged when the PBoC started to tighten late in 2009, but sentiment has recovered recently. YOY, China A-Share performance is flat (1% vs. +15% for the MSCI World), but performance has been better in the last 3 months (A-Shares + 6% vs. +6% for the MSCI World). Tightening is likely to continue until the CPI index rolls over, which will likely coincide with slowing economic activity and take the CRB index down as well (Exhibit 3).

Exhibit 2



Source: Scotia Capital, Bloomberg

Exhibit 3



Source: Scotia Capital, Bloomberg

Roger Quick (416) 863-7236
roger_quick@scotiacapital.com

Output Gap and BoC Policy

The BoC recently revised its forecast for the output gap, and now expects it is likely to close 6 months earlier, in mid 2012. This was significant, particularly in light of the surge in the CPI the following week. The BoC is an inflation-targeting central bank, and the concept of the output gap is an important input to their interest rate decisions. What, then, does the recent revision mean for rates? To help answer this question, we thought it worth looking at how the BoC's assessment of the output gap has historically been related to what the BoC actually does.

Chart 1 shows the output gap in the months before and after the start of Bank of Canada tightening cycles. The horizontal axis spans approximately one year before and after the date that the BoC started raising rates. The graph uses the BoC's own estimates of the output gap. Chart 2 shows the same information, but for easing cycles.

Chart 1

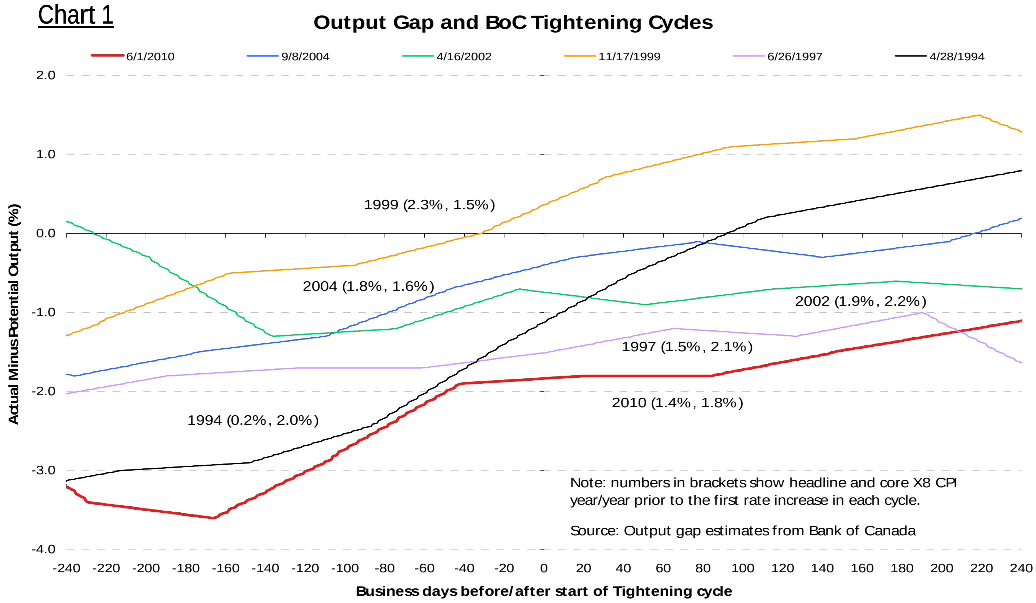
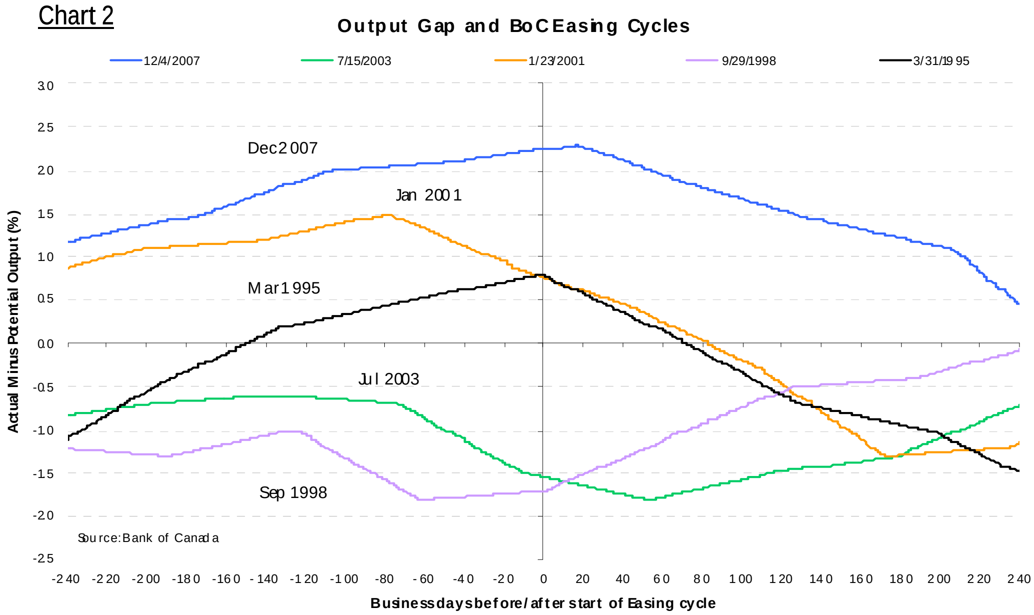


Chart 2



Roger Quick (416) 863-7236
roger_quick@scotiacapital.com

… continued from previous page

We are making a big simplifying assumption in the graph: that the way the estimated output gap evolved in the year after the BoC started raising rates was similar to what the BoC expected when it began to raise rates. This isn't ideal. It would be better to show what the BoC expected the future output gap to be. But it doesn't seem to be an entirely unreasonable simplification. Output gap estimates change relatively slowly, and we are only looking forward one year, a relatively short horizon. There is likely a bit of a bias between the forecast and the actual output gap, though, since the BoC's own actions could influence future growth relative to potential. This has implications for interpreting the results in the context of what the BoC may do today — something we will return to in the conclusion.

The trend in the output gap data is consistent across the different tightening episodes: in all cases, the output gap is becoming less negative, i.e. actual output is increasing faster than potential output. This trend was already evident well before the first rate increase, and it continued well after. Interestingly, the levels of the output gap at the start of the tightening episodes varied widely. In only one episode, 1999, was the output gap already positive at the time of the first rate increase. It therefore seems that, at least for moderate levels of the output gap of –2% or less (in absolute value), it may be the "expected" change in the output gap that is more important in driving policy, than the current level of the output gap.

Chart 2 from the previous page shows the same thing for easing cycles. In three of the cases, 1995, 2001, and 2007, the pattern was a mirror image of the tightening episodes. The output gap was initially positive, then declined or became negative over the subsequent months. These 3 episodes plus the 6 tightening episodes suggest a fairly symmetric interest rate response by the BoC to the (expected) future path of the output gap. If the output gap is expected to change positively, i.e. less negative, interest rates need to change positively, and vice versa.

