

# Global Views

Weekly commentary on economic and financial market developments

June 17, 2011

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### ***Eurozone Deal Deadlines, Possible PBoC Hike & FOMC The Key Risks Next Week***

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

The world economy and the risk trade have been in a funk throughout May and June, prompting much of the focus to be rightly placed upon downside risks at least in the near-term. That won't change next week. **Europe** will continue to pose the greatest risk in world markets. The pressure is on Greece to pass additional austerity measures in order to qualify for the next tranche of IMF funding that only buys time until another batch of financing is needed in September. An EU Finance Ministers meeting on Monday in the lead-up to the EU leaders summit next Thursday and Friday will be key focal points. Portugal's year-to-date budget report, Spanish bill auctions, and an EC quarterly report on the Euro area could all add to the market intrigue. Despite encouraging words from officials, the likelihood of material action to address Greece's multiple years of financing pressures without an outcome being rated as a default and carrying possibly negative influences upon CDS and inter-bank markets remains low. German and French manufacturing purchasing manager indices face downside risks in their June prints given ongoing global shocks related to commodity-inspired demand destruction and Japanese supply disruptions. Euro zone consumer confidence, industrial orders, and Germany's ZEW survey of economic sentiment pose data risk. Alan Clarke looks ahead to the BoE's Minutes on page 12.

The **US** will also be a focal point in global markets next week as Tuesday's FOMC statement and press conference combine with elevated data risk. We expect that the Fed will remain committed to allowing QE2 to expire this month, and there is at best a low risk of material statement wording changes or policy alterations. It is difficult to envision what more the Fed can do in the current environment. Treasury yields have drifted sharply lower in recent months, with US 10s falling by about 80bps from their February highs. Suggestions in favour of yield caps on possible future increases are difficult to envision, as it isn't clear that the Fed can sustainably drive Treasury yields in the direction it desires at this juncture. If yields crept back up again from current lows, then threatening to intervene and buy might at best have a short-lived downward impact on yields followed by higher yields on inflation and exit worries. That's exactly what happened during much of QE2, but this time the concerns might be further aggravated because we don't have last summer's deflation risk. Monetary policy is of limited influence in what we have characterized as a liquidity trap for some time; rate-insensitive money demand is hardly responding to very low borrowing costs while procyclical capital standard tightening and regulatory changes combine to constrain growth in money multipliers. Data risk will also be elevated by the end of the week. Durable goods orders are expected to regain some of the prior month's loss, new home sales will remain soft, the Chicago Fed national activity index faces further downsides in light of other recently disappointing regional reports like the Philly Fed and Empire manufacturing gauges, and final revisions to Q1 GDP will likely still yield a sub-2% annualized rate of growth. US and global developments could well set a somewhat unfavourable backdrop for the 30-year TIPs auction on Thursday as inflation protection takes a back seat to near-term growth concerns.

**Canadian** markets will be in watch mode for most of the week, with the exception of Tuesday. That day's release of retail sales results for April poses uncertain market risks. Higher food and gasoline prices will boost headline sales, but retailers reported soft sales for seasonal items due to poor weather across much of the country, and new vehicle sales fell 1.1% m/m. On balance, we'll be more concerned about potential weakness in inflation-adjusted sales with the expectation that core sales (ex-autos) will be stronger than headline sales. Inflation adjusted sales have been down for three of the past four months. The Canadian household sector is operating at or near structural and cyclical peaks, marked by an all-time high in the home ownership rate (about 70%), and records for inflation-adjusted consumer spending, renovation spending, debt ratios, and house prices. The BoC also releases its Financial System Review, and Deputy Governor John Murray delivers two speeches.

The biggest risk facing **Asian markets** is that of a rate hike by the People's Bank of China. It has been rumoured for some time, but higher yields demanded by the PBoC on a three-month t-bill auction, the cancellation of a bond auction by China Development Bank Corp, and a disappointing Chinese one-year auction all added to signs of a near-term hike. Japan will likely post another deterioration in its trade account on Sunday evening (ET). **Lat-Am** markets will be principally influenced by the broad global tone, as well as spillover effects stemming from key Mexican releases for retail sales, unemployment, CPI and trade.

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### Investment in China Points to Continued Expansion Rather than Credit Tightening

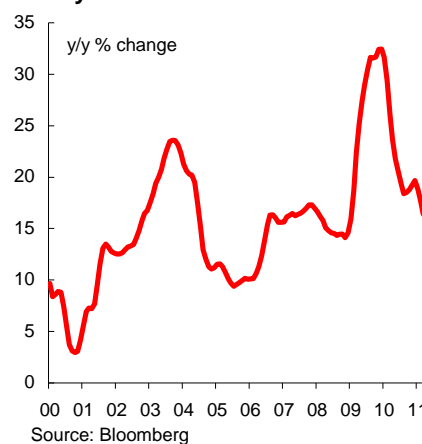
- Spending outlays indicate firm momentum in spending in the context of persistent monetary tightening.

The Chinese economy will stay on a steady growth path over the next two years, with evidence of well supported demand conditions found in rising investment, credit flows, and the country's own inflationary record.

Lending activity is stabilizing; indeed, recently released monetary data portray stabilizing credit growth, with monthly new loan growth falling to RMB 551.6 billion (-13% y/y) in May, the fourth year-over-year contraction of the past six months. The expansion in the total stock of loans fell to 15.4% y/y, signaling a persistent slowdown that seems now on par with conditions prevailing in mid-2008 (chart).

The slowdown in bank loans demonstrates the effects of the latest policy measures, as the reserve requirement ratio (RRR) on large financial institutions has been lifted to 21.5% (a 600 basis points rise since December 2009) and the benchmark interest rate increased to 6.31%, 100 bps since October (with the latest 25 bps move coming in last April). The backdrop for monetary policy tightening in China has been the pickup in inflation to 5.5% y/y in the latest reading (with yearly inflation averaging 5.2% so far in 2011). The lingering question is whether there's an evident slowdown in spending?

Yearly Growth in Bank Loan Stock



China's economic model is one of investment-led growth. Indeed, output expansions in the past ten years have been mainly driven by investment outlays as gross fixed capital formation averaged 13% annually in 2000-10 (well above 9.5% GDP growth), with the expansion in private consumer spending averaging only 8% during the period. Therefore, the share of investment in overall spending has reached 46%, well above the 34% share of household outlays.

If monetary tightening is to cause a reduction in spending it must be showing on the investment figures. Moreover, capital formation at the company level as well as construction projects should be sensitive to changes in credit costs and bank loan disbursements. With the picture of Chinese economic conditions in 2011 beginning to emerge after the turn of the year, available data to May contradicts in our view the assertion that spending is slowing significantly.

Given lack of reasonable seasonal adjustments, year-ago comparisons reveal that real investment flows for the March-May period picked up at a 26% y/y rate in construction, and contracted slightly (-4%) for equipment (table). When compared with 2010 average flows, real investment outlays so far in 2011 are 3% higher for construction and 7% lower for machinery and equipment. Given that construction,

REAL INVESTMENT IN CHINA*			
	Construction	Equipment	Other
2007 Mar-May	383	35	82
Jun-Aug	512	34	75
Sep-Dec	532	37	79
2007-Average	476	36	79
2008 Mar-May	437	35	81
Jun-Aug	566	37	68
Sep-Dec	626	39	70
2008-Average	543	37	73
2009 Mar-May	661	34	79
Jun-Aug	863	35	73
Sep-Dec	848	37	72
2009-Average	791	35	75
2010 Mar-May	728	33	89
Jun-Aug	977	34	80
Sep-Dec	971	37	75
2010-Average	892	35	81
2011 Mar-May	921	32	78

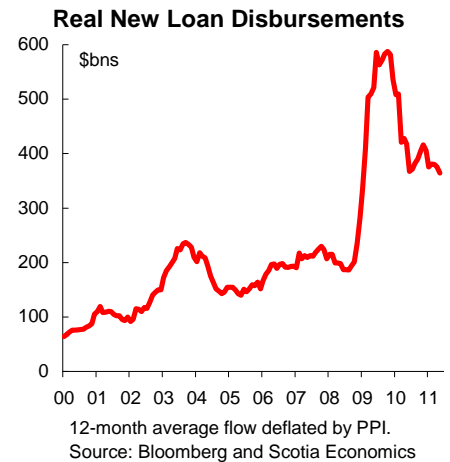
\*Average monthly flow of non-rural fixed asset investment in billion renminbi. Cumulative flows available only from February of each year on. Deflated by PPI using 1999 as base year. Source: Scotia Economics with data from Chinese National Bureau of Statistics.

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both real estate and infrastructure additions, represents over 85% of real total fixed asset investment flows such is hardly a picture of a contraction in spending.

One way to reconcile the data is to focus on average new loan disbursements during the past 12 months in inflation adjusted terms. As can be observed in the adjacent chart, while new loans contracted recently, they still double the level preceding the global recession. Although this no longer seems a picture of an overflow of funds to withstand an economic emergency, rather than credit tightening, this looks more like still abundant liquidity.



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**Canadian Leading Indicators Support Continued Growth**

- On balance, four leading indicators dismiss recession risk.

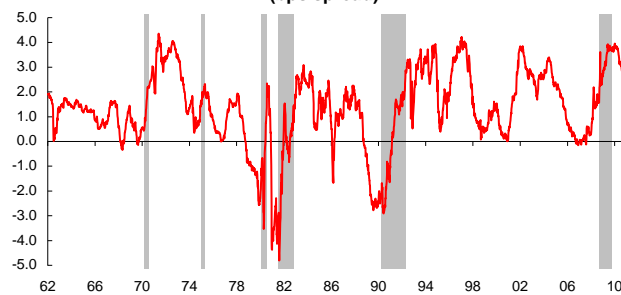
Near-term shocks to global supply chains stemming from Japan’s earthquake/tsunami and negative effect of high commodity prices on global spending are raising the question of whether Canada is going through a temporary soft spot on growth, or something worse. In our view, Canada faces sharp downside risks to 2011Q2 growth, but a balanced compilation of four key leading indicators is not pointing toward a sustained downturn. In fact, quite the opposite, as the balance of the indicators is pointing toward a significant pick-up in growth prospects over future quarters. The Scotia Economics forecast is for 1% annualized Canadian GDP growth in 2011Q2 — half the BoC’s 2% forecast that Governor Carney has already stated is too high — and the tail risk is skewed toward a negative print via a combined trade and inventory shock. Scotia forecasts a rebound to 3% growth for Q3, driven by the shaking off of temporary shocks to manufacturing output, trade and inventories. While the BoC will likely revise Q2 growth lower in its July Monetary Policy Report, it is likely to revise Q3 growth higher on a business resumption effect. Clearly a key risk to the outlook stems from European contagion effects through global markets that have the potential to disrupt financial markets and pose downside risks to forecasts that are not yet captured in leading indicators.

Chart 1 depicts that the slope of the Canadian yield curve has flattened out somewhat over the past year, but still remains aligned against a renewed economic downturn within 12 months. Grey shaded bars are past recessions.

Chart 2 provides Statistics Canada’s leading economic indicator, and while it has cooled a touch from the elevated readings of last summer, it continues to point toward sustained growth beyond the Q2 deterioration.

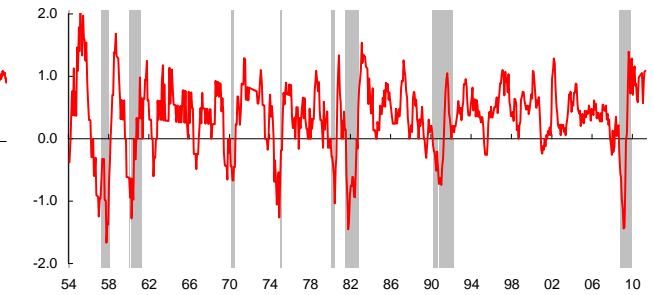
Charts 3 and 4 offer different perspectives. They point to the Conference Board’s leading economic indicator (chart 3) and the OECD’s measure (chart 4), both of which suggest a flattening out in growth prospects. Of note is that each of these measures has thrown off false, misleading signs at various points in time, particularly in terms of the Conference Board’s and the OECD’s measures. Each of these latter two gauges has witnessed many more declines in the leading indicator than the number of recession periods.

