

# Global Views

Weekly commentary on economic and financial market developments

June 30, 2011

<a href="#">Economics &gt;</a>	<a href="#">Corporate Bond Research</a>	<a href="#">Emerging Markets Strategy</a>	<a href="#">Equity Strategy</a>	<a href="#">Fixed Income Research</a>	<a href="#">Fixed Income Strategy &gt;</a>	<a href="#">Foreign Exchange Strategy &gt;</a>
<a href="#">Economic Statistics &gt;</a>	<a href="#">Financial Statistics &gt;</a>	<a href="#">Forecasts &gt;</a>	<a href="#">Contact Us &gt;</a>			

## 2-9 Economics

- 2 • Central Banks, Greece and North American Jobs To Dominate Headlines..... Karen Cordes Woods & Derek Holt
- 3 • Mid-Year, Mid-Cycle Slowdown.....Scotia Economics
- 4-5 • New Canadian and US Rates Forecasts ..... Karen Cordes Woods & Derek Holt
- 6 • The IEA Releases 'Strategic' Oil Reserves to Dampen Oil Prices & Boost Growth..... Patricia Mohr
- 7 • Rebooting Global Vehicle Production and Global Growth .....Carlos Gomes
- 8-9 • Health Care Arithmetic Challenges OECD Nations..... Gaelan MacKenzie & Mary Webb

## 10 Fixed Income Strategy

- UK — Brace For Weak Growth (...Again) ..... Alan Clarke

## 11-13 Foreign Exchange Strategy

- THB Ahead of the Weekend Election..... Sacha Tihanyi
- FX Reserve Allocation Suggestive of Important Trends ..... Camilla Sutton & Eric Theoret

## A1-A12 Forecasts & Data

- Key Data Preview ..... A1-A2
- Key Indicators..... A3-A6
- Global Auctions Calendar ..... A7
- Events Calendar ..... A8
- Global Central Bank Watch ..... A9
- Forecasts..... A10
- Latest Economic Statistics..... A11
- Latest Financial Statistics ..... A12

Karen Cordes Woods (416) 862-3080  
[karen\\_woods@scotiacapital.com](mailto:karen_woods@scotiacapital.com)

Derek Holt (416) 863-7707  
[derek\\_holt@scotiacapital.com](mailto:derek_holt@scotiacapital.com)

### **Central Banks, Greece and North American Jobs To Dominate Headlines**

- **Please see our full indicator, central bank, auction and event calendars on pp. A3-A9.**

It's time for central bank week again. Out of the announcements by the ECB, BoE, RBA, Riksbank, Bank of Mexico, Bank of Peru and Bank Negara Malaysia, only the ECB is expected to hike by 25bps as ECB President Jean-Claude Trichet and board member Stark have repeated "vigilant" guidance. Scotia Economics is forecasting the BoE to remain on hold until the second quarter of next year while the ECB continues to hike.

But well before the key central bank decisions begin to land, **Euro-area** finance ministers will meet to discuss the next round of aid for Greece over this weekend. Headline risk into Monday's markets is material, but the fact that Greece voted in favour of fiscal austerity and successfully passed the required legislation elevates the odds of European assistance. What still lies in serious doubt, however, are the two key issues of how to structure a new funding accord without sparking an increasingly likely technical (as opposed to messy) default assessment by ratings agencies. Whether ISDA views a restructuring as voluntary and thus not a credit event worthy of triggering credit default swap coverage is also key, as are rating agency pronouncements. In a nutshell, contagion risks have by no means been removed from the global financial order just because Greece passed further austerity measures. Regardless, events over the next several days could make or break Spain's five-year bond auction next Thursday as another market risk catalyst to monitor carefully. Data risk will also be elevated, but we're cautiously optimistic on German factory orders and trade data. Euro zone retail sales, UK manufacturing output and revisions to euro zone GDP round out key data.

**Canadian** markets may be swung around like a reluctant kid in a tilt-a-whirl ride until Friday, as foreign developments impact the global risk trade. Friday's June jobs report may be the only domestic factor of relevance, and yet we have entered an awkward period during which the job releases are to be treated with greater than usual healthy skepticism. At issue is that the education sector has shifted its use of contracts in recent years, and that has destabilized Statistics Canada's seasonal adjustment factors. This has occurred through the greater use of temporary contracts, and the use of shorter contracts than the past use of full-year twelve month agreements. Thus, education sector jobs are much more likely to report unemployment at the end of the school year today than in the past, and then to report they've been hired again in September strictly due to changes in the nature of the contracts. We may have seen this effect in May in the post-secondary education sector that drove most of the 27,000 decline in overall education hiring.