The patterns of the other two easing episodes, Sep 1998 and July 2003, were quite different. In both periods, the output gap was already negative when the BoC began cutting rates. In 1998 it began to close over the next year, becoming less negative, while in 2003 it closed only marginally. Is this a pattern that we might also expect to be repeated? And does it mean that the analogous tightening case — starting to raise rates only once the output gap is positive — is also a more likely event than the available tightening evidence implies? It is possible. But there are good reasons to think that the 1998 and 2003 episodes were unusual, and hence less likely to be repeated, less likely than their two out of five historical incidence might suggest.

Both involved an abrupt switch from tightening to easing. In 1998, the BoC had raised rates 100 bps in a single day the month before, in a futile attempt to support the currency around the time of the Russia default. In 2003, the BoC had been raising rates as recently as three months before, but then abruptly shifted to easing as it became clear that US growth was slowing (the Fed was in a prolonged easing campaign), and global fears of disease were weighing on Canadian growth (SARS and mad cow). If the abrupt shift to cutting rates indicated that the very recent rate increases had in retrospect been a mistake, then it is perhaps not surprising that the economic conditions under which the BoC started cutting rates in these two episodes looked different from other easing episodes.

What would the output gap evidence suggest for today? Chart 3 and chart 4 on the following page repeat the tightening cycle charts, but include the BoC's forecast of the output gap moving to zero by mid 2012. In the first graph, we have assumed the BoC begins raising rates again in October, consistent with Scotia Economics' longstanding forecast. In the second graph, we show the same thing, except that the BoC is assumed to start raising rates in July, something that the market had recently fully priced in, and was about 70% priced in at the time of writing.

Both scenarios for the start of tightening, July or October, would be consistent with the way the BoC has historically responded to the output gap. Delaying the start of tightening beyond December 2011 would start to look a bit more extreme compared to the historical pattern. However, the fact that the BoC has explicitly said that it does not see actual output growth exceeding potential growth in 2013 does perhaps give it leeway to tighten less aggressively.

Roger Quick (416) 863-7236
roger_quick@scotiacapital.com

… continued from previous page

This is where the possible bias between expected and after-the-fact output gap estimates becomes important. If the BoC expects a negative output gap to close rapidly and then become positive, for example, it's action of raising rates could result in the future output gap moving from negative to positive *less* rapidly than initially expected. In the context of these graphs, this means that the expected output gap lines could be more steeply sloped than the actual output gap lines we have shown, for points to the right of time zero on the horizontal axis. I don’t know if this bias is large, especially over a relatively short one-year horizon, but it may justify the BoC leaving rates on hold longer than the charts might seem to suggest.

Chart 3

Output Gap and BoC Easing Cycles - if BoC Tightens October 2011

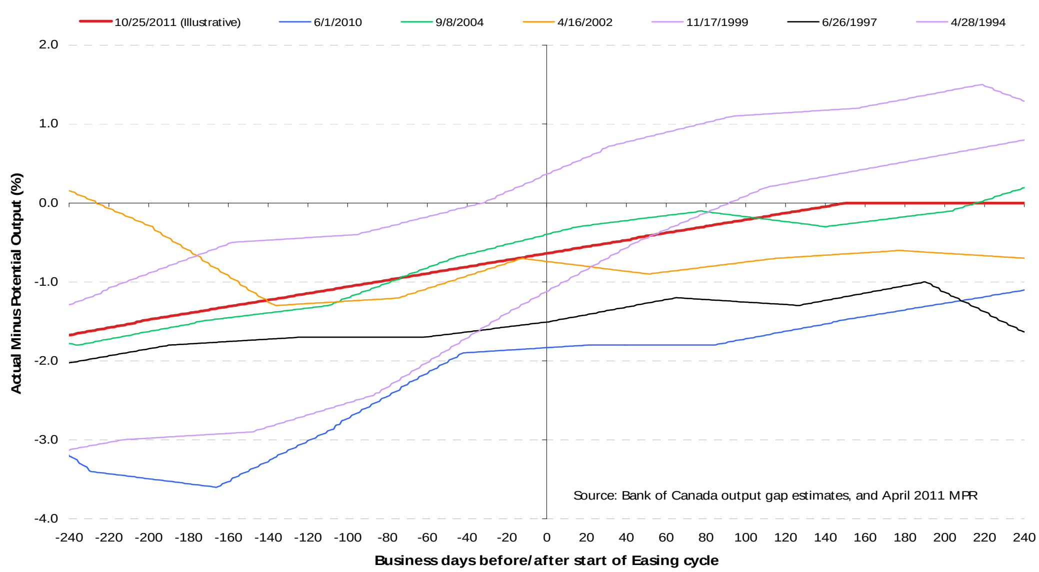
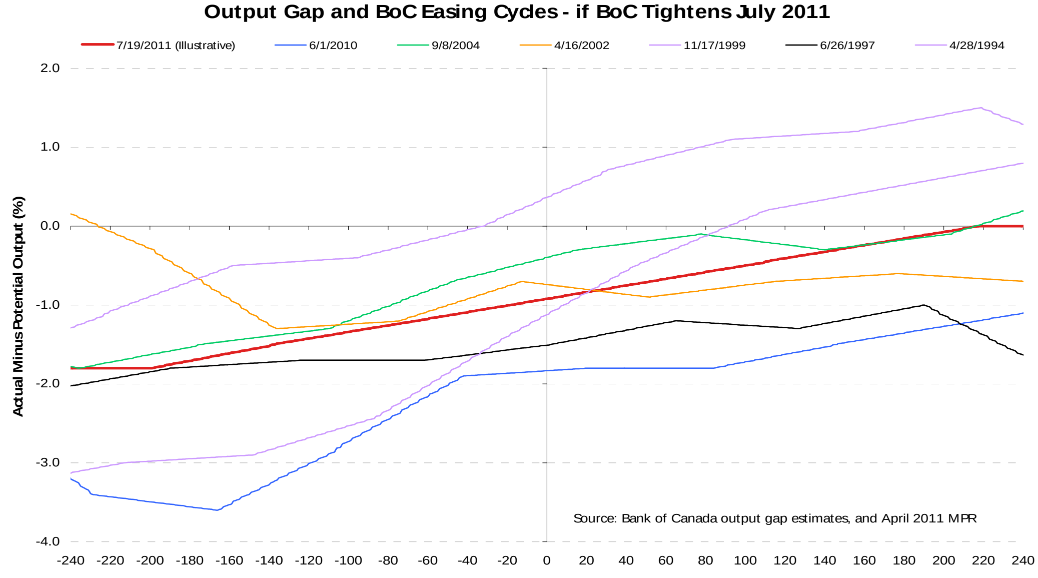