**Chart 1** Canadian 10-year & 3-month Generic Yield (bps spread)



Shaded areas represent unofficial Canadian recessionary periods.  
 Source: Bloomberg, Scotia Capital Economics.

**Chart 2** Statistics Canada's Leading Indicator (m/m % change)



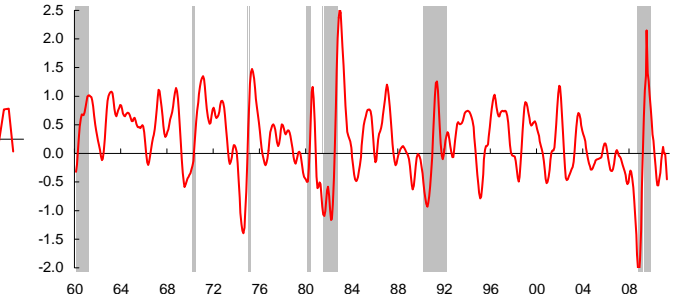
Shaded areas represent unofficial Canadian recessionary periods.  
 Source: Statistics Canada, Scotia Capital Economics.

**Chart 3** Conference Board's Canadian Leading Business Indicator (q/q % change)



Shaded areas represent unofficial Canadian recessionary periods.  
 Source: Statistics Canada, Conference Board, Scotia Capital Economics.

**Chart 4** OECD's Canadian Leading Indicator (m/m % change)



Shaded areas represent unofficial Canadian recessionary periods.  
 Source: Statistics Canada, OECD, Scotia Capital Economics.

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## Temporary US Setback, Not A Renewed Recession

- On balance, four leading indicators dismiss recession talk.

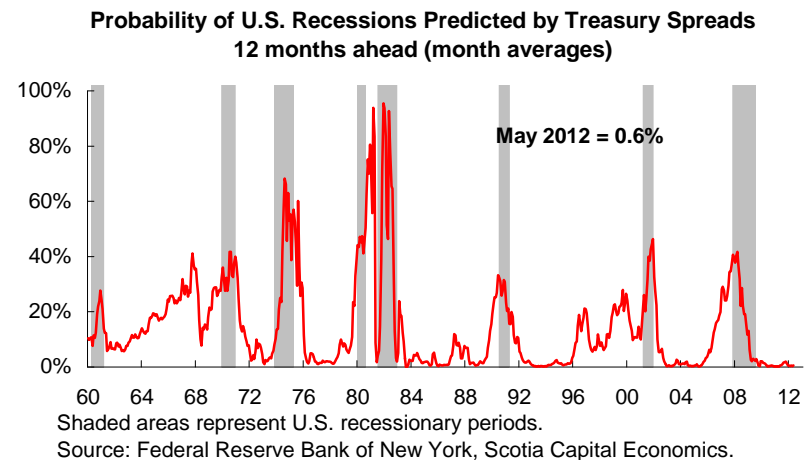
A key challenge to reading today's tea leaves entails filtering out temporary shocks from more sustained growth worries. Is the United States going through temporary weakness related to supply disruptions owing to Japan's shocks, or is demand destruction stemming from high commodity prices against a backdrop of ongoing structural weakness likely to be longer-lived? Scotia Economics leans toward the first interpretation, in contrast to the views of, say, respected US economist Robert Shiller. For example, Scotia Economics is forecasting US growth to rebound to about 3% in Q3 after temporary shocks to auto and related production are reversed.

One way of addressing this question with some analytical rigour is to survey what various leading indicators are telling us about growth over the next year. All have been freshly updated. This is a more satisfying approach to us than using large-scale macroeconomic models which have miserably failed many times including into the recent crisis partly due to incomplete modeling of the financial sector, and is complementary to a stylized facts approach supplemented with a simple bottom-up spreadsheet model reliant upon component tracking and forecasting. In so doing, we conclude that while they are not providing identical signals, the various leading indicators suggest that evidence of a renewed recession in the US economy is weak.

### 1. Slope of the yield curve

The slope of the yield curve has been one of the best recession indicators over time and it is available in real time, but is not fully reliable on its own. As chart 1 depicts, it has predicted almost every recession over the post-war era although the nature of the 9/11 and dot bomb shocks made it less useful in predicting the March-November 2001 recession. But it has thrown off only one false signal by wrongly suggesting a higher probability of recession in 1967. The Federal Reserve Bank of New York converts the slope of the yield curve into a probability of recession one year forward by using a probit equation, the results of which are shown in chart 1. The typical lead time is about 4-6 quarters. This equation is showing zero chance of a recession in the next twelve months. That said, there have been times when it has come close to missing a recession within slightly longer than a one-year horizon. In June of 1968, the model predicted only about an 8% probability of recession, and yet recession did indeed arrive in December 1969. More disconcerting is that the oil-induced recession that began in November 1973 was preceded by a near-zero chance of recession predicted by the yield curve right up to when it hit, and the probability of recession climbed to only 68% right in the middle of it. Further, with the exception of the recessions of 1974-75 and the early 1980s, the slope of the curve has typically indicated far less-than-certain probabilities of recession of less than 50%, or a fair coin toss at best. Thus, our first leading indicator immediately shows that no one measure can be relied upon exclusively.

Chart 1



### 2. ECRI's Weekly Leading Indicator

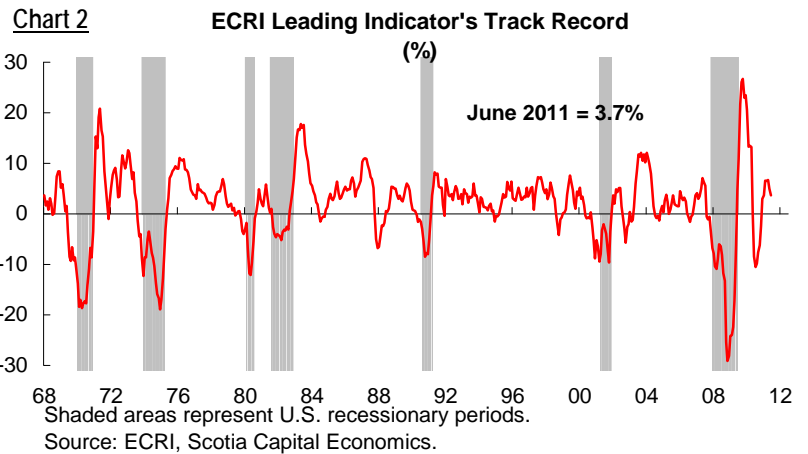
Second, the ECRI weekly leading indicator has been trending lower since mid-April. This has attracted considerable attention. As the accompanying chart shows, there have been many false signals thrown off by

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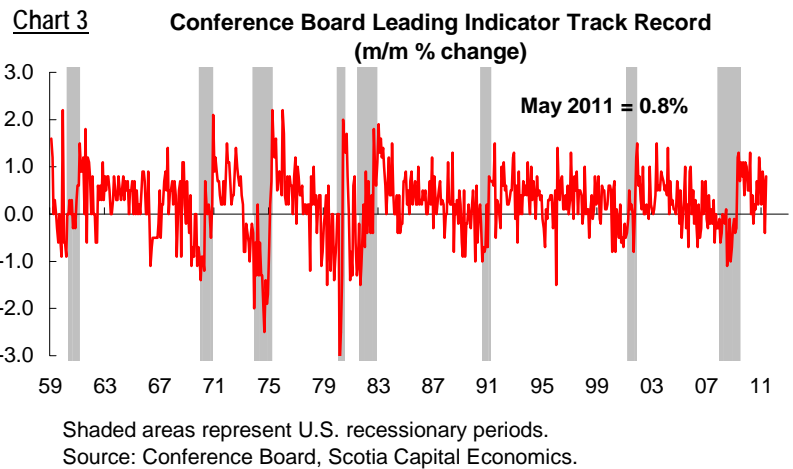
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declines in this indicator during non-recessionary times, such as in November 1971, October 1984, late 1987 and early 1988 after the stock market correction, February 1995, October 1998, late summer 2002, October 2004, and September 2006. The Economic Cycle Research Institute has been more careful to resist making recession calls during such periods than markets and analysts. Nevertheless, this leading index is the only one signaling possible risks.



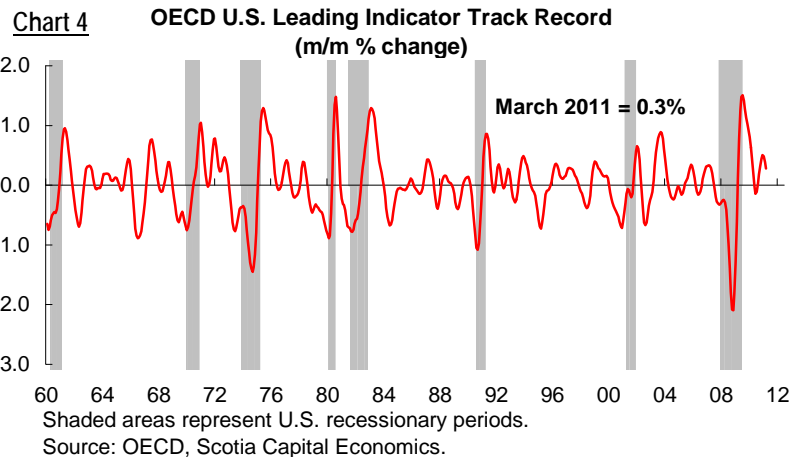
**3. Conference Board's Leading Indicator**

A third leading indicator is produced monthly by the Conference Board. The Leading Economic Indicators Index (LEI) climbed 0.8% m/m in the latest May release on June 17th after contracting by 0.4% m/m in April which, in turn, followed a string of nine consecutive monthly gains. The LEI has regained 12% since bottoming in March 2009, and it is 4.6% above its peak reached in late 2006. Interestingly, the principal drivers have been accommodative monetary policy (interest rate spread, money supply), consumer expectations, and building permits.



**4. OECD's Leading Indicator**

A fourth leading indicator is provided by the OECD for the US economy (and others). It is typically released far later than other indicators. April's report, for instance, was only just released on June 14th. It continues to rise, albeit at an ebbing pace (chart 4). It has performed reasonably well as a recession predictor over time, but it too is hardly infallible in that it has gone negative many times without presaging recession.



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**Hazy Summer Outlook For Canadian and US Retailers**

- **Canadian retail sales remain above their pre-recession peak, but developing trends in Canada and the US point to softer performance in the coming months.**

Retail sales momentum in both Canada and the United States has slowed in recent months, with a combination of bad weather and rising fuel and energy costs being a common factor. However, underlying conditions in each market point to a diverging performance in the months ahead.

The Canadian retail market displayed a vigorous rebound after the recession. Labour market growth, accommodative lending rates, and a strong loonie have driven real retail sales past their pre-recession peak (see chart 1). In fact, Canadian per-capita sales are comparable to the US for the first time in over twenty years. Moreover, retail space in Canada is generating an average of US\$580 per-square foot, nearly US\$300 more than in the United States, according to a Colliers International survey.

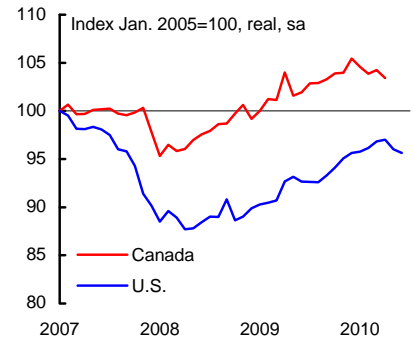
That being said, Canadians are now beginning to rein in expenditures at a faster pace than their American counterparts. Not only has this been evidenced by weaker sales volumes in recent months, but the breadth of retail sales gains has also narrowed, led by discretionary spending. Chart 2 maps out Scotia Economics’ retail sales six-month diffusion index, which tracks the proportion of retail sales categories that are rising. The United States continues to experience gains in 90% of categories, while in Canada, that number sits at just over 75%.