With the exception of job figures, this should be a week for **US** markets to watch from the sidelines as developments in Europe unfold. US markets are closed Monday for Independence Day, which means they will be catching up to headlines emanating from European markets over the weekend and into the start of the week. Domestic data risk is fairly light until Thursday and Friday when ADP and nonfarm land respectively. Consensus is expecting soft employment readings for the month of June. Initial jobless claims remain north of the 400k mark that has always been the dividing line between gains and losses in nonfarm payrolls. Other releases that represent second-tier risks include ISM-services that should continue to point toward greater service sector resilience, and May factory orders that are expected to rise on the heels of higher aircraft orders which will rise even further when the Paris Air Show figures hit the June print.

Australia will dominate most of the attention in **Asia-Pacific** markets next week. The RBA is expected to take a pass on rate changes, but the updated bias will be closely scrutinized. Employment figures for June and updated export and import figures during May will round out the attention on Australia. Cash rate futures contracts have been flirting with pricing in a portion of a rate cut over coming months, but we think that's premature at this juncture. Other regional data is light, with the exception of a Malaysian rate decision on Thursday.

**Lat-am** markets will be focused upon Mexico's overnight rate decision that is expected to keep the official overnight rate at the same 4.5% level at which it has stood since July 2009. Peru is also expected to hold rates for the third straight meeting.

### Mid-Year, Mid-Cycle Slowdown

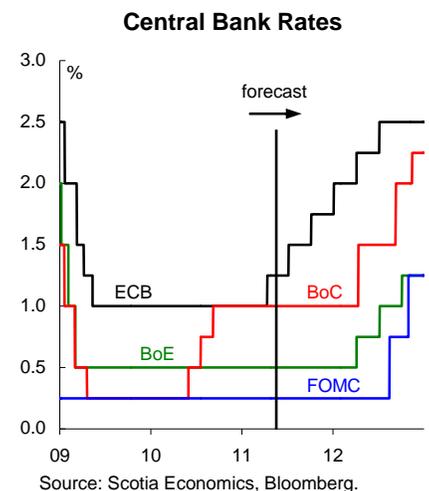
The global economy is moving to slightly lower growth and higher inflation trajectories, though the transition has become more turbulent. High gasoline prices have undercut discretionary spending worldwide. Supply chain aftershocks from Japan's catastrophe have weakened manufacturing activity internationally.

Intensifying sovereign debt strains in Greece, and the potential for contagion in the euro zone periphery, have added to the weaker economic tone, and roiled financial and currency markets. Combined, these factors have undermined confidence and compounded the drag on global growth already underway. Most developed economies are deleveraging their household and/or public sector balance sheets, while many are recapitalizing their financial sectors and preparing for more stringent regulatory and capital requirements. Meanwhile, many emerging nations are gradually tightening policy to rein in credit demand and inflation.

Some of the temporary factors contributing to the global 'soft patch' are already diminishing in intensity. Crude oil prices have declined by over 15% from their recent high, and could ease temporarily over the late summer with the drawdown of strategic reserves in the U.S. and Europe. Although oil prices are still elevated relative to last year's average, relief at the gas pump will help to cushion the softening in discretionary purchases. Japan is already making headway in rebooting its damaged auto and parts sector and repairing its ailing power grid. With the flow of critical auto and industrial components ramping up, auto production is set to add 0.5 percentage points to global growth in Q3, after subtracting an equal amount in Q2.

Virtually every business cycle in the post-WWII period has had a mid-cycle slowdown as the rebound in spending and the rebuilding of inventories wind down. The current cycle is mirroring this trend, with the deceleration coming roughly two years after the recovery began. While many debt-related issues must be addressed before the global economy can move back to a higher and stronger growth trajectory, there are a number of factors that will sustain momentum in the meantime. First, oil prices have been capped by possible further intervention by the International Energy Agency (IEA). Second, both short- and long-term borrowing costs are likely to remain near historical lows for a longer period of time. Third, outside of some countries in Europe, the withdrawal of fiscal stimulus is being implemented on a gradual, growth-friendly timeline. Fourth, businesses are still making money, supporting global growth through expanded productivity investments, M&A, and cost control initiatives that will help maintain margins. And fifth, emerging markets are likely to continue to show robust performance, with many of the global growth leaders able to finance their economic re-orientation towards domestic consumption through significant savings.