Chart 4

Output Gap and BoC Easing Cycles - if BoC Tightens July 2011



Karen Cordes Woods (416) 862-3080
karen_woods@scotiacapital.com

Derek Holt (416) 863-7707
derek_holt@scotiacapital.com

Key Data Preview

CANADA

Canadian employment (Friday) took an unexpected turn for the worse in March after three months of decent gains. However, the details pointed to a rosier picture as part-time employment accounted for all of the weakness, with full-time employment advancing at the fastest pace since September 2009. As a result, total hours worked posted its first gain in three months, providing a lift to March GDP. And these gains should continue into April with an expected rebound in headline employment both on base effect as well as an added boost from the May 2nd election. Indeed, public administration employment jumped by over 45,000 in October 2008, marking the largest election-induced hiring spree in public administration in recent history (see chart). While we aren't expecting as many additional workers this time around, we should see a further gain in full-time employment in April and thus hours worked. Nonetheless, reduced production schedules in April at Canadian auto plants due to supply-chain disruptions from the recent earthquake in Japan will offset some of this strength, with weakness expected through to at least June as companies have already announced May closures. This suggests that May employment may experience a setback as temporary election gains are reversed, coupled with further employment losses in manufacturing.

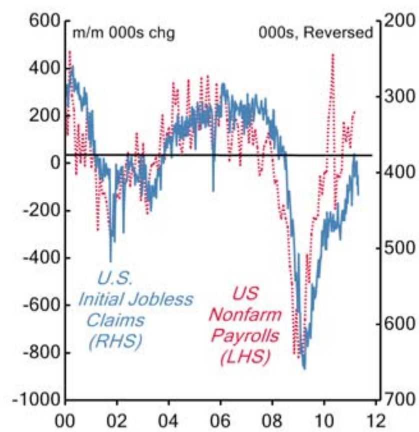
Federal Election "Effect"

Source: Statistics Canada, Scotia Capital Economics.

UNITED STATES

Recent readings on initial jobless claims suggest we could see a sub-200k print for **US payrolls** next Friday, as businesses pull back on hiring amidst higher input costs and weaker economic growth. Perhaps some of the weakness can be explained away by the fact that manufacturing production has been substantially reduced this month due to the Japanese earthquake but one could also argue that businesses are starting to feel the effects of higher energy prices. Indeed, wage growth has been quite modest, with average hourly earnings actually falling on a month-over-month basis in March, suggesting that companies are trying to keep labour costs down amid higher input costs. With economic growth crawling along at 1.8% q/q annualized as we saw in the Q1 GDP report, expectations for future growth in employment are quite modest suggesting we could see relatively weak monthly gains over the next few months.

U.S. Employment



Source: Department of Labor, Scotia Capital Econoimcs.

After falling to an almost 30-year low during the financial crisis in December 2008, US manufacturing has advanced at a rapid clip over the past three and a half years, amid increased demand and inventory restocking. Indeed, over the past eight months the **ISM manufacturing index** (Monday) has risen in all but one month, bringing the index back up to 2004 levels. However, supply chain disruptions on the back of Japan's mid-March earthquake/tsunami will likely cause a temporary kink in the trend with auto production schedules in North America reduced substantially in April. In fact, four of the five major regional manufacturing Fed surveys have already reported a contraction in April, with only the Empire State manufacturing index experiencing a gain on the month. This in itself suggests we will see a decline in the ISM index on Monday. Nonetheless, while the pace of growth may slow, the index should still remain above 50, signaling that manufacturing activity is still expanding. And indeed Tuesday's **factory orders** report will likely show a further gain in new orders if this week's better-than-expected durable goods orders report is any indication. The services sector will likely witness a rebound in April, according to the **ISM non-manufacturing index** (Wednesday), after an unexpected decline in March although the pace of growth will likely remain quite modest as soaring energy prices continue to cut into profits.

Daniela Blancas (416) 862-3908 daniela_blancas@scotiacapital
Tuuli McCully (416) 863-2859 tuuli_mccully@scotiacapital.com
Oscar Sánchez (416) 862-3174 oscar_sanchez@scotiacapital.com

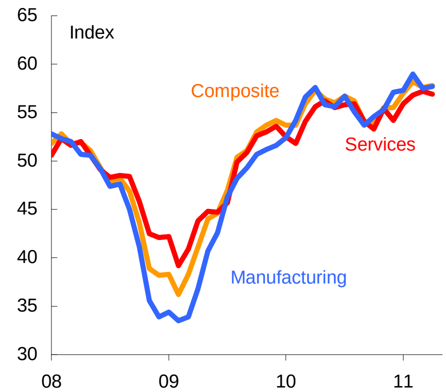
… continued from previous page

EUROPE

The total **euro zone retail sales** growth in volume terms (to be released on Wednesday) has been subdued in recent months as consumers remain cautious; we expect this trend to continue in the coming months. Retail sales likely recorded a modest increase of 0.1% m/m in March, offsetting the previous month's decline. However, performance divergence between euro zone core and periphery economies will likely continue to be reflected in the retail sales figures.

The underlying momentum of the euro zone economy remains positive despite financial market volatility linked to ongoing sovereign debt sustainability concerns. The preliminary estimate for the composite **purchasing managers' index (PMI)** indicated accelerating economic activity in the euro zone in April, supported by slightly stronger performance in the manufacturing sector, while the services sector dipped somewhat. We don't expect any significant revisions to the data next week.

Euro Zone PMI

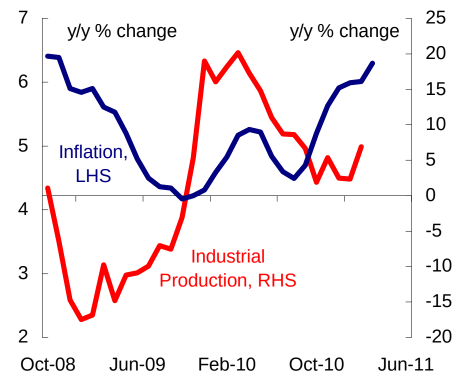


Source: Bloomberg.

LATIN AMERICA

Brazil will release **industrial production** data for March on May 4th, followed by information regarding **inflation** developments in April on May 5th. Industrial production grew by 6.9% y/y in February — a significantly faster pace than in the previous five months — with food products and the automotive sector being the major contributors to this performance. We expect industrial production to remain strong; however, the pace will likely moderate. Inflationary pressures have been increasing notably in recent months. In March, consumer prices recorded an advance of almost 6.30% y/y, approaching the upper end of the central bank's tolerance range of 2.5%-6.5%. Regardless, the central bank hiked the benchmark interest rate by only 25 basis points to 12.0% at their most recent monetary policy meeting on April 20th. We expect inflationary pressures to remain elevated in the short-term.