There are underlying factors behind recent developments. To start, most pent-up consumer demand in Canada was released by the latter half of 2010, while such a boost has yet to fully materialize in the United States, leaving more potential for growth. Second, Canadians continued to accumulate debt from 2009 onwards, while Americans did just the opposite. Canadians have only recently started to address stretched household finances, amid pending fiscal consolidation and interest rate hikes, and a housing market that is expected to moderate. What’s more, recent data out of the United States point to the soft patch extending into the second quarter. This is making Canadian consumers more mindful, as sales to the United States account for roughly 75% of overall exports. Last but not least, rising food and energy prices are putting a tighter squeeze on Canadian disposable income, crowding out discretionary spending (see chart 3). While the increase in retail gasoline prices has been steeper in the US, the level remains some 30% lower than in Canada, due to subsidies and lower tax rates. Taken together, it comes as no surprise that a recent Boston Consulting Group survey found that the number of Canadians planning to cut non-essential expenditures has risen by 6% over the past year, while for the US it has actually dropped by 19%.

While Canadian retailers find themselves in a healthy position, they will feel pressure from increasingly discerning consumers. As a result, sales volumes are likely to moderate in the months ahead. Although the US consumer continues to face challenges of its own, with limited hiring activity at the top of the list, cyclical factors — including pent-up demand — are likely to slowly drive sales volumes back to pre-recessionary levels.

**Chart 1**

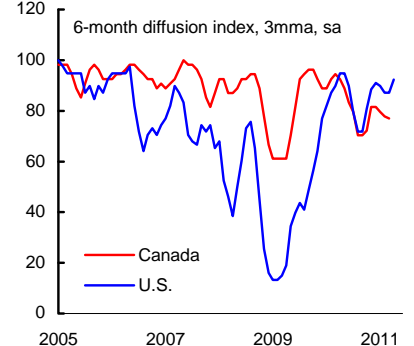
**While Canadian Retail Sales Have Surpassed Pre-Recession Peak...**



Source: US Census Bureau, Statistics Canada, Scotia Economics.

**Chart 2**

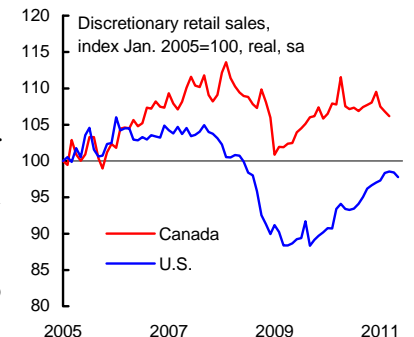
**...US Retail Sales Are Posting Broader Gains And...**



Source: US Census Bureau, Statistics Canada, Scotia Economics.

**Chart 3**

**...Crowding Out Is Starting To Squeeze Disposable Income**



Source: US Census Bureau, Statistics Canada, Scotia Economics.

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### **Will Vitro's Bankruptcy Affect Other Mexican Corporates?**

*We review some of the lesser known details of the Vitro bankruptcy ruling and discuss the factors that should lessen the impact of that ruling on the prices of bonds of other Mexican corporates. We show that, historically, post-default trading prices of Latin American corporates are not affected by differences in bankruptcy regimes across countries, and we explain how other factors play a much larger role in determining recovery values.*

Most emerging market bond investors have probably by now heard of the legal loophole exploited by Vitro to force a debt restructuring on its own terms. By voting \$1.9bn of intercompany debt, management overwhelmed the 68% rejection rate of its restructuring proposal among external creditors with only \$1.6bn in debt. Before we discuss the implications of this action for other Mexican corporates, we should mention some of the more revealing but lesser-known details.

#### **Unusual details of the case**

According to a petition by bondholders to a Texas bankruptcy court, Vitro did not publicly disclose the existence of such intercompany debt until an amendment filing to the SEC in November 2010. Vitro subsequently filed for bankruptcy in Mexico with the intent of voting that debt. In January 2011, the Monterrey judge handling the case, Judge Francisco Flores, ruled against Vitro, arguing that the voting of intercompany debt goes against the intent of Mexican bankruptcy law; he reasoned that court sponsored bankruptcy proceedings are not necessary to restructure intercompany debt because that debt is controlled completely by Vitro's management. Two weeks later, another Mexican judge rejected Vitro's appeal of that ruling. That same appeals court judge changed his mind, however, thanks to Vitro's public relations campaign and the hiring of former prominent government officials as lobbyists. According to one account, it was Lozano Gracia, the former attorney general, who convinced the appeals judge to hear the case. The judge requested a technical opinion from IFECOM (Federal Institute of Reorganization Specialists) and, based on their opinion, overturned the decision of Judge Flores. Meanwhile, Judge Flores has been removed from the case. In a Judicial repositioning that an editorial in Mexico's El Reforma newspaper called "without precedent," 16 judges including Flores were temporarily reassigned to vacant positions in a higher-level court.

It is the IFECOM opinion that should be most troublesome to investors holding Mexican corporate bonds. Mexico no longer has specialized bankruptcy judges. Instead, bankruptcy cases are assigned to civil judges, who are assisted by specialists from IFECOM. While the IFECOM decision is not binding, a judge's lack of expertise could lead him to defer to that opinion in the future. IFECOM found no provision in Mexico's Bankruptcy Law that prohibited the recognition of inter-company claims. Even worse, IFECOM's interpretation is that Mexican law expressly allows the voting of inter-company debt, mandating only that any fraudulent transactions with subsidiaries be reversed before those subsidiaries are acknowledged as creditors. IFECOM goes on to cite the bankruptcies of Iusacell, Durango, Tribasa, and Comerci over the last ten years where the voting of intercompany debt has been allowed. That opinion seems quite clear with regards to current law. In addition, the fact that Mexico has a civil law system in contrast to the common law system in the US works against it, since civil law emphasizes the code and leaves less room for judicial interpretation. Despite some of the unusual circumstances surrounding the case, the judiciary may have ultimately made the legally correct decision.

Theoretically, other Mexican corporations may learn and replicate Vitro's tactics, ensuring that recovery levels are lower for bondholders in the future. Some may even be tempted to default, knowing that Mexican bankruptcy allows a cheap way to settle certain debts. Many lawyers and distressed debt investors are quite concerned. In contrast, our trading desk reports that the market for Mexican corporate bonds has largely shrugged off the news. How can that be?

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### **Do bankruptcy regimes matter?**

The bond market does not seem to distinguish between different bankruptcy regimes. Consider the data on emerging market corporate bond defaults in Figure 1. The second column of the table shows recovery rates on bonds from actual defaults in Latin America between 1997 and 2010, as measured by the average trading price of all of the issuer's bonds 30 days after default. The other columns show the results of a World Bank survey which asked local bankruptcy lawyers in each country to estimate the time, legal costs, and expected recovery rate in a hypothetical bankruptcy of a hotel operating in their country's capital city and experiencing liquidity problems.

Figure 1. Corporate bond recovery rates vs. bankruptcy system rankings by country

Country	Actual corporate bonds defaults: Historical Post-default Trading Price	Expected recovery and costs based on surveys			
		Closing a business: Country Rank	Time to Recovery (years)	Legal Costs (% of Estate)	Recovery rate (%)
Argentina	29	77	2.8	12	33
Brazil	34	132	4.0	12	17
Chile	35	91	4.5	15	28
Colombia	40	29	3.0	1	62
Dominican Republic	44	145	3.5	38	9
Jamaica	37	24	1.1	18	65
Mexico	40	23	1.8	18	67
Puerto Rico	55	25	3.8	8	65
Uruguay	35	57	2.1	7	40
Venezuela	100 <sup>6</sup>	152	4.0	38	6

Source: Moody's<sup>7</sup>, World Bank<sup>8</sup>

The differences between the two sets of data are remarkable. The Latin American countries shown have huge differences in rankings—Mexico has the best country ranking at 23, while Venezuela has the worst at 152. Expected recovery rates range from 6% to 67%. In contrast, setting aside Puerto Rico and Venezuela, Latin American post-default prices range between 29 and 44. Leaving out Argentina's particularly bad financial crisis, that range shrinks further to between 34 and 44. Despite having the best bankruptcy regime, Mexican post-default prices, on average, are only \$3 above the relevant peers.

Our results are tentative here, because there have not been that many Latin American corporate defaults. Moody's records defaults on only 78 bonds across 51 issuers. These defaults cover a range of industries and may occur in different parts of the economic cycle, two factors that we have not controlled for here. If the differences were indeed real, however, then they would seem to create attractive opportunities for distressed debt investors. Nonetheless, our results beg the question as to why bond markets do not distinguish between bankruptcy regimes.

### **Other factors determine recovery values**

Probably bankruptcy law is not the most important factor in determining emerging market default rates and recovery values. Most EM corporate defaults so far have occurred during times of either country-wide crises or global economic crisis. In such conditions, EM corporate recovery values are capped anyway, either by the depressed prices of the sovereign debt, or by global investors' retreat from instruments with credit-risk. In those environments, the

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role of different bankruptcy regimes is significantly diluted. Ultimate recoveries may well be far higher than the post-default trading prices. For example, in many cases the reductions in face value for Mexican corporates during restructurings over the last couple of years have been small (the cases of Gruma and Gissa come to mind). Once we take into account the maturity extensions, coupon reductions, and the time it takes to restructure, however, and then discount the new bond flows using crisis-era yields, we may indeed find a net present value that is quite low.

Moreover, a restructuring is a complex negotiation, where the protections offered by the law are only one of the relevant factors. Consider the sovereign experience, where the legal protections are particularly weak. Argentina's restructuring in 2004 with a 65% haircut was an outrage to most creditors; nevertheless, the Argentine victory has not created other renegade creditors, with perhaps Ecuador as the only notable exception. Other sovereigns have since restructured their debt on far more equitable terms, presumably because they continue to believe in the reputational benefits of their actions for future international transactions. Similarly, while Mexican corporates may use Vitro's example as one bargaining chip, we do not think most would abuse it too aggressively. Presumably, if Vitro had offered a zero recovery value on debt and had their subsidiary creditors approve the offer, Mexican judges would have rejected the proposal. Even under Mexican law, inter-company debt can only be voted if it is legitimate debt created without fraudulent intent. Showing such fraud is difficult, especially as disclosure of such debt in Mexico is inadequate (at least prior to the adoption of IFRS in 2012), but presumably fraud becomes easier to detect when abuses are large. The fairness of Mexico's bankruptcy proceeding was also raised by bondholders in the Chapter 15 proceedings in Texas. (Chapter 15 offers foreign debtors protection from US creditors, in part based on the US court's recognition and deference to the main bankruptcy proceeding in a foreign country). While bondholders were unsuccessful in the Vitro case, we imagine their arguments would be more convincing if the abuses in the Mexican proceedings had been more extensive.

All of these factors serve to mitigate the negative impact of the Vitro ruling on the bond prices of other Mexican corporates. While a small impact is justified on fundamental grounds, default for most Mexican corporates is far enough away that markets can ignore the news. In order to entice investors in future Mexican issuances, corporates may be able to alleviate concerns by inserting additional clauses in debt indentures regarding inter-company debt. Meanwhile, the Mexican Congress could eventually change the law if it becomes a major concern for foreign investors. After all, attracting foreign capital was one of the motivations for reforming the bankruptcy system and adopting the current Ley de Concursos Mercantiles eleven years ago.

Endnotes:

<sup>1</sup> This article has benefited from two panel discussions attended by one of the authors: Debtwire Mexico Restructuring & Capital Markets Symposium, Mexico City, April 13, 2011; EMTA Special Seminar on Mexican Corporate Bankruptcy, New York, June 13, 2011.

<sup>2</sup> "Emergency Motion of the Petitioning Creditors Under Sections 105(a) and 303(f) of the Bankruptcy Code for an Order Conditioning the Debtor's Use of Property," US Bankruptcy Court for Northern Texas, November 18, 2011.