Recent Scotia Economics forecast changes include small downward revisions to the growth outlook for some major economies. Early-year weakness in the U.S. and Canada will reduce output growth in 2011 despite a second-half rebound, with the softer performance spilling over into 2012. The U.K. GDP forecast for 2011-12 has been lowered following a weak Q2 performance and expectations of a continued sluggish recovery amid aggressive fiscal consolidation and sagging exports. A more cautious investment climate in Peru in the wake of the recent presidential election has prompted a reduction in that country's growth forecast by roughly a percentage point this year and next. Meanwhile, underlying global price trends are expected to continue to creep higher, reflecting the spillover effects from earlier commodity price gains, and a gradual upward bias in labour costs. The lagged impact of commodity costs adds to this year's total inflation bill, but headline inflation rates should moderate in 2012 as oil and food costs level out (at least for a time).



From a policy perspective, softening employment trends in both the U.S. and Canada, coupled with the increased turbulence in global financial markets, are likely to keep overnight rates low for longer (see chart). We now expect the Federal Reserve to begin to tighten in 2012Q3, as the current soft patch eventually gives way to renewed strength. Accordingly, the Bank of Canada should resume its rate normalization in advance of the Fed in 2012Q2, keeping cross-border spreads from widening significantly. The Bank of England is also likely to push out raising its benchmark rate until the first half of 2012, while the ECB is expected to continue to favour a go-slow approach to raising rates, notwithstanding the chronic debt-related problems in the periphery.

Karen Cordes Woods (416) 862-3080  
[karen\\_woods@scotiacapital.com](mailto:karen_woods@scotiacapital.com)

Derek Holt (416) 863-7707  
[derek\\_holt@scotiacapital.com](mailto:derek_holt@scotiacapital.com)

## **New Canadian and US Rates Forecasts**

### **BoC On Hold Until 2012Q2, Fed On Hold Until 2012Q3**

We have argued throughout this cycle that the neutral rate is lower than in past cycles, that the BoC should take a slow path toward a lower neutral rate, and that the tail risk was always more skewed toward later than the October 2011 hike that we have been forecasting since last Fall. We've now formally executed that fat tail risk into a print forecast that has the BoC on hold until 2012Q2 and we don't discount the risk that resumed rate hikes begin even later than that.

To this effect, those who are arguing that the BoC is behind the curve are treating monetary policy as being conducted in a vacuum in isolation of myriad other complicated influences upon the economy and markets. Rather, material tightening is being imposed on the economy without any action by the BoC, via fiscal retrenchment, CAD strength, higher capital and liquidity requirements, commodity prices that are crowding out wage growth, tighter mortgage lending rules, rolling global fiscal shocks that create a backdrop of instability in financial markets, and risks facing fixed-term borrowing costs over 2012-13. Such forms of tightening are all forward looking and must be considered in a forecast for monetary policy as opposed to dwelling on the country's impressive accomplishments to date.

Add to this the enormous modeling uncertainty surrounding the impact of CAD appreciation on core inflation. The 95% confidence interval surrounding estimates of the impact of each 10% trade-weighted currency appreciation push as high as a 2% drop in core prices after two years. Current inflation readings are largely meaningless in the conduct of forward-looking monetary policy, such that the uncertainty over the impact of a stronger currency on pricing power justifies idled monetary policy for some time and catching up later if need be. It would likely be imprudent to hike before year-end without giving such effects enough time to be evaluated. What also leans in the direction of this argument is the uncertain medium-term outlook for commodity prices, but our base view is that their influences upon CPI inflation will ebb into next year when re-based to today's still relatively high commodity prices. That doesn't require further sustained declines in food and energy prices, but even a flattening out will have commodities drop out as influences upon headline inflation such that the BoC's guidance — and that of the Fed and BoE — to look through near-term inflation upsides is legitimate. If not, then materially higher commodities would likely spark renewed demand destruction and this would probably be disinflationary upon core CPI yet again.

Further, the BoC's output gap guidance remains that should the gap close by 2012Q2 (with the risk of being delayed a quarter after a very weak 2011Q2 and heavily inventory-distorted Q1 that left behind a weak domestic demand picture), then it merely rides flat thereafter if the BoC is correct in forecasting actual GDP growth to be in line with potential GDP growth into 2013. This is a key part of guidance from the BoC that was missed by many in the April rate statement and thereafter. It does not incorporate an embedded hawkish tightening rate profile as that would be at odds with all other forms of guidance from the BoC including Governor Carney's recent comments in a WSJ interview. Rather, we take such guidance to mean that when excess capacity is closed off, it will not do so in a manner that persistently pushes further and further into inflationary excess demand. Given structural headwinds facing the economy, this view on 2012-13 growth is reasonable. What the BoC is signaling here is that they believe their inflation target is unlikely to be sustainably breached into 2013 under current or only somewhat tighter monetary policy conditions later. While such guidance may or may not turn out to be correct over the long run, it is the guidance and reaction function being signaled to markets by the BoC and it does not support near-term rate hikes. Working backward from such guidance after incorporating lagged influences of monetary policy changes supports a hold view until next Spring or perhaps later.