Brazilian Industrial Production and Inflation

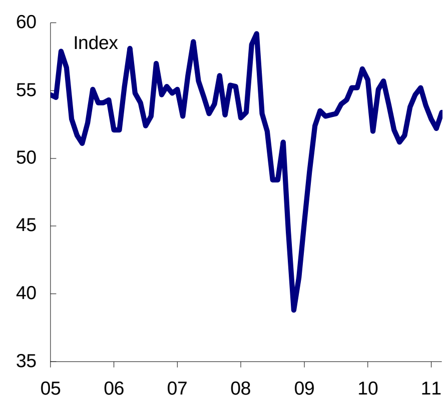


Source: Bloomberg.

ASIA

The Chinese economy's performance remains solid as domestic and foreign spending indicators maintained upward momentum through April. Additional improvement in the manufacturing purchasing managers' (PMI) survey is expected for the month as both orders and current activity are bound to display gains. The April **manufacturing PMI** is expected to reach 54.2 from 53.4 the month before. The Chinese economy is undergoing an acceleration in activity on the back of abundant credit, still sound export dynamics and supporting public infrastructure projects. Monetary tightening measures have not been able to quell the expansion in lending, which is translating to both strong growth and accelerating inflation.

PMI Manufacturing China



Source: Bloomberg

Key Indicators for the week of May 2 - 6

North America

Country	Date	Time	Event	Period	BNS	Consensus	Latest
CA	05/02	08:30	Industrial Product Price (MoM)	MAR	0.7	--	0.7
CA	05/02	08:30	Raw Materials Price Index (MoM)	MAR	2.5	--	1.8
MX	05/02	10:00	Central Bank Economists Survey				
US	05/02	10:00	Construction Spending (MoM)	MAR	--	0.3	-1.4
MX	05/02	10:00	Remittances (US$ millions)	MAR	--	--	1647.6
US	05/02	10:00	ISM Manufacturing	APR	58.7	59.6	61.2
US	05/03	10:00	Factory Orders (MoM)	MAR	1.8	1.7	-0.1
MX	05/03	13:00	IMEF Manufacturing Index	APR	--	--	54.1
MX	05/03	13:00	IMEF Non Manufacturing Index	APR	--	--	53.1
US	05/03	17:00	Total Vehicle Sales (millions)	APR	12.8	13.0	13.1
US	05/04	07:00	MBA Mortgage Applications (WoW)	29-Apr	--	--	-5.6
US	05/04	07:30	Challenger Job Cuts (YoY)	APR	--	--	-38.6
US	05/04	08:15	ADP Employment Change (000s)	APR	180	200	201
MX	05/04	09:00	Consumer Confidence	APR	--	--	91.7
US	05/04	10:00	ISM Non-Manf. Composite	APR	58.5	58.0	57.3
CA	05/05	08:30	Building Permits (MoM)	MAR	-4.0	--	9.9
US	05/05	08:30	Nonfarm Productivity (QoQ)	1Q P	0.0	1.0	2.6
US	05/05	08:30	Unit Labor Costs (QoQ)	1Q P		0.8	-0.6
US	05/05	08:30	Initial Jobless Claims (000s)	30-Apr	430	--	429
US	05/05	08:30	Continuing Claims (000s)	23-Apr	3600	--	3641
CA	05/05	10:00	Ivey Purchasing Managers Index SA	APR	--	--	73.2
US	05/05		ICSC Chain Store Sales (YoY)	APR	--	--	2.0
CA	05/06	07:00	Net Change in Employment (000s)	APR	25	15	-1.5
CA	05/06	07:00	Unemployment Rate (%)	APR	7.7	7.7	7.7
US	05/06	08:30	Change in Nonfarm Payrolls (000s)	APR	170	180	216
US	05/06	08:30	Avg Hourly Earning (MoM) All Emp	APR	0.1	0.2	0.0
US	05/06	08:30	Avg Hourly Earning (YoY) All Emp	APR	1.8	1.7	1.7
US	05/06	08:30	Avg Weekly Hours All Employees	APR	34.3	34.3	34.3
US	05/06	08:30	Unemployment Rate (%)	APR	8.8	8.8	8.8
US	05/06	08:30	Change in Household Survey Employment (000s)	APR	--	--	291
US	05/06	15:00	Consumer Credit (billions)	MAR	--	5.0	7.6

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

Key Indicators for the week of May 2 - 6

Europe

Country	Date	Time	Event	Period	BNS	Consensus	Latest
FR	05/02	03:15	PMI Manufacturing	APR F	56.9	56.9	56.9
IT	05/02	03:45	PMI Manufacturing	APR	--	56.0	56.2
GE	05/02	03:55	PMI Manufacturing	APR F	61.7	61.7	61.7
EC	05/02	04:00	PMI Manufacturing	APR F	57.7	57.7	57.7
IT	05/02	13:00	Budget Balance (€ billions)	APR		--	-21.0
UK	05/03	04:30	PMI Manufacturing	APR	--	57.0	57.1
EC	05/03	05:00	Euro-Zone PPI (MoM)	MAR	--	0.7	0.8
UK	05/03		Halifax House Prices sa (MoM)	APR	--	0.1	0.1
UK	05/04	02:00	Nat'wide House prices sa (MoM)	APR	--	0.1	0.5
FR	05/04	02:45	Trade Balance (€ millions)	MAR	--	--	-6553
FR	05/04	03:15	PMI Services	APR F	63.4	63.4	63.4
IT	05/04	03:45	PMI Services	APR	--	53.0	53.3
GE	05/04	03:55	PMI Services	APR F	57.7	57.7	57.7
EC	05/04	04:00	PMI Composite	APR F	57.8	57.8	57.8
EC	05/04	04:00	PMI Services	APR F	56.9	56.9	56.9
UK	05/04	04:30	PMI Construction	APR	--	55.9	56.4
UK	05/04	04:30	Mortgage Approvals (000s)	MAR	--	48.0	47.0
EC	05/04	05:00	Euro-Zone Retail Sales (MoM)	MAR	0.1	0.1	-0.1
UK	05/05	04:30	PMI Services	APR	--	56.0	57.1
GE	05/05	06:00	Factory Orders(MoM)(sa)	MAR	--	0.4	2.4
CZ	05/05	07:00	Repo Rate Announcement (%)	5-May	0.75	0.75	0.75
UK	05/05	07:00	BOE Asset Purchase Target (£ billions)	MAY	200	200	200
UK	05/05	07:00	BOE ANNOUNCES RATES (%)	5-May	0.50	0.50	0.50
EC	05/05	07:45	ECB Announces Interest Rates (%)	5-May	1.25	1.25	1.25
FR	05/06	02:45	Central Govt. Balance (€ billions)	MAR	--	--	-28.0
UK	05/06	04:30	PPI Input NSA (MoM)	APR	--	1.6	3.7
UK	05/06	04:30	PPI Output n.s.a. (MoM)	APR	--	0.7	0.9
GE	05/06	06:00	Industrial Production (MoM)(sa)	MAR	--	0.5	1.6