<sup>3</sup> As quoted by Bloomberg News on January 11, 2011 in "Vitro Bondholder's seek talks after ruling against glassmaker."

<sup>4</sup> Julio Brito A., opinion in *La Cronica de Hoy*, June 3, 2011. See also, Arturo C. Prozcanski, "Corporate Workouts in Mexico: The Good, the Bad, and the Ugly," *Issues in International Political Economy*, Center for Strategic and International Studies, April 2011.

<sup>5</sup> IFECOM Official Document, DG/179/2011, dated March 23, 2011, as translated into English for US court filings by Elena García Beltrán.

<sup>6</sup> In 2003, Venezuela's largest telephone company, CanTV, missed an interest payment on its debt because of delays in approval from the agency that manages the country's foreign exchange controls.

<sup>7</sup> "Latin American Corporate Default and Recovery Rates 1990-H12010," Moody's Special Comment, September 7, 2010.

<sup>8</sup> *Doing Business 2011, Making a Difference for Entrepreneurs: Comparing Business Regulation in 183 Economies*, World Bank, 2010.

## UK Preview — BoE MPC Minutes Preview

### Key Themes

- We expect the minutes of the June BoE meeting to show that the tone of the MPC's discussions has continued to evolve in a dovish direction. Developments that will have contributed to this are a weakening in the activity data at home and abroad, an easing in inflation expectations and moderation in wage inflation. Against this backdrop, it is looking increasingly likely that the MPC refrains from raising Bank Rate until well into 2012.

### Wait a minute!

A tried and tested way of gauging the likely outcome of future MPC decisions is to dissect the minutes, section by section, make a judgement about whether each section was hawkish or dovish and what the developments have been since then. Table 1 summarises our reading of the evolution in the stance of the MPC's tone at the May MPC meeting and our judgement of what had changed by the time of the June meeting (the minutes of which will be released this coming Wednesday).

We judge that the tone of the MPC minutes has become progressively less hawkish in the last two months, even though there were still 3 members of the committee in favour of an interest rate hike at the latest two MPC meetings. In particular, back in February and March, the minutes of the MPC meeting noted that some members that voted for no change at that meeting 'the case for an increase in Bank Rate had strengthened in recent months'. In other words, there were at least two members that had sympathy with the case for higher interest rates, but did not feel sufficiently strongly at that point to vote for an immediate move. By April, the reference to other members sympathising with higher rates had disappeared. In addition, greater concern was expressed about how long a soft patch in the economy might last.

### Health of the consumer is crucial

For some time, the MPC minutes have noted that the vulnerability of the consumer sector was one reason for holding back from monetary policy tightening at an early stage. As time has passed, the news on the consumer has deteriorated. The most prominent example of this came in the breakdown of Q1 GDP which showed a surprise 0.6% q/q contraction — contrary to consensus expectations for no change. We expect this to be prominent in next week's minutes.

Although consumer confidence rebounded in the latest month, the level of the index is still extremely depressed and we suspect that further acceleration in inflation over the remainder of the year will provoke renewed pessimism. Similarly, the likely further acceleration in inflation over the coming months will imply an increasing squeeze on household real disposable incomes. In turn, these are likely to prevent any meaningful recovery in household consumption this side of the new year — more likely the reverse. The point is if the MPC is hesitant to raise Bank Rate against a background of disappointing consumer data, it is unlikely to become any more enthusiastic as the year progresses.

The most striking sentence in the last set of minutes was in the summing up section which reflected on the views of the majority. "Were downside risks to household spending to materialise, a path for policy weaker than implied by market prices might become appropriate". This is key. At the time of the May meeting, the market had priced the first rate hike for February. Downside risks to the household spending have materialised since then. Given this extract from the minutes, the market is justified in pushing back the timing of the first rate hike to May 2012.

### Inflation — onwards and upwards

Clearly, inflation is more than double the BoE's target. Moreover, we expect further acceleration to above 5% y/y. Hence the pressure to raise Bank Rate is unlikely to go away entirely. However, the BoE and the Governor in particular, have been at pains to stress the temporary nature of the latest inflation prints. To be fair, they have a point. Of the latest CPI print of 4.5% y/y, around 1% point is due to the VAT hike, 1% point

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is due to energy prices and around 0.6% points is due to food price inflation. Stripping those out, underlying inflation is pretty much bang on target.

Obviously, if you strip everything out of the inflation basket that is going up, of course the rate of inflation is more subdued. Nonetheless, when a VAT hike and a jump in the burden of energy costs represents an intensification of the squeeze on household disposable incomes, why shouldn't the BoE overlook these?

This is not to say that the Bank is oblivious to current inflation. The minutes over the last year have noted that if there are signs that elevated current inflation will contribute to inflation remaining above target over the medium term horizon, then the Bank is prepared to respond.

#### ***Motivation for hike is weakening***

Recent minutes have made it pretty clear exactly what could provoke an interest rate hike. If elevated current inflation causes a sharp acceleration in wage inflation or causes inflation expectations to become dislodged, then the MPC will respond accordingly. A key development between the May and June MPC meetings was the fall in survey measures of inflation expectations. The point is, not only have inflation expectations failed to escalate — they actually fell back.

Wage inflation data published this week also showed a slight moderation. However, the MPC will not have had this data at the June meeting so will not be reflected in these minutes, though it should contribute to a further softening in the MPC's stance at the July meeting.

#### ***Conclusion***

We expect the tone of the MPC minutes released this week to show an increasingly dovish tone. Arch hawk, Andrew Sentance, was replaced by new member Ben Broadbent at the June meeting. It is looking more likely than not that on the basis of this alone, the vote should shift from 6-3 to 7-2. Of the remaining hawks, Martin Weale made it clear in his interview in The Guardian of his preference for immediate interest rate tightening.

We believe the main potential for shock-factor in these minutes is whether or not the Bank's Chief Economist, Spencer Dale, continues to vote for an interest rate hike. The worst news on inflation expectations and wages does not appear to be materialising (rather the opposite) and the outlook for the consumer is worsening. Against this backdrop, there is a good chance that Dale falls back into line with the majority either at some point in the not too distant future.

Given our pessimism on the UK consumer, it is looking increasingly likely that the Bank refrains from raising Bank Rate until well into next year. That is not to say that speculation of a hike will go away. There is a chance that the market will price in an earlier first hike — especially amid the likely hype when inflation gets to 5% y/y. However, we doubt the Bank will deliver a move earlier than the market currently prices.

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May-2011 (Actual)				June-2011 (Scotia Capital Judgement)			
Comments	Hawkish / Dovish / Neutral	Overall		Comments	Hawkish / Dovish / Neutral	Overall	
Financial Markets	Expectations of first BoE hike pushed back to early-2012	0	-	Pushed out further since May	0	-	
	Effective GBP exchange rate weakened by 1.4%	+		Little change	0		
	Breakeven inflation rates had fallen	-		Breakevens higher	+		
	Perihperal european fiscal tensions had intensified	-		More of the same	-		
	Oil stable, though other commodity prices sharply lower in early-May	-		Oil 7.5% lower	-		
FTSE little changed	0		FTSE all share down 1.7%	-			
International Economy	Moderate slackening in the pace of global growth	-	-	More of the same	-	-	
	US - ISM down, GDP growth sluggish in Q1, housing weak	-		ISM down sharply, payrolls disappointing, building pessimism	-		
	Euro area - indicators suggest growth at or above historical average rates, though business and consumer confidence had slipped.	0/+		Euro-area - robust Q1 GDP, though survey indicators beginning to lose ground	0/+		
	Japanese IP slumped post-tsunami. Risk of disruption to supply chains outside of Japan	-		More of the same	-		
Money, credit, demand and output	Q1 GDP was 0.5% q/q, though near zero ex-snow.	-	-	Easter disruption starting to affect data	0	-	
	Construction had been volatile - growth ex-construction was 0.5% q/q	+		Breakdown of Q1 GDP was disappointing, in particular the weakness of household consumption was a downward surprise	-		
	Some indicators pointed to a period of sustained weakness	-		Robust retail sales, rebound in consumer confidence	+		
	Lending had been weak, inventories accounted for the bulk of growth over the last year, consumer confidence had fallen further	-		Weak money supply growth, sluggish housing data, mixed labour report	-		
	Utility bill hikes would intensify the pressure on disposable incomes. Agents reported evidence of strains on consumers	-		Survey data starting to lose ground	-		
	Labour data had been robust, investment intentions upbeat, export outlook remained solid.	+					
	Possible that weak household spending was temporary around Q1 due to VAT hike	0					
Royal wedding to dampen Q2 GDP and boost Q3	0						
Supply, Costs and Prices	CPI had fallen sharply to 4% y/y, mainly due to food	-	+0	CPI rebounded sharply to 4.5% y/y - higher than expected, though largely Easter related	+	0/-	
	Near term path likely markedly higher than thought in February Inflation Report, largely due to utility bills.	+		no change	0		
	Upside risk if wages accelerated or inflation expectations	+		No big change on wage inflation, though inflation expectations surveys had surprised on the downside	-		
	Downside risks to inflation given slack in companies and the labour market	-		no change	-		
	Weak labour market productivity meant it was possible that moderate wage growth was consistent with higher underlying inflation than previously thought	+		no change	0		
Immediate Policy Decision	Risk that demand would not grow sufficiently to eliminate spare capacity, leading to downward pressure on inflation	-	0/-	More of the same	-	0/-	
	Mixed signals and distortions from the snow made risks hard to judge.	0		Further distortions starting to come through given easter / royal wedding	0		
	Continued squeeze on disposable incomes and fiscal consolidation meant consumption likely to be weak for some time.	-		same again	-		
	Business surveys pointed to modest underlying growth and recruitment and investment intentions were encouraging.	+		weaker surveys highlighted growing downside risks	0/-		
	Possible that consumer spending could fall further and external demand might disappoint.	-		Risks to consumer intensifying	-		
	Risk that elevated inflation might persist for longer than the committee had envisaged, via higher inflation expectations and wage demands - though little sign of these so far.	0		Tentative evidence that inflation expectations might be topping out. Wages and wage settlements not worrying	0/-		
Balance between the upward and downward risks had not sufficiently changed. Pace of recovery likely to pick up from the soft patch. BoE inflation fan chart shows inflation back to slightly below target.	0			Bias of risks shifting to the downside	0/-		

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Split on the MPC				
Hawks	Upside risks from global price pressures and possibility that inflation expectations would increase, outweighed downside risks to activity	Still as keen as in previous meetings to raise Bank Rate	Sentance has now left the committee. Lower oil prices will have been encouraging.	Overall, still likely to be at least one dissenter in favour of higher rates, tone getting less hawkish
	Given the volatility in output in Q2 and Q3, it was unlikely that uncertainty over the strength of the recovery would be resolved soon and little benefit in waiting before tightening policy.		Russia lifting its ban on wheat exports was also good news for upstream food price pressures.	
	Hiking early would prevent the need for a more rapid pace of tightening at a later stage.		Martin Weale was still making the case for a hike in his interview with the Guardian	
Majority	Little evidence that elevated inflation expectations were becoming entrenched in wage and price setting, though that risk remained material given elevated current inflation.	Tone is becoming less hawkish / more dovish. Previously there were sympathisers for higher rates. However that reference has now been removed	More of the same	Majority tone likely to move further in the dovish direction
	Too early to know whether softer activity was temporary and the coming months would be revealing.		More tentative evidence that soft patch is enduring	
	An increase in Bank Rate now could adversely affect consumer confidence, leading to an exaggerated impact on spending.		More of the same	
	<b>Were downside risks to household spending to materialise, a path for policy weaker than implied by market prices might become appropriate.</b>			
Dove	The path of consumption likely to be lower and the margin of spare capacity larger than assumed in the May Inflation Report. Impact of inflation expectations likely to be less than assumed in the central projection.	Super- dovish	More of the same	Still super dovish

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## Eurozone Inflation Scenarios

### Scenarios for Eurozone HICP ex-tobacco

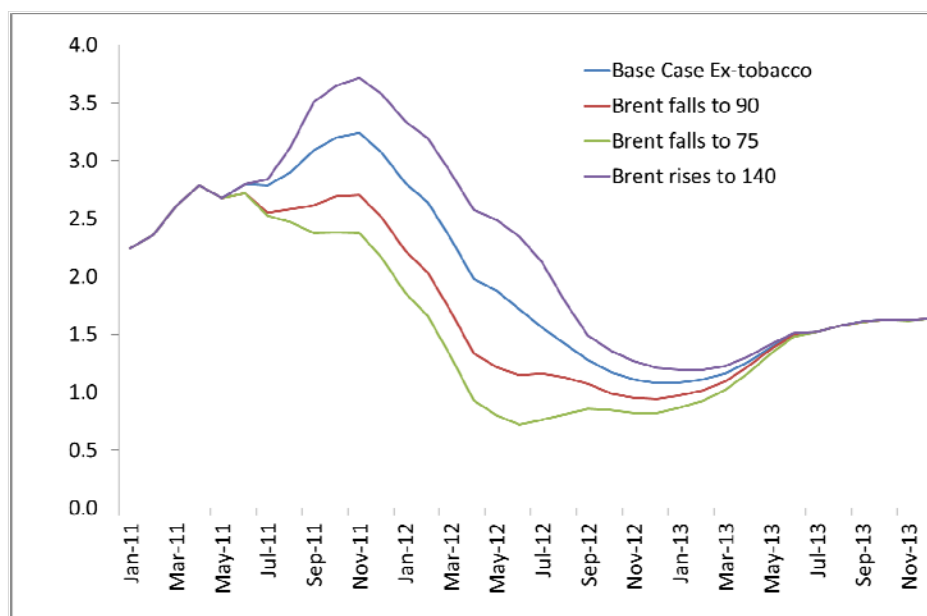
Given the recent gyrations in the price of oil, we have run some scenarios to calculate the likely future path of Eurozone inflation according to different outcomes for the price of oil.

The scenarios were:

- Brent falls to USD90pb over the next 2 months
- Brent falls to USD75pb over the next 2 months
- Brent rises to USD140pb over the next 2 month
- Brent is flat at USD115pb

### Key Points

- Our simple base case of oil staying flat at USD115pb implies that headline inflation rises to over 3¼% in the coming months, before temporarily slowing to around 1% y/y in late 2012 — pushed down by powerful base effects.
- If oil falls to USD90pb, then the peak in inflation has already been reached (2.7% y/y). We stay here for about 6 months, then fall sharply next year.
- If oil falls to USD75pb, inflation begins to slow imminently. The fall will be slow at first, before slumping to a low of around 0.7% y/y by mid-2012.
- If oil rises to USD140pb, then inflation would peak at just under 4% y/y before slowing next year.

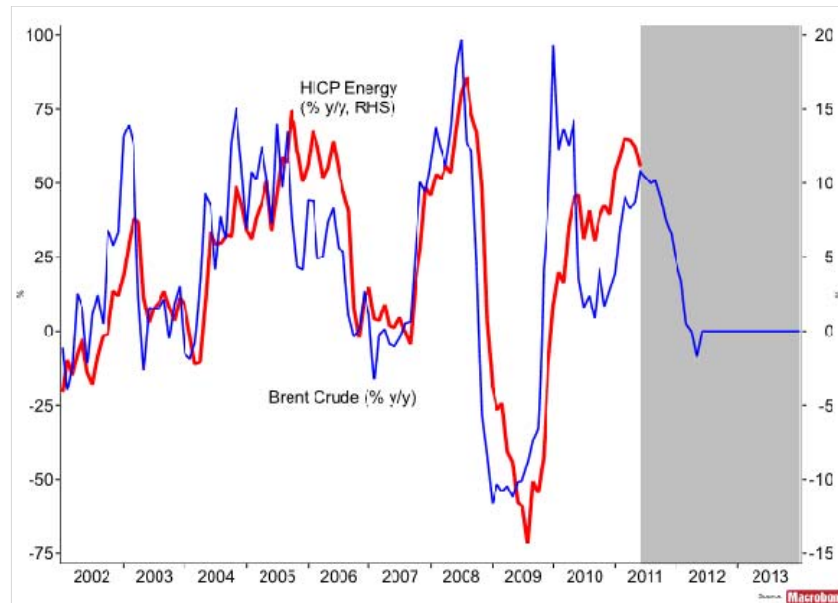


### The fall in inflation to below 1% y/y by mid-2012 looks extreme — is that reasonable?

With oil at USD125 in April-2011 and a scenario of oil falling to USD75pb — that would imply a % y/y fall in Brent of 40% by next April. Chart 2 below shows that a 40% y/y fall in Brent is typically consistent with the HICP energy component falling at around 10% y/y. With a weight of around 10% in the overall HICP basket — that means the contribution of energy to headline HICP goes from an addition of 1 percentage point currently, to a subtraction of 1 percentage point by mid-2012 — an innovation of 2 percentage points. Given that current headline inflation is 2.7% y/y, then it is not unreasonable to expect inflation to fall to around 0.7% y/y. In reality, the fall would probably be a little more pronounced given spillover effects on food prices (given distribution costs and the cost of petrol chemicals) etc.

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### Conclusion

These are just some simple scenarios for what could happen to inflation under certain outcomes. It demonstrates that there will be significant base effects that push down on headline inflation during 2012.

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## AUD Benefits from Regional Ties to Growing Economies

### Near term AUD view dependent on risk aversion; long term view is supportive of rising AUD

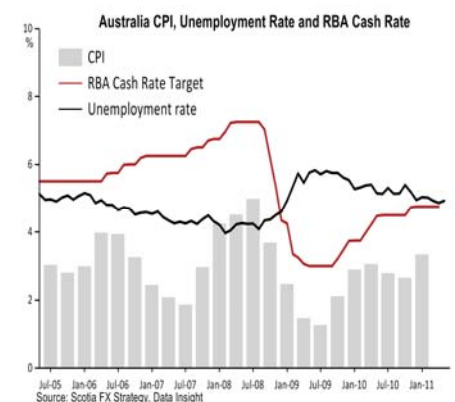
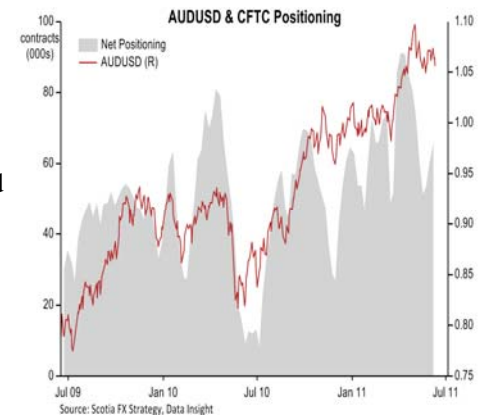
- Solid economic fundamentals leveraged to commodity exports and Asian growth support AUD.
- Sovereign strengths arise from continued fiscal discipline and commitment to deficit reduction.
- Risk for AUD — the Asian growth outlook, risk aversion and the broader move in the USD.

**The Australian dollar (AUD)** reached a post float record high of 1.1012 (see chart) on May 2, 2011, largely driven by fundamental economic factors and bullish investor sentiment. AUD has since retreated and traded in a range around 1.05 / 1.07. The recent spike in risk aversion driven from Europe combined with a softening in the global outlook growth (specifically, PMIs and employment growth) and the paring back of monetary tightening expectations in Australia have been a weight on the currency.

**The fundamentals** — Australia's strength is a result of its large natural resource endowment, its close ties to Asia (see the China piece by Oscar Sanchez in this week's Global Views), and its low level of public debt at 22% of GDP (IMF: 2010). The country's economic performance was resilient through the global financial crisis as a result of its commodity exports, and the resurgence in prices has helped propel Australia's terms of trade to record highs (see chart). Domestic demand has been largely driven by investment in the commodities sector to further expand export capacity, while private consumption and government spending have remained at lower, though more stable, levels of growth. Near term growth trends are expected to continue, with the IMF forecasting real GDP growth of 3.0% in 2011 and 3.5% in 2012. The Australian government's commitment to eliminating its relatively small fiscal deficit at 2.5% of GDP (IMF: 2011) in the next two years is impressive.

**The Reserve Bank of Australia (RBA)**, maintained relatively higher interest rates throughout the financial crisis (see chart), largely owing to the stability in output and employment provided by the ongoing demand for export goods. The cash target rate bottomed at 3.0% in 2009 and is now at 4.75% (having been held steady since November 2011). Headline inflation has risen to 3.3% y/y (above the RBA's 2 to 3% target), while core inflation is at 2.3%. Unemployment peaked at 5.8% in Q3 2009 and has remained at 4.9% since March 2011. Drivers of inflation have been fairly broadly based, with notable pressure on fruit and vegetables caused by extreme weather conditions. Historically, unemployment levels below 5% have driven wage inflation. Market participants expect the RBA's cash target rate to increase by 50bps to 5.25% by year end — in line with Scotia's forecasts — and supportive of a strengthening AUD.

**The short-term outlook for AUD** is based on risk aversion, investor sentiment and the outlook for global growth (including commodity prices). These factors warn of potential near-term downside. **The long term outlook for AUD** is more encouraging. The currency is leveraged to the Asian recovery, commodity prices and global growth (Scotia Economics' forecast of China's 2011 GDP growth at 9.3% is supportive of these fundamentals). In addition, Australia's strong sovereign position leaves it as a market darling compared to our bearish USD outlook. **Risks** to the medium term AUD view include a slowdown in Asian growth, the negative economic impact of a strong currency, the housing market and a more sustained jump in risk aversion, to which AUD is particularly vulnerable. We hold a Q2 target of 1.07 and a year end forecast of 1.09.



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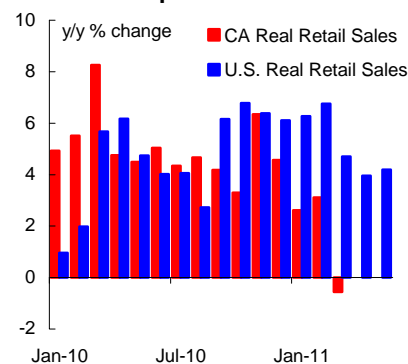
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## Key Data Preview

### CANADA

**Canadian retail sales** (Tuesday) will likely witness a gain in both the headline and core measures in April, in part due to the weak base effect from the March report, although higher prices will be the main culprit rather than volumes, suggesting we could see a further decline in real retail sales. Indeed, over the past four months, price-adjusted retail sales have fallen three times, leading to an almost 1% q/q decline in Q1 with further weakness expected in Q2. A sharp run-up in commodity prices — especially food and gasoline — has been behind much of this weakness on the real side, together with sluggish wage growth, limiting consumer spending for non-essential goods. While a further increase in retail food and gas prices in April will be supportive for overall nominal sales, especially supermarket and gasoline station sales which account for almost 30% of total retail sales, it will have an adverse impact on discretionary sales once again. Terrible weather in April will also provide additional downward pressure on nominal sales, especially for seasonal goods, along with a 1.1% decline in new motor vehicle volumes which will likely have core sales increasing at a faster pace than the headline. Higher commodity prices have also affected US real retail sales, resulting in a decline over the past two months. However, as the accompanying chart illustrates, Canada has been hit much harder with the first outright contraction on a year-over-year basis in March compared to a year ago.

### Cdn retail sales deteriorating at a faster pace than in the US



Source: Statistics Canada, St. Louis Fed, Scotia Economics.