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

Key Indicators for the week of May 2 - 6

Asia Pacific

Country	Date	Time	Event	Period	BNS	Consensus	Latest
CH	04/30	21:00	PMI Manufacturing	APR	54.2	53.9	53.4
SK	04/30	21:00	Ext Trade - Export (YoY)	APR	--	23.7	28.9
SK	04/30	21:00	Ext Trade - Imports (YoY)	APR	--	25.1	21.3
SK	04/30	21:00	Ext Trade - Balance in US$ Mln	APR	--	3300	2781
SK	05/01	19:00	Consumer Price Index (MoM)	APR	--	0.4	0.5
AU	05/01	21:30	House Price Index (QoQ)	1Q	--	-0.5	0.7
ID	05/02		Total Trade Balance (US$ millions)	MAR	--	2521.0	2400.6
ID	05/02		Exports (YoY)	MAR	--	25.4	28.9
ID	05/02		Total Imports (YoY)	MAR	--	23.9	26.3
JN	05/02	01:00	Vehicle Sales (YoY)	APR	--	--	-37.0
IN	05/02	01:30	Exports (YoY)	MAR	--	--	49.7
IN	05/02	01:30	Imports (YoY)	MAR	--	--	21.2
CH	05/02	21:00	China Non-manufacturing PMI	APR	--	--	60.2
CH	05/02	22:30	HSBC Manufacturing PMI	APR	--	--	51.8
AU	05/03	00:30	**RBA CASH TARGET (%)**	3-May	4.75	4.75	4.75
IN	05/03	01:30	Cash Reserve Ratio (%)	3-May	6.00	6.00	6.00
IN	05/03	01:30	Reverse Repo Rate (%)	3-May	6.00	6.00	5.75
IN	05/03	01:30	**India REPO Cutoff Yield (%)**	3-May	7.25	7.00	6.75
AU	05/03	21:00	HIA New Home Sales (MoM)	MAR	--	--	0.6
NZ	05/04	18:45	Employment Change (QoQ)	1Q	--	0.6	-0.5
NZ	05/04	18:45	Unemployment Rate (%)	1Q	--	6.7	6.8
PH	05/04	21:00	Consumer Price Index NSA (MoM)	APR	--	0.6	0.3
AU	05/04	21:30	Building Approvals (MoM)	MAR	--	5.0	-7.4
AU	05/04	21:30	Retail Sales s.a. (MoM)	MAR	--	0.5	0.5
AU	05/04	21:30	Retail Sales Ex Inflation(QoQ)	1Q	--	0.6	-0.3
CH	05/04	22:30	China HSBC Services PMI	APR	--	--	51.7
PH	05/05	04:00	**Overnight Borrowing Rate (%)**	5-May	4.50	4.50	4.25
MA	05/05	06:00	**Overnight Rate (%)**	5-May	3.00	2.75	2.75
MA	05/06	06:01	Exports (YoY)	MAR	--	3.5	10.7
MA	05/06	06:01	Imports (YoY)	MAR	--	7.8	11.5
MA	05/06	06:01	Trade Balance (MYR billions)	MAR	--	12.5	12.6

Latin America

Country	Date	Time	Event	Period	BNS	Consensus	Latest
BZ	05/02	07:30	Central Bank Weekly Economists Survey				
BZ	05/02	09:00	PMI Manufacturing	APR	--	--	53.2
BZ	05/02	10:00	Trade Balance (FOB) - Monthly (US$ millions)	APR	--	1850	1552
BZ	05/02	10:00	Exports (US$ millions)	APR	--	--	19286
BZ	05/02	10:00	Imports (US$ million)	APR	--	--	17734
PE	05/02		Consumer Price Index (MoM)	APR	--	0.5	0.7
PE	05/02		Consumer Price Index (YoY)	APR	--	3.1	2.7
BZ	05/04	08:00	Industrial Production sa (MoM)	MAR	--	0.2	1.9
BZ	05/04	08:00	Industrial Production (YoY)	MAR	--	2.3	6.9
CO	05/04	17:00	Producer Price Index (MoM)	APR	--	--	0.9
CO	05/04	17:00	Producer Price Index (YoY)	APR	--	11.8	4.9
CL	05/05	07:30	Economic Activity (YoY)	MAR	--	14.2	7.2
BZ	05/05	09:30	Vehicle Production (Anfavea)	APR	--	--	319363
BZ	05/05	09:30	Vehicle Exports (Anfavea)	APR	--	--	67764
CO	05/05	17:00	Consumer Price Index (MoM)	APR	--	0.4	0.3
CO	05/05	17:00	Consumer Price Index (YoY)	APR	--	3.1	3.2
CL	05/06	07:00	CPI (MoM)	APR	--	0.4	0.8
CL	05/06	07:00	CPI (YoY)	APR	--	3.3	3.4
BZ	05/06	08:00	IBGE Inflation IPCA (MoM)	APR	--	0.7	0.8
BZ	05/06	08:00	IBGE Inflation IPCA (YoY)	APR	--	6.5	6.3

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

Global Auctions for the week of May 2 - 6

North America

Country	Date	Time	Event
US	05/02	11:00	U.S. Fed to Purchase USD6-8 Bln Notes/Bonds
US	05/02	11:30	U.S. to Sell 6-Month Bills
US	05/02	11:30	U.S. to Sell 3-Month Bills
US	05/03	11:00	U.S. Fed to Purchase USD6-8 Bln Notes/Bonds
US	05/03	11:30	U.S. to Sell 52-Week Bills
US	05/03	11:30	U.S. to Sell 4-Week Bills
US	05/04	11:00	U.S. Fed to Purchase USD1-2 Bln TIPS
CA	05/04	12:00	Canada to Sell 10-Year Notes
US	05/05	11:00	U.S. Fed to Purchase USD1.5-2.5 Bln Notes/Bonds
US	05/06	11:00	U.S. Fed to Purchase USD5-7 Bln Notes/Bonds

Europe

Country	Date	Time	Event
FR	05/02	09:00	France to Sell Bills
DE	05/03	04:15	Denmark to Sell Bonds
SZ	05/03	05:30	Switzerland to Sell 3-Month Bills
SW	05/04	05:10	Sweden to Sell Bonds
PO	05/04	05:30	Portugal to Sell Bills
UK	05/04	05:30	U.K. to Sell GBP3.25 Bln 5% 2025 Bonds
SP	05/05	04:30	Spain to Sell 3.25% 2016 Bonds
FR	05/05	05:00	France to Sell Bonds
UK	05/06	06:10	U.K. to Sell Bills
IC	05/06	06:45	Iceland to sell Bonds