### UNITED STATES

A double-digit decline in pending home sales in April suggests we could see a further contraction in **existing home sales** (Tuesday) in May given the roughly 1-2-month lag between when a sales contract has been signed and when the transaction itself has been closed. Foreclosure filings remain at elevated levels, suggesting that we could witness yet another increase in the narrow months' supply — which excludes shadow inventories — which has turned north once again after hitting a recent low in January. This will put further downward pressure on home prices which continue to fall according to the S&P/Case-shiller index — although the pace of decline has slowed. Even with declining home prices, however, resales have been unable to gain traction since the first-time homebuyers' tax credit expired in April 2010, having pulled forward much of the future demand. **New home sales** (Thursday) have been even worse, bouncing along the bottom since January 2009, given that rising foreclosures during the crisis depressed resale prices, giving existing home sales a leg up once the tax credit was introduced. While the NAHB's prospective homebuyers' traffic index increased in April and May, the gains were extremely modest and won't likely translate into an increase in new home sales in May, especially given the bounce we witnessed in April. Nonetheless, there is a risk of an upside surprise to this report. On the positive side, while home construction has languished since January 2009, it has allowed supply in new home sales to return to more balanced levels, especially when compared to resales, providing a better foundation for growth going forward (see accompanying graph).

### Months' supply for resales and new homes starting to diverge



Source: US Census Bureau; NAR; Scotia Capital Economics

After declining in April, both headline and core **durable goods orders** (Friday) are expected to rebound in May, supported by a large increase in commercial aircraft orders. However, there is a risk of a weaker print should auto orders dip more than expected on the back of Japanese supply chain shocks. Indeed, according to the recent ISM manufacturing report, new orders, which are closely correlated with durable goods orders, moderated further in May although continued to expand, providing further evidence that the gain in durable goods orders in May will likely be modest. Nonetheless, we are expecting a rebound in business investment given recent indications that capital spending continues to improve — albeit at a slower pace than over the past few months.

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**MEXICO**

In the coming week (June 20<sup>th</sup>-24<sup>th</sup>) retail sales data will be released in Mexico. In March, retail sales decreased against February numbers by 0.29%; however, on a yearly basis they expanded 1.0%. These numbers reflect some signs of a slowdown in consumption; though the Retail Sales Index remains close to its highest levels since 2008. We expect retail sales to increase by 3.20% y/y in 2011 and 4.18% y/y in 2012.

**EUROPE**

We expect the headline German IFO to lose ground in June, down by 1 point to 113.2. The fall is likely to be the result of a chunky fall in the expectations component, while current conditions are a little more resilient. In particular, the current index has risen in 22 of the last 24 months and stands just 1.1 points shy of the February 2011 all-time high. Reasons for expecting resilience in the current conditions index are the robust pace of industrial orders, the strong Q1 GDP and further fall in unemployment.

Meanwhile, we expect a more substantial decline in the expectations component. Influences on the index this month will include the intensification in the peripheral euro zone fiscal crisis, which has weakened equities and pushed down bond yields. A rebound in oil prices earlier in the month may also weigh on sentiment. Last but not least, the fall in the manufacturing PMI is typically a reliable guide to future trends in expectations.

Overall, the IFO tends to be nomadic. Once it has peaked (or troughed) it typically continues to move in the same direction for several months. While the index has probably topped-out, it is worth noting that the index is still at an exceptionally elevated level. Even if the index falls as we expect, it will still be consistent with a rapid pace of industrial sector activity and a sizeable contribution to overall GDP growth.

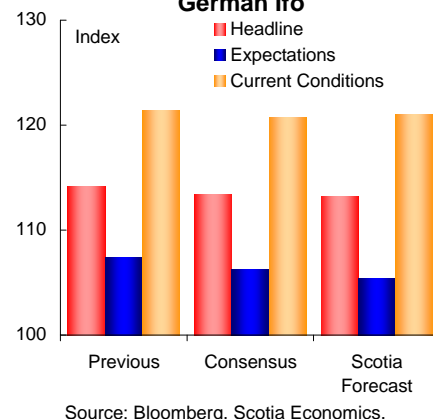
**ASIA**

We expect Thailand's exports to bounce back in May from April's depressed level, which was negatively affected by the Japanese shock. Notwithstanding weak export values in April (the second lowest level so far in 2011), the pace of growth reached 24% y/y due to base effects (given that last year's monthly print contracted severely due to political riots). We anticipate an 18% y/y expansion in May, which would bring export values back towards the average observed prior to the Japanese earthquake/tsunami. Our expectation is reinforced by observations of rebounding Chinese imports (Thailand's main export destination) in May, and in particular, evidence of a milder supply-disruption effect provided by recovering Chinese imports from Japan.

**Mexican Retail Sales**



**Downside Risks to the German Ifo**



**Thailand's Exports**



## Key Indicators for the week of June 20 - 24

North America							
Country	Date	Time	Event	Period	BNS	Consensus	Latest
CA	06/21	08:30	Leading Indicators (MoM)	MAY	--	0.5	0.8
CA	06/21	08:30	Retail Sales (MoM)	APR	0.5	0.5	0.0
CA	06/21	08:30	Retail Sales Less Autos (MoM)	APR	0.8	0.5	-0.1
MX	06/21	09:00	Aggregate Supply & Demand (YoY)	1Q	--	7.0	7.2
US	06/21	10:00	Existing Home Sales (mns)	MAY	4.70	4.8	5.1
US	06/22	07:00	MBA Mortgage Applications (WoW)	17-Jun	--	--	13.0
MX	06/22	09:00	Retail Sales (INEGI) (YoY)	APR	3	2.5	1.0
US	06/22	10:00	House Price Index (MoM)	APR	--	-0.2	-0.3
US	06/22	12:30	<b>FOMC Rate Decision</b>	22-Jun	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>
US	06/23	08:30	Chicago Fed Nat Activity Index	MAY	--	--	-0.5
US	06/23	08:30	Initial Jobless Claims (000s)	17-Jun	420	410	414
US	06/23	08:30	Continuing Claims (000s)	11-Jun	3665	--	3675
MX	06/23	09:00	Unemployment Rate	MAY	4.8	5.1	5.1
MX	06/23	10:00	Bi-Weekly Core CPI (% change)	15-Jun	0.3	--	0.2
MX	06/23	10:00	Bi-Weekly CPI (% change)	15-Jun	0.2	--	-0.1
US	06/23	10:00	New Home Sales (000s)	MAY	300	310	323
US	06/23	16:00	RPX Composite 28dy (YoY)	APR	--	--	0.5
US	06/24	08:30	Durable Goods Orders (MoM)	MAY	1.5	1.6	-3.6
US	06/24	08:30	Durables Ex Transportation (MoM)	MAY	0.9	1.0	-1.6
US	06/24	08:30	Cap Goods Orders Nondef Ex Air (MoM)	MAY	--	0.8	-2.3
US	06/24	08:30	GDP (QoQ saar)	1Q T	1.9	1.9	1.8
US	06/24	08:30	Personal Consumption (QoQ saar)	1Q T	--	2.2	2.2
US	06/24	08:30	GDP Price Index (QoQ saar)	1Q T	--	1.9	1.9
US	06/24	08:30	Core PCE (QoQ saar)	1Q T	--	1.4	1.4
MX	06/24	09:00	Trade Balance (US\$ mns)	MAY P	447.0	--	766.8

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

## Key Indicators for the week of June 20 - 24

Europe								
Country	Date	Time	Event	Period	BNS	Consensus	Latest	
UK	06/19	19:01	Rightmove House Prices (MoM)	JUN	--	--	1.3	
GE	06/20	02:00	Producer Prices (MoM)	MAY	--	0.1	1.0	
GE	06/20	02:00	Producer Prices (YoY)	MAY	--	6.3	6.4	
EC	06/20	04:00	ECB Euro-Zone Current Account SA (€ bns)	APR	--	--	-4.7	
IT	06/20	04:00	Industrial Orders s.a. (MoM)	APR	--	--	8.1	
IT	06/20	04:00	Industrial Sales s.a. (MoM)	APR	--	--	2.0	
EC	06/20	05:00	Euro-Zone Labour Costs (YoY)	1Q	--	1.9	1.6	
UK	06/21	04:30	Public Finances (PSNCR) (£ bns)	MAY	--	6.6	3.3	
UK	06/21	04:30	PSNB ex. Interventions (£ bns)	MAY	16.3	17.0	10.0	
UK	06/21	04:30	Public Sector Net Borrowing (£ bns)	MAY	14.2	16.5	7.7	
GE	06/21	05:00	Zew Survey (Current Situation)	JUN	90.0	90.0	91.5	
EC	06/21	05:00	ZEW Survey (Econ. Sentiment)	JUN	--	6.1	13.6	
GE	06/21	05:00	ZEW Survey (Econ. Sentiment)	JUN	-5.0	-3.0	3.1	
UK	06/21	06:00	CBI Trends Total Orders	JUN	--	-5.0	-2.0	
UK	06/21	06:00	CBI Trends Selling Prices	JUN	--	25.5	24.0	
GR	06/21		Current Account (€ mns)	APR	--	--	-2603.9	
FR	06/22	02:45	Own-Company Production Outlook	JUN	--	--	11.0	
FR	06/22	02:45	Production Outlook Indicator	JUN	--	--	15.0	
FR	06/22	02:45	Business Confidence Indicator	JUN	--	106.0	107.0	
SW	06/22	03:00	Consumer Confidence	JUN	--	17.0	17.9	
UK	06/22	04:30	<b>Bank of England Minutes</b>					
EC	06/22	05:00	Industrial New Orders SA (MoM)	APR	--	1.0	-1.6	
EC	06/22	10:00	Euro-Zone Consumer Confidence	JUN A	--	-10.4	-9.8	
FR	06/23	03:00	PMI Manufacturing	JUN P	--	54.0	54.9	
FR	06/23	03:00	PMI Services	JUN P	--	60.5	62.5	
GE	06/23	03:30	PMI Manufacturing	JUN A	--	57.0	57.7	
GE	06/23	03:30	PMI Services	JUN A	--	55.7	56.1	
SW	06/23	03:30	PPI (MoM)	MAY	--	0.0	0.0	
EC	06/23	04:00	PMI Composite	JUN A	--	55.2	55.8	
IT	06/23	04:00	Consumer Confidence Index SA	JUN	--	105.0	106.5	
EC	06/23	04:00	PMI Manufacturing	JUN A	53.6	53.8	54.6	
EC	06/23	04:00	PMI Services	JUN A	55.5	55.3	56.0	
UK	06/23	06:00	CBI Reported Sales	JUN	--	13.0	18.0	
FR	06/24	02:45	Consumer Confidence Indicator	JUN	--	84.0	84.0	
SP	06/24	03:00	Producer Prices (MoM)	MAY	--	--	0.6	
GE	06/24	04:00	IFO - Business Climate	JUN	113.2	113.4	114.2	
GE	06/24	04:00	IFO - Current Assessment	JUN	121.0	120.8	121.4	
GE	06/24	04:00	IFO - Expectations	JUN	105.4	106.3	107.4	
IT	06/24	04:00	Retail Sales s.a. (MoM)	APR	--	-0.1	-0.2	
GE	06/24	00:00	Retail Sales (MoM)	MAY	--	0.7	0.3	

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

## Key Indicators for the week of June 20 - 24

## Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>	<u>Period</u>	<u>BNS</u>	<u>Consensus</u>	<u>Latest</u>
JN	06/19	19:50	Merchandise Trade Balance Total (¥ bns)	MAY	--	-710.1	-464.8
JN	06/19	19:50	Adjusted Merchandise Trade Balance (¥ bns)	MAY	--	-538.5	-496.4
JN	JUN 19-20		Cabinet Office Monthly Economic Report				
PH	JUN 19-20		Balance of Payments (US\$ mns)	MAY	--	--	1084.0
PH	JUN 19-27		Budget Deficit/Surplus (PHP bns)	MAY	--	--	26.3
TH	06/19		Customs Exports (YoY)	MAY	18.0	15.6	24.6
TH	06/19		Customs Imports (YoY)	MAY	--	30.0	27.9
TH	06/19		Customs Trade Balance (US\$ mns)	MAY	--	486.8	-796.5
AU	06/20	21:30	<b>Reserve Bank's Board June Minutes</b>				
JN	06/21	00:30	All Industry Activity Index (MoM)	APR	--	1.8	-6.3
JN	06/22	01:00	Supermarket Sales (YoY)	MAY	--	--	-1.3
TA	06/23	04:00	Industrial Production (YoY)	MAY	--	5.7	6.9
CH	06/23	21:35	MNI Business Condition Survey	JUN	--	--	61.2
SI	06/24	01:00	Industrial Production SA (MoM)	MAY	--	4.5	-16.3

## Latin America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>	<u>Period</u>	<u>BNS</u>	<u>Consensus</u>	<u>Latest</u>
BZ	06/20	07:30	Central Bank Weekly Economists Survey				
BZ	06/20	10:00	Trade Balance (FOB) - Weekly (WoW)	19-Jun	--	--	1959
BZ	06/22	08:00	Unemployment Rate	MAY	--	6.5	6.4
CO	06/23	12:00	GDP (YoY)	1Q	--	4.9	4.6
UR	06/23		<b>Overnight Lending Rate</b>	23-Jun	--	--	<b>7.50</b>

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

## Global Auctions for the week of June 20 - 24

## North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	06/20	11:00	U.S. Fed to Purchase USD4-5 Bln Notes/Bonds
US	06/20	11:30	U.S. to Sell 3-Month Bills
US	06/20	11:30	U.S. to Sell 6-Month Bills
US	06/20	14:00	U.S. Fed to Purchase USD4-5 Bln Notes/Bonds
CA	06/21	10:30	Canada to Sell CAD7.4 Bln 98-Day Bills
CA	06/21	10:30	Canada to Sell CAD2.8 Bln 168-Day Bills
CA	06/21	10:30	Canada to Sell CAD2.8 Bln 350-Day Bills
US	06/21	11:00	U.S. Fed to Purchase USD4-5 Bln Notes/Bonds
US	06/21	11:30	U.S. to Sell 4-Week Bills
US	06/23	11:00	U.S. Fed to Purchase USD1-1.5 Bln Notes/Bonds
US	06/23	13:00	U.S. to Sell 30-Year TIPS Reopening
US	06/24	11:00	U.S. Fed to Purchase USD4-5 Bln Notes/Bonds

## Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
GE	06/20	05:15	Germany to Sell Add'l EU2 Bln 12-Mth Bills
FR	06/20	09:00	France to Sell Bills
EC	06/20	09:30	ECB Announces Bond Purchases
UK	JUN 20-24		U.K. to Sell 0.5% I/L 2050 Bonds
SP	06/21	04:30	Spain to Sell 3M and 6M Bills
SZ	06/21	05:30	Switzerland to Sell 3-Month Bills
UK	06/21	05:30	U.K. to Sell GBP4.75 Bln 2% 2016 Bonds
SW	06/22	05:10	Sweden to Sell Bills
GE	06/22	05:15	Germany to Sell Add'l EU4 Bln 10-Year Notes
UK	06/24	06:10	U.K. to Sell Bills

## Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
AU	06/20	21:00	Australia Plans to Sell CIB Bonds
JN	06/21	04:00	Japan Auction for Enhanced-Liquidity
JN	06/21	23:35	Japan to Sell 3-Month Bills
NZ	06/22	22:30	New Zealand Plans to Sell Government Bonds
JN	06/22	23:45	Japan to Sell 2-Month Bills

Source: Bloomberg, Scotia Economics.

## Events for the week of June 20 - 24

## North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
CA	06/22	10:30	Bank of Canada Financial System Review
US	06/22	12:30	FOMC Rate Decision
US	06/22	14:15	Bernanke Speaks at Fed Press Conference
CA	06/23	09:15	Deputy Governor Murray Speaks in Calgary, Alberta
CA	06/23	14:45	Deputy Governor Murray Speaks in Lethbridge, Alberta

## Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
EC	06/19	05:00	ECB's Trichet Speaks in Kiel, Germany
EC	06/20	12:00	ECB's Stark Speaks in Munich
PO	06/20	14:00	Portugal Year-to-Date Budget Report
EC	06/20		Euro-Area, EU Finance Ministers Meet in Luxembourg
GE	06/21	13:00	IMF's Liskpy Gives Speech at American Academy in Berlin
IT	06/22	04:00	Italy's Parliament Votes on Berlusconi's Deputy Ministers
UK	06/22	04:30	Bank of England Releases Monetary Policy Committee Minutes
EC	06/22	06:00	European Commission Issues Quarterly Report on Euro Area
EC	06/22	12:30	Trichet, King Speak at ESRB Press Conference
EC	06/23	08:00	EU Conservative Leaders Meet Before EU Summit
EC	06/23	12:00	ECB's Trichet Speaks at Event in Jerusalem
EC	JUN 23-24		EU Leaders Hold Summit in Brussels
UK	06/24	05:30	BOE's King Holds Financial Policy Committee Press Conference
EC	06/24	06:00	ECB's Gonzalez-Paramo Speaks at Award Ceremony in Malaga, Spain

## Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
NZ	06/19		Prime Minister Speaks at Australian Parliament
AU	06/20	21:30	Reserve Bank's Board June Minutes
JN	06/22	21:30	BOJ Board Member Morimoto to Speak in Nagasaki City
AU	06/23	22:45	RBA's Lowe Gives Speech at Banking Luncheon in Adelaide

## Latin America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
UR	06/23		Overnight Lending Rate
AR	JUN 23-24		Mercosur Presidential Meeting in Asuncion, Paraguay

Source: Bloomberg, Scotia Economics.

## Global Central Bank Watch

## North America

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
Bank of Canada – Overnight Target Rate	1.00	July 19, 2011	1.00	--
Federal Reserve – Federal Funds Target Rate	0.25	June 22, 2011	0.25	0.25
Banco de México – Overnight Rate	4.50	July 8, 2011	4.50	--

Further weakness in Canadian inflation adjusted manufacturing shipments and wholesale trade this week point to a soft real GDP print for April with the only positive influence thus far being a small 0.2% m/m rise in aggregate hours worked. This further supports our view that the BoC is on hold until at least October of this year if not longer. In the U.S., while we witnessed better than expected home construction in May, starts continue to bounce along the bottom. As a result, weaker retail sales, an unexpected contraction in manufacturing activity in the New York and Philadelphia areas, weaker than expected gains in industrial production and a sharp drop in homebuilder sentiment all garnered more market attention and point to a Fed that is not rushing to hike overnight rates anytime soon.

## Europe

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
European Central Bank – Refinancing Rate	1.25	July 7, 2011	1.50	--
Bank of England – Bank Rate	0.50	July 7, 2011	0.50	0.50
Swiss National Bank – Libor Target Rate	0.25	September 15, 2011	0.25	--
Central Bank of Russia – Refinancing Rate	8.25	June 24, 2011	8.25	--
Hungarian National Bank – Base Rate	6.00	June 20, 2011	6.00	6.00
Central Bank of the Republic of Turkey – 1 Week Repo Rate	6.25	June 23, 2011	6.25	6.25

The Turkish Monetary Policy Committee will likely keep the benchmark repo rate on hold at 6.25% at its June 23 meeting. Nevertheless, Turkish policymakers will likely start raising the key interest rate in the second half of the year as inflation expectations continue to rise and higher reserve requirements will not prove sufficient to limit soaring credit growth.

## Asia Pacific

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
Bank of Japan – Target Rate	0.10	July 12, 2011	0.10	--
Reserve Bank of Australia – Cash Target Rate	4.75	July 5, 2011	4.75	4.75
Reserve Bank of New Zealand – Cash Rate	2.50	July 27, 2011	2.50	2.50
People's Bank of China – Lending Rate	6.31	TBA	--	--
Reserve Bank of India – Repo Rate	7.25	July 26, 2011	7.50	--
Hong Kong Monetary Authority – Base Rate	0.50	TBA	0.50	--
Central Bank of China Taiwan – Discount Rate	1.75	June 30, 2011	1.75	--
Bank Negara Malaysia – Overnight Policy Rate	3.00	July 7, 2011	3.00	--
Bank of Korea – Bank Rate	3.25	July 13, 2011	3.00	--
Bank of Thailand – Repo Rate	3.00	July 13, 2011	3.00	--
Bank Indonesia – Reference Interest Rate	6.75	July 12, 2011	6.75	--
Central Bank of the Philippines – Overnight Policy Rate	4.50	July 28, 2011	4.50	--

## Latin America

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
Banco Central do Brasil – Selic Rate	12.25	July 20, 2011	12.25	--
Banco Central de Chile – Overnight Rate	5.25	July 14, 2011	5.25	--
Banco de la República de Colombia – Lending Rate	4.00	June 17, 2011	4.25	4.25
Banco Central de Reserva del Perú – Reference Rate	4.25	July 7, 2011	4.25	--

After three consecutive hikes of 50 basis points, the Chilean central bank this week decided to moderate the pace of monetary tightening, opting to increase the reference interest rate by only 25 basis points to 5.25%. Even though consumer prices have remained close to the central bank's target (3.0% +/-1%) and inflation expectations have eased, economic activity continues to improve and international commodity prices remain high.

## Africa

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
South African Reserve Bank – Repo Rate	5.50	July 18, 2011	5.50	--

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

	2000-09	2010	2011f	2012f	2000-09	2010	2011f	2012f
<b>Output and Inflation (annual % change)</b>	<b>Real GDP</b>				<b>Consumer Prices<sup>2</sup></b>			
World <sup>1</sup>	3.6	5.1	4.2	4.5				
Canada	2.1	3.2	2.8	2.6	2.1	1.8	3.0	2.4
United States	1.8	2.9	2.6	2.8	2.6	1.6	2.9	2.1
Mexico	1.9	5.5	4.4	3.8	4.9	4.4	3.9	4.0
United Kingdom	1.7	1.3	1.4	1.7	1.9	3.7	3.7	2.9
Euro zone	1.0	1.6	1.8	1.7	2.1	2.2	2.5	2.3
Japan	0.6	4.0	0.3	3.5	-0.3	0.0	0.8	1.3
Australia	3.1	2.7	3.4	3.0	3.2	2.7	2.8	2.5
China	9.4	10.4	9.3	9.5	2.0	4.6	5.0	4.5
India	7.4	9.0	8.3	8.5	6.2	9.5	7.5	6.0
Korea	4.4	6.2	5.4	5.3	3.1	3.5	3.5	3.0
Brazil	2.9	7.5	4.0	4.5	6.6	5.9	6.5	5.5
Chile	3.6	5.2	6.0	5.5	3.7	3.0	4.5	3.5
Peru	5.1	8.8	7.0	7.2	2.5	2.1	3.5	3.0
<b>Central Bank Rates (% end of period)</b>	<b>11Q1</b>	<b>11Q2f</b>	<b>11Q3f</b>	<b>11Q4f</b>	<b>12Q1f</b>	<b>12Q2f</b>	<b>12Q3f</b>	<b>12Q4f</b>
Bank of Canada	1.00	1.00	1.00	1.50	2.00	2.25	2.25	2.25
Federal Reserve	0.25	0.25	0.25	0.25	0.75	1.25	1.75	2.00
European Central Bank	1.00	1.25	1.50	1.75	2.00	2.25	2.50	2.50
Bank of England	0.50	0.50	0.75	1.00	1.25	1.50	1.75	2.00
Swiss National Bank	0.25	0.25	0.25	0.50	0.50	0.75	0.75	1.00
Bank of Japan	0.10	0.10	0.10	0.10	0.10	0.25	0.25	0.50
Reserve Bank of Australia	4.75	4.75	5.00	5.25	5.50	5.75	6.00	6.25
<b>Exchange Rates (end of period)</b>								
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	6.3	6.3	6.2	6.1	6.0	5.9
Mexican Peso (USDMXN)	11.9	11.6	11.8	12.0	12.1	12.0	12.1	12.3
Brazilian Real (USDBRL)	1.63	1.58	1.59	1.60	1.62	1.65	1.67	1.70
<b>Commodities (annual average)</b>	<b>2000-09</b>	<b>2010</b>	<b>2011f</b>	<b>2012f</b>				
WTI Oil (US\$/bbl)	51	79	100	103				
Brent Oil (US\$/bbl)	50	80	112	115				
Nymex Natural Gas (US\$/mmbtu)	5.95	4.40	4.40	4.75				
Copper (US\$/lb)	1.78	3.42	4.25	4.15				
Zinc (US\$/lb)	0.73	0.98	1.03	1.05				
Nickel (US\$/lb)	7.11	9.89	11.25	8.90				
Gold, London PM Fix (US\$/oz)	522	1,225	1,530	1,600				
Pulp (US\$/tonne)	668	960	1,020	1,050				
Newsprint (US\$/tonne)	572	607	660	715				
Lumber (US\$/mfbm)	275	254	270	285				