Asia Pacific

Country	Date	Time	Event
PH	05/02	01:30	Philippines Plans to Sell PHP1.5 Bln 91-Day Bills Due 2011
PH	05/02	01:30	Philippines Plans to Sell PHP3.5 Bln 182-Day Bills Due 2011
TH	05/02	23:00	Thailand to Sell THB5 Bln Bonds due 2041
HK	05/02	23:30	Hong Kong to Sell HKD26.849 Bln 91-D Bills
HK	05/02	23:30	Hong Kong to Sell HKD9 Bln 182-D Bills
SI	05/03		Singapore to sell 91-Day T-Bills
ID	05/03	04:30	Indonesia to Sell 15-Yr to Maturity Government Bond
ID	05/03	04:30	Indonesia to Sell 20-Yr to Maturity Government Bond
ID	05/03	04:30	Indonesia to Sell 1-Yr to Maturity Treasury Bills
CH	05/03	23:00	China to Sell 1 Year Bond
HK	05/03	23:30	Hong Kong to Sell HKD2.5 Bln 5-Year Bonds
IN	05/04	07:30	India to Sell INR 50Bln 91-Day Bills
IN	05/04	07:30	India to Sell INR 20Bln 364-Day Bills
NZ	05/04	21:30	New Zealand Plans to Sell Government Bonds

Source: Bloomberg, Scotia Economics.

Events for the week of May 2 - 6

North America

Country	Date	Time	Event
CA	05/02		Canadian General Election
US	05/03	08:30	Fed's Hoenig Speaks to Community Bankers in Washington
US	05/04	08:00	Fed's Rosengren to Speak at Real Estate Conference in Boston
US	05/04	15:30	Fed's Williams Makes First Policy Speech
US	05/04	19:00	Fed's Lockhart Speaks on U.S. Economic Outlook in Atlanta
US	05/05	09:15	Fed's Evans Gives Welcome Remarks in Chicago
US	05/05	09:30	Bernanke Speaks at Chicago Fed Banking Conference
US	05/05	13:15	Fed's Kocherlakota Speaks on Monetary Policy in California
US	05/06	10:00	Fed's Dudley to Speak at Regional Economic Briefing in NYC

Europe

Country	Date	Time	Event
EC	05/02	03:45	ECB's Constancio, EU's Rehn, Barnier Speak at Conference
EC	05/02	05:00	ECB's Trichet, Germany's Schaeuble Speak at Bundesbank
CZ	05/05	07:00	Repo Rate Announcement
UK	05/05	07:00	BOE Asset Purchase Target
UK	05/05	07:00	BOE ANNOUNCES RATES
EC	05/05	07:45	ECB Announces Interest Rates
EC	05/05	08:30	Trichet Speaks at ECB Monthly News Conference

Asia Pacific

Country	Date	Time	Event
AU	05/03	00:30	RBA CASH TARGET
IN	05/03	01:30	India REPO Cutoff Yield (%)
SI	05/04	12:00	RBNZ Governor Alan Bollard to Speak in Singapore
NZ	05/04		RBNZ's Bollard Speaks at Singapore Conference
PH	05/05	4:00	Overnight Borrowing Rate
MA	05/05	6:00	Overnight Rate

Source: Bloomberg, Scotia Economics.

Global Central Bank Watch

North America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Canada – Overnight Target Rate	1.00	May 31, 2011	1.00	--
Federal Reserve – Federal Funds Target Rate	0.25	June 22, 2011	0.25	--
Banco de México – Overnight Rate	4.50	May 27, 2011	4.50	--

February's Canadian GDP report was weaker than expected, posting the first contraction since September 2010 with weakness relatively broad-based. Should the March report only rebound partially - and we are expecting further downward pressure from temporary manufacturing weakness due to Japan's earthquake - Q1 GDP may come in lower than the BoC's current assumptions. This will likely keep the BoC on the sidelines until at least October, especially given uncertainties surrounding the Canadian federal election on May 2. In the U.S., the Federal Reserve maintained the fed funds rate at 0.25% this week and made few changes to the text, keeping the Fed's dovish bias in tact. Nonetheless, the Fed reinforced its commitment to complete the full $600 billion bond-buying program by the end of June, making way for the Fed to start planning its exit plan.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	1.25	May 5, 2011	1.25	1.25
Bank of England – Bank Rate	0.50	May 5, 2011	0.50	0.50
Swiss National Bank – Libor Target Rate	0.25	June 16, 2011	0.25	--
Central Bank of Russia – Refinancing Rate	8.25	May 27, 2011	8.25	--
Hungarian National Bank – Base Rate	6.00	May 16, 2011	6.00	--
Central Bank of the Republic of Turkey – 1 Week Repo Rate	6.25	May 25, 2011	6.25	--

We expect that the ECB will take a break from monetary tightening in May following a 25 basis point increase in the key refinancing rate in April, the first hike since mid-2008. The BoE will likely begin a gradual process of monetary tightening in the third quarter of 2011.

Asia Pacific

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Japan – Target Rate	0.10	May 20, 2011	0.10	--
Reserve Bank of Australia – Cash Target Rate	4.75	May 3, 2011	4.75	4.75
Reserve Bank of New Zealand – Cash Rate	2.50	June 8, 2011	2.50	--
People's Bank of China – Lending Rate	6.31	TBA	--	--
Reserve Bank of India – Repo Rate	6.75	May 3, 2011	7.25	7.00
Hong Kong Monetary Authority – Base Rate	0.50	TBA	0.50	--
Central Bank of China Taiwan – Discount Rate	1.75	June 24, 2011	1.75	--
Bank Negara Malaysia – Overnight Policy Rate	2.75	May 5, 2011	3.00	2.75
Bank of Korea – Bank Rate	3.00	May 12, 2011	3.00	--
Bank of Thailand – Repo Rate	2.75	June 1, 2011	2.75	--
Bank Indonesia – Reference Interest Rate	6.75	May 12, 2011	6.75	6.75

The Reserve Bank of India (RBI) will move aggressively to quell a recent rise in manufacturing price inflation as it evidences transmission from headline food and fuel costs to the rest of the economy. The RBI will likely increase the benchmark Repo Rate by 50 basis points (bps) to 7.25% from the current 6.75%. We also anticipate Bank Negara Malaysia (BNM) to step off the sidelines and raise the overnight rate by 25 bps.

Latin America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	12.00	June 8, 2011	12.25	--
Banco Central de Chile – Overnight Rate	4.50	May 12, 2011	4.75	4.75
Banco de la República de Colombia – Lending Rate	3.75	May 27, 2011	3.75	--
Banco Central de Reserva del Perú – Reference Rate	4.00	May 12, 2011	4.25	--

The central bank of Colombia raised the reference rate by 25 basis points to 3.75% on April 29th, highlighting, once again that it "is prudent to retrieve monetary stimulus" as international economic growth remains on track, commodity prices are increasing and Colombia's positive economic trend continues.

Africa

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
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
Output and Inflation (annual % change)		Real GDP				Consumer Prices[2]		
World[1]	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	3.9	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

Central Bank Rates (%, end of period)	11Q1	11Q2f	11Q3f	11Q4f	12Q1f	12Q2f	12Q3f	12Q4f
Bank of Canada	1.00	1.00	1.00	1.50	2.00	2.25	2.25	2.25
Federal Reserve	0.25	0.25	0.25	0.25	0.75	1.25	1.75	2.00
European Central Bank	1.00	1.25	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	4.75	5.00	5.25	5.50	5.75	6.00	6.25	6.50
Exchange Rates (end of period)								
Canadian Dollar (USDCAD)	0.97	0.95	0.94	0.93	0.94	0.94	0.93	0.92
Canadian Dollar (CADUSD)	1.03	1.05	1.06	1.08	1.06	1.06	1.08	1.09
Euro (EURUSD)	1.42	1.47	1.49	1.50	1.48	1.48	1.50	1.50
Sterling (GBPUSD)	1.60	1.64	1.64	1.65	1.65	1.67	1.69	1.70
Yen (USDJPY)	83	79	82	84	86	87	89	90
Australian Dollar (AUDUSD)	1.03	1.07	1.08	1.09	1.09	1.10	1.10	1.11
Chinese Yuan (USDCNY)	6.5	6.4	6.2	6.1	6.0	5.9	5.8	5.8
Mexican Peso (USDMXN)	11.9	11.6	11.8	12.0	12.1	12.0	12.1	12.3
Brazilian Real (USDBRL)	1.63	1.59	1.59	1.60	1.62	1.65	1.67	1.70

Commodities (US$, annual average)	2000-09	2010	2011f	2012f
WTI Oil (/bbl)	51	79	105	110
Brent Oil (/bbl)	50	80	118	122
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	1,450	1,350
Pulp (/tonne)	668	960	1,018	1,050
Newsprint (/tonne)	572	607	660	705
Lumber (/mfbm)	275	254	270	300

[1] World GDP for 2000-09 are IMF estimates; 2010-12f are Scotia Economics' estimates based on a 2009 PPP-weighted sample of 34 countries.
[2] CPI for Canada and the United States are annual averages. For other countries, CPI are year-end rates.

Canada	2010	10Q3	10Q4	Latest	
Real GDP (annual rates)	3.1	1.8	3.3		
Current Acc. Bal. (C$B, ar)	-50.0	-67.9	-44.2		
Merch. Trade Bal. (C$B, ar)	-9.0	-26.2	0.9	0.4	(Feb)
Industrial Production	4.8	7.9	6.1	5.0	(Feb)
Housing Starts (000s)	192	192	179	185	(Mar)
Employment	1.4	1.8	1.7	1.9	(Mar)
Unemployment Rate (%)	8.0	8.0	7.7	7.7	(Mar)
Retail Sales	5.5	4.0	5.3	3.7	(Feb)
Auto Sales (000s)	1560	1609	1553	1573	(Feb)
CPI	1.8	1.8	2.3	3.3	(Mar)
IPPI	1.0	1.0	2.6	-3.4	(Feb)
Pre-tax Corp. Profits	18.4	15.3	16.2		
Mexico					
Real GDP	5.5	5.3	4.6		
Current Acc. Bal. (US$B, ar)	-5.7	-7.7	-14.5		
Merch. Trade Bal. (US$B, ar)	-3.1	-9.2	-4.6	17.3	(Mar)
Industrial Production	6.1	6.2	4.7	5.2	(Feb)
CPI	4.2	3.7	4.2	3.0	(Mar)
Chile					
Real GDP	5.2	6.9	5.8		
Current Acc. Bal. (US$B, ar)	3.6	-0.2	4.9		
Merch. Trade Bal. (US$B, ar)	11.6	14.7	17.7	14.6	(Mar)
Industrial Production	0.6	4.4	2.7	1.5	(Feb)
CPI	1.4	2.2	2.5	3.4	(Mar)
Germany					
Real GDP	3.5	3.9	4.0		
Current Acc. Bal. (US$B, ar)	187.9	165.6	250.7	145.8	(Feb)
Merch. Trade Bal. (US$B, ar)	201.5	207.5	219.7	184.9	(Feb)
Industrial Production	10.0	10.2	11.5	14.7	(Feb)
Unemployment Rate (%)	7.7	7.6	7.5	7.1	(Apr)
CPI	1.1	1.2	1.5	2.4	(Apr)
Euro Zone					
Real GDP	1.7	1.9	2.0		
Current Acc. Bal. (US$B, ar)	-77	-43	-41	-156	(Feb)
Merch. Trade Bal. (US$B, ar)	0.0	43.0	53.2	-16.2	(Feb)
Industrial Production	7.5	7.3	8.1	7.6	(Feb)
Unemployment Rate (%)	10.0	10.0	10.0	9.8	(Mar)
CPI	1.6	1.7	2.0	2.7	(Mar)
Japan					
Real GDP	4.0	4.7	2.5		
Current Acc. Bal. (US$B, ar)	195.9	227.7	177.0	238.6	(Feb)
Merch. Trade Bal. (US$B, ar)	74.4	72.8	61.3	14.1	(Mar)
Industrial Production	16.6	13.3	6.8	-12.9	(Mar)
Unemployment Rate (%)	5.1	5.0	5.0	4.6	(Mar)
CPI	-0.7	-0.8	0.1	0.0	(Mar)
China					
Real GDP	10.3	9.6	9.8		
Current Acc. Bal. (US$B, ar)	30.5				
Merch. Trade Bal. (US$B, ar)	182.1	259.9	248.5	1.7	(Mar)
Industrial Production	13.5	13.3	13.5	14.8	(Mar)
CPI	4.6	3.6	4.6	5.4	(Mar)