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

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

<b>Canada</b>	<b>2010</b>	<b>10Q3</b>	<b>10Q4</b>	<b>Latest</b>	<b>United States</b>	<b>2010</b>	<b>10Q3</b>	<b>10Q4</b>	<b>Latest</b>
Real GDP (annual rates)	3.2	2.5	3.1		Real GDP (annual rates)	2.9	2.6	3.1	1.8 (Q1-A)
Current Acc. Bal. (C\$B, ar)	-50.9	-71.5	-41.1		Current Acc. Bal. (US\$B, ar)	-471	-481	-449	
Merch. Trade Bal. (C\$B, ar)	-9.0	-26.9	1.5	-11.1 (Apr)	Merch. Trade Bal. (US\$B, ar)	-646	-671	-637	-697 (Apr)
Industrial Production	4.6	7.7	6.0	5.2 (Mar)	Industrial Production	5.3	6.7	6.2	8.2 (May)
Housing Starts (000s)	192	192	179	184 (May)	Housing Starts (millions)	0.58	0.58	0.54	0.56 (May)
Employment	1.4	1.8	1.7	2.1 (May)	Employment	-0.8	-0.1	0.5	0.2 (May)
Unemployment Rate (%)	8.0	8.0	7.7	7.4 (May)	Unemployment Rate (%)	9.6	9.6	9.6	9.1 (May)
Retail Sales	5.5	4.0	5.3	0.9 (Mar)	Retail Sales	6.8	5.8	8.1	14.3 (May)
Auto Sales (000s)	1561	1609	1554	1656 (Apr)	Auto Sales (millions)	11.5	11.6	12.3	11.8 (May)
CPI	1.8	1.8	2.3	3.3 (Apr)	CPI	1.6	1.2	1.3	4.8 (May)
IPPI	1.0	1.0	2.6	-5.0 (Apr)	PPI	4.2	3.8	3.8	10.7 (May)
Pre-tax Corp. Profits	21.2	19.0	19.1		Pre-tax Corp. Profits	36.8	34.8	16.1	
<b>Mexico</b>					<b>Brazil</b>				
Real GDP	5.4	5.1	4.4		Real GDP	6.7	5.9	4.2	
Current Acc. Bal. (US\$B, ar)	-5.6	-7.5	-14.0		Current Acc. Bal. (US\$B, ar)	-47.4	-46.1	-48.0	
Merch. Trade Bal. (US\$B, ar)	-3.0	-9.0	-4.2	9.2 (Apr)	Merch. Trade Bal. (US\$B, ar)	20.2	19.3	30.0	42.3 (May)
Industrial Production	6.0	6.2	4.8	1.4 (Apr)	Industrial Production	10.5	8.0	3.6	-0.1 (Apr)
CPI	4.2	3.7	4.2	7.1 (May)	CPI	5.1	5.0	6.1	12.2 (May)
<b>Chile</b>					<b>Italy</b>				
Real GDP	5.2	6.9	5.8		Real GDP	1.2	1.4	1.5	
Current Acc. Bal. (US\$B, ar)	3.6	-0.2	4.9		Current Acc. Bal. (US\$B, ar)	-0.07	-0.06	-0.07	-0.10 (Apr)
Merch. Trade Bal. (US\$B, ar)	11.6	14.7	17.7	21.5 (May)	Merch. Trade Bal. (US\$B, ar)	-39.1	-28.2	-46.3	-65.2 (Apr)
Industrial Production	0.6	4.4	2.7	8.5 (Apr)	Industrial Production	6.5	7.5	5.3	3.7 (Apr)
CPI	1.4	2.2	2.5	3.3 (May)	CPI	1.6	1.6	1.8	4.0 (May)
<b>Germany</b>					<b>France</b>				
Real GDP	3.5	3.9	3.8		Real GDP	1.4	1.7	1.4	
Current Acc. Bal. (US\$B, ar)	188.0	165.7	250.8	152.3 (Apr)	Current Acc. Bal. (US\$B, ar)	-44.5	-33.4	-86.6	-54.3 (Apr)
Merch. Trade Bal. (US\$B, ar)	201.5	207.6	219.8	207.6 (Apr)	Merch. Trade Bal. (US\$B, ar)	-38.9	-42.7	-39.1	-59.4 (Apr)
Industrial Production	10.1	10.2	11.8	9.6 (Apr)	Industrial Production	5.1	4.3	4.6	2.6 (Apr)
Unemployment Rate (%)	7.7	7.6	7.4	7.0 (May)	Unemployment Rate (%)	9.8	9.8	9.6	9.4 (Apr)
CPI	1.1	1.2	1.5	3.2 (May)	CPI	1.5	1.5	1.6	3.6 (May)
<b>Euro Zone</b>					<b>United Kingdom</b>				
Real GDP	1.7	2.0	1.9		Real GDP	1.3	2.5	1.5	
Current Acc. Bal. (US\$B, ar)	-77	-43	-41	-64 (Mar)	Current Acc. Bal. (US\$B, ar)	-56.2	-56.0	-62.2	
Merch. Trade Bal. (US\$B, ar)	0.0	43.0	53.2	39.6 (Mar)	Merch. Trade Bal. (US\$B, ar)	-153.0	-161.1	-171.9	-144.9 (Apr)
Industrial Production	7.4	7.3	8.0	5.2 (Apr)	Industrial Production	2.1	3.2	3.3	-1.1 (Apr)
Unemployment Rate (%)	10.0	10.0	10.0	9.8 (Apr)	Unemployment Rate (%)	7.9	7.8	7.9	7.7 (Mar)
CPI	1.6	1.7	2.0	4.3 (May)	CPI	3.3	3.1	3.4	7.7 (May)
<b>Japan</b>					<b>Australia</b>				
Real GDP	4.0	4.8	2.4		Real GDP	2.7	2.5	2.7	
Current Acc. Bal. (US\$B, ar)	195.9	227.5	176.8	58.4 (Apr)	Current Acc. Bal. (US\$B, ar)	-31.8	-27.6	-37.4	
Merch. Trade Bal. (US\$B, ar)	74.7	75.1	58.4	-71.5 (Apr)	Merch. Trade Bal. (US\$B, ar)	19.3	27.8	25.8	32.5 (Apr)
Industrial Production	16.6	13.3	6.8	-12.3 (Apr)	Industrial Production	4.3	4.3	0.0	
Unemployment Rate (%)	5.1	5.0	5.0	4.7 (Apr)	Unemployment Rate (%)	5.2	5.2	5.2	4.9 (May)
CPI	-0.7	-0.8	0.1	0.3 (Apr)	CPI	2.8	2.8	2.7	
<b>China</b>					<b>South Korea</b>				
Real GDP	10.3	9.6	9.8		Real GDP	6.2	4.4	4.7	
Current Acc. Bal. (US\$B, ar)	305.4				Current Acc. Bal. (US\$B, ar)	28.2	39.7	36.6	22.5 (Apr)
Merch. Trade Bal. (US\$B, ar)	181.8	259.6	247.6	156.6 (May)	Merch. Trade Bal. (US\$B, ar)	41.2	42.5	52.1	26.2 (May)
Industrial Production	13.5	13.3	13.5	13.3 (May)	Industrial Production	16.6	12.9	9.9	7.1 (Apr)
CPI	4.6	3.6	4.6	5.3 (Apr)	CPI	3.0	2.9	3.6	6.9 (May)

Source: Bloomberg, Scotia Economics.

## Interest Rates (% , end of period)

Canada	10Q4	11Q1	Jun/10	Jun/17*	United States	10Q4	11Q1	Jun/10	Jun/17*
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	0.98	0.89	3-mo. T-bill	0.12	0.09	0.04	0.02
10-yr Gov't Bond	3.12	3.35	3.01	2.94	10-yr Gov't Bond	3.29	3.47	2.97	2.94
30-yr Gov't Bond	3.53	3.76	3.48	3.39	30-yr Gov't Bond	4.33	4.51	4.18	4.19
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US\$B)	57.0	60.4	62.9	(Apr)	FX Reserves (US\$B)	121.4	128.3	131.9	(Apr)
<b>Germany</b>					<b>France</b>				
3-mo. Interbank	0.96	1.26	1.44	1.46	3-mo. T-bill	0.40	0.80	1.08	1.16
10-yr Gov't Bond	2.96	3.35	2.96	2.96	10-yr Gov't Bond	3.36	3.71	3.33	3.36
FX Reserves (US\$B)	62.3	64.8	66.4	(Apr)	FX Reserves (US\$B)	55.8	61.0	57.5	(Apr)
<b>Euro-Zone</b>					<b>United Kingdom</b>				
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	1.30	1.30	3-mo. T-bill	4.85	4.85	4.85	4.85
FX Reserves (US\$B)	300.2	319.9	316.7	(Apr)	10-yr Gov't Bond	3.40	3.69	3.22	3.20
					FX Reserves (US\$B)	68.3	75.3	79.2	(Apr)
<b>Japan</b>					<b>Australia</b>				
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	0.13	0.13	10-yr Gov't Bond	5.55	5.49	5.20	5.12
10-yr Gov't Bond	1.13	1.26	1.14	1.12	FX Reserves (US\$B)	38.7	33.3	37.9	(Apr)
FX Reserves (US\$B)	1061.5	1080.6	1097.8	(Apr)					

## Exchange Rates (end of period)

USDCAD	1.00	0.97	0.98	0.98	¥/US\$	81.12	83.13	80.32	80.08
CADUSD	1.00	1.03	1.02	1.02	US¢/Australian\$	102.33	103.29	105.37	106.18
GBPUSD	1.561	1.603	1.623	1.618	Chinese Yuan/US\$	6.61	6.55	6.48	6.48
EURUSD	1.338	1.416	1.435	1.432	South Korean Won/US\$	1126	1097	1083	1086
JPYEUR	0.92	0.85	0.87	0.87	Mexican Peso/US\$	12.340	11.905	11.907	11.902
USDCHF	0.94	0.92	0.84	0.85	Brazilian Real/US\$	1.661	1.632	1.597	1.596

## Equity Markets (index, end of period)

United States (DJIA)	11578	12320	11952	12042	U.K. (FT100)	5900	5909	5766	5720
United States (S&P500)	1258	1326	1271	1276	Germany (Dax)	6914	7041	7070	7173
Canada (S&P/TSX)	13443	14116	13084	12895	France (CAC40)	3805	3989	3805	3828
Mexico (Bolsa)	38551	37441	34964	35267	Japan (Nikkei)	10229	9755	9514	9351
Brazil (Bovespa)	69305	68587	62697	61085	Hong Kong (Hang Seng)	23035	23528	22420	21695
Italy (BCI)	1048	1120	1054	1027	South Korea (Composite)	2051	2107	2047	2032

## Commodity Prices (end of period)

Pulp (US\$/tonne)	968	970	1020	1020	Copper (US\$/lb)	4.42	4.26	4.08	4.13
Newsprint (US\$/tonne)	640	640	640	640	Zinc (US\$/lb)	1.10	1.05	1.02	1.00
Lumber (US\$/mfbm)	268	297	230	232	Gold (US\$/oz)	1405.50	1439.00	1529.25	1537.50
WTI Oil (US\$/bbl)	91.38	106.72	99.29	93.65	Silver (US\$/oz)	30.63	37.87	37.38	35.39
Natural Gas (US\$/mmbtu)	4.41	4.39	4.76	4.38	CRB (index)	332.80	359.43	348.04	336.43

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

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