United States	2010	10Q3	10Q4	Latest	
Real GDP (annual rates)	2.9	2.6	3.1	1.7	(Q1-A)
Current Acc. Bal. (US$B, ar)	-470	-502	-453		
Merch. Trade Bal. (US$B, ar)	-647	-683	-625	-712	(Feb)
Industrial Production	5.3	6.7	6.2	5.9	(Mar)
Housing Starts (millions)	0.59	0.59	0.53	0.55	(Mar)
Employment	-0.8	-0.1	0.5	1.0	(Mar)
Unemployment Rate (%)	9.6	9.6	9.6	8.8	(Mar)
Retail Sales	6.8	5.8	8.1	7.3	(Mar)
Auto Sales (millions)	11.5	11.6	12.3	13.1	(Mar)
CPI	1.6	1.2	1.3	2.7	(Mar)
PPI	4.2	3.8	3.9	5.8	(Mar)
Pre-tax Corp. Profits	36.8	34.8	16.1		
Brazil					
Real GDP	6.7	5.9	4.2		
Current Acc. Bal. (US$B, ar)	-47.4	-46.1	-48.0		
Merch. Trade Bal. (US$B, ar)	20.3	19.6	30.1	18.6	(Mar)
Industrial Production	10.5	8.1	3.6	3.1	(Feb)
CPI	5.1	5.0	6.1	6.5	(Mar)
Italy					
Real GDP	1.2	1.4	1.5		
Current Acc. Bal. (US$B, ar)	-0.07	-0.05	-0.08	-0.10	(Feb)
Merch. Trade Bal. (US$B, ar)	-36.6	-22.9	-44.3	-59.5	(Feb)
Industrial Production	6.5	7.5	5.1	2.4	(Feb)
CPI	1.6	1.6	1.8	2.5	(Mar)
France					
Real GDP	1.7	2.0	1.7		
Current Acc. Bal. (US$B, ar)	-54.3	-41.8	-94.8	-65.3	(Feb)
Merch. Trade Bal. (US$B, ar)	-38.7	-42.0	-39.1	-57.6	(Feb)
Industrial Production	5.7	5.0	5.7	5.6	(Feb)
Unemployment Rate (%)	9.8	9.8	9.6	9.5	(Mar)
CPI	1.5	1.5	1.6	2.0	(Mar)
United Kingdom					
Real GDP	1.3	2.5	1.5		
Current Acc. Bal. (US$B, ar)	-56.1	-55.7	-62.2		
Merch. Trade Bal. (US$B, ar)	-151.3	-159.2	-169.3	-131.1	(Feb)
Industrial Production	2.0	3.0	3.3	2.4	(Feb)
Unemployment Rate (%)	7.9	7.8	7.9	7.8	(Jan)
CPI	3.3	3.1	3.4	4.1	(Mar)
Australia					
Real GDP	2.7	2.7	2.7		
Current Acc. Bal. (US$B, ar)	-31.8	-29.3	-34.5		
Merch. Trade Bal. (US$B, ar)	19.2	27.8	25.7	5.3	(Feb)
Industrial Production	4.3	4.2	-0.3		
Unemployment Rate (%)	5.2	5.2	5.2	4.9	(Mar)
CPI	2.8	2.8	2.7		
South Korea					
Real GDP	6.2	4.4	4.7		
Current Acc. Bal. (US$B, ar)	28.2	39.7	36.6	17.2	(Mar)
Merch. Trade Bal. (US$B, ar)	41.2	42.5	52.1	33.4	(Mar)
Industrial Production	16.6	12.9	9.9	8.9	(Mar)
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)

Canada	10Q4	11Q1	Apr/22	Apr/29*	United States	10Q4	11Q1	Apr/22	Apr/29*
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	0.95	0.98	3-mo. T-bill	0.12	0.09	0.05	0.04
10-yr Gov't Bond	3.12	3.35	3.29	3.20	10-yr Gov't Bond	3.29	3.47	3.39	3.28
30-yr Gov't Bond	3.53	3.76	3.74	3.69	30-yr Gov't Bond	4.33	4.51	4.46	4.39
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)
Germany					**France**				
3-mo. Interbank	0.96	1.26	1.29	1.38	3-mo. T-bill	0.40	0.80	0.99	0.99
10-yr Gov't Bond	2.96	3.35	3.31	3.24	10-yr Gov't Bond	3.36	3.71	3.64	3.56
FX Reserves (US$B)	62.4	62.3	63.0	(Feb)	FX Reserves (US$B)	52.2	55.8	58.4	(Feb)
Euro-Zone					**United Kingdom**				
Refinancing Rate	1.00	1.00	1.25	1.25	Repo Rate	0.50	0.50	0.50	0.50
Overnight Rate	0.82	0.90	1.22	1.42	3-mo. T-bill	4.85	4.85	4.85	4.85
FX Reserves (US$B)	300.1	300.3	308.9	(Feb)	10-yr Gov't Bond	3.40	3.69	3.55	3.43
					FX Reserves (US$B)	67.2	68.3	73.5	(Feb)
Japan					**Australia**				
Discount Rate	0.30	0.30	0.30	0.30	Cash Rate	4.75	4.75	4.75	4.75
3-mo. Libor	0.13	0.14	0.14	0.13	10-yr Gov't Bond	5.55	5.49	5.49	5.43
10-yr Gov't Bond	1.13	1.26	1.24	1.21	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	0.95	0.95	¥/US$	81.12	83.13	81.88	81.09
CADUSD	1.00	1.03	1.05	1.06	US¢/Australian$	102.33	103.29	107.38	109.62
GBPUSD	1.561	1.603	1.651	1.671	Chinese Yuan/US$	6.61	6.55	6.51	6.49
EURUSD	1.338	1.416	1.456	1.482	South Korean Won/US$	1126	1097	1081	1072
JPYEUR	0.92	0.85	0.84	0.83	Mexican Peso/US$	12.340	11.905	11.605	11.511
USDCHF	0.94	0.92	0.89	0.87	Brazilian Real/US$	1.661	1.632	1.566	1.574

Equity Markets (index, end of period)

United States (DJIA)	11578	12320	12506	12809	U.K. (FT100)	5900	5909	5897	6070
United States (S&P500)	1258	1326	1337	1363	Germany (Dax)	6914	7041	7249	7514
Canada (S&P/TSX)	13443	14116	13972	13926	France (CAC40)	3805	3989	4005	4107
Mexico (Bolsa)	38551	37441	36816	36921	Japan (Nikkei)	10229	9755	9686	9850
Brazil (Bovespa)	69305	68587	67058	65993	Hong Kong (Hang Seng)	23035	23528	23896	23721
Italy (BCI)	1048	1120	1111	1150	South Korea (Composite)	2051	2107	2198	2192

Commodity Prices (end of period)

Pulp (US$/tonne)	960	990	990	990	Copper (US$/lb)	4.42	4.26	4.36	4.25
Newsprint (US$/tonne)	640	640	640	640	Zinc (US$/lb)	1.10	1.05	1.06	1.01
Lumber (US$/mfbm)	308	290	255	238	Gold (US$/oz)	1405.50	1439.00	1504.00	1535.50
WTI Oil (US$/bbl)	91.38	106.72	112.29	113.65	Silver (US$/oz)	30.63	37.87	46.26	48.70
Natural Gas (US$/mmbtu)	4.41	4.39	4.41	4.68	CRB (index)	332.80	359.43	367.44	370.56

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

Scotia Economics

Scotia Plaza 40 King Street West, 63rd Floor
Toronto, Ontario Canada M5H 1H1
Tel: (416) 866-6253 Fax: (416) 866-2829
Email: scotia_economics@scotiacapital.com

For general and publication-related inquiries, contact us by telephone, email and/or fax.