All of this must be placed within the context of less-than-spectacular fundamentals. The country has been unable to leverage up the US expansion and its commodity advantage as evidenced through a rising sea of red ink in its net trade deficits. High terms of trade (the ratio of export to import prices) are not filtering through the broader economy since real wage growth is flat despite decent trend job growth, and instead the terms of trade lift is being hoarded in operating profit margins and cash balances within the context of still-significant slack in labour markets. Further, the domestic household sector is operating at cycle peaks on volume, price and leverage measures that risk a sharp correction should rates rise significantly at the front end of the Canada curve in addition to our views on the belly of the curve. The question is not whether the BoC should hike to cool

Karen Cordes Woods (416) 862-3080  
[karen\\_woods@scotiacapital.com](mailto:karen_woods@scotiacapital.com)

Derek Holt (416) 863-7707  
[derek\\_holt@scotiacapital.com](mailto:derek_holt@scotiacapital.com)

... continued from previous page

housing, consumption and debt growth amidst strong evidence of cooling pressures that are already underway. Instead, should the BoC impose appreciable rate shock on the Canadian economy, it risks being the catalyst to rolling over the household sector from all-time highs across so many variables that have reached their highs by pulling forward future demand.

In the context of what has been said thus far, advice in favour of the BoC hiking earlier than expected on the heels of the latest inflation report is off-base. To do so would be a policy distortion of monumental proportions when even backward-looking core inflation remains well behaved at 1.8% y/y. Distortions that fed the month-over-month rise included seasonal pricing (whereas seasonally adjusted inflation was up only 0.2% m/m on headline and core), temporarily higher gas prices that have already reversed and that are outside of the BoC's control, and narrowly based inflation in the clothing and footwear category that largely just reversed the prior month's drop. Evidence of a fanning out in inflationary pressures remains weak.

Lastly, we're left with geopolitical concerns. The 'yes' votes in Greece alter nothing by way of the still large and looming funding challenges that stretch across the peripheral economies. Sunday's meeting of euro-area finance ministers will determine whether to release the next tranche of funding required to bridge over Greece's short-term needs. That's likely to be agreed upon, but then the fun begins. What happens from that point forward is still marked by enormous uncertainty. How to address Greece's longer-run funding requirements within the confines of an economy that stands no hope of doing it on its own through economic and revenue growth, and how to do so without triggering a default stamp is proving to be enormously complex. Ratings agencies have been fairly clear for some time now that any restructuring that alters the original indenture terms for the worse, and/or that is deemed necessary in order to avoid an outright default, will be classified as a default on Greece's obligations. That then leaves open the next round of uncertainty with respect to whether this is deemed a credit event by ISDA, and thus whether CDS coverage can be triggered or not. In all, whether Greece or elsewhere, the future will continue to be marked by rolling fiscal shocks that jeopardize market stability and cause ongoing consternation in global central bank circles.

Our broader yield curve views (see below) incorporate more of a classic bear flattener in Canada than in the U.S., albeit mildly. In the US, Scotia Economics continues to forecast that the classic historical tendency to exhibit relief in the belly and the back end of the yield curve once monetary policy tightening commences does not transpire this time. Long-run exit concerns regarding unconventional monetary policy are one factor. Another is the prospect of further fiscal stimulus extension into a Presidential election year despite rating agency warnings that a credible fiscal exit plan must be in place by 2013; this is expected to contribute toward deepening concerns over the US fiscal position as expressed by bond markets and rating agencies. A globally correlated bond sell-off weighted more toward the US with less of an impact on Canada is expected to add spread opportunities. Our forecast that the US Fed is on hold until 2012Q3 may face later risk given disappointment in the Fed's full employment mandate and the intertwined political and fiscal risks. Either way, the Fed is a constraint on when the BoC can recommence hiking given the impact on CADUSD and the ensuing flow-through effects into growth and inflation.

Scotia Economics' Canada-U.S. yield curve forecast												
end of quarter, %												
June 29th 2011												
Canada	10q1f	10q2f	10q3f	10q4f	11q1f	11q2f	11q3f	11q4f	12q1f	12q2f	12q3f	12q4f
BoC Overnight Target Rate	0.25	0.50	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.50	2.00	2.25
Prime Rate	2.25	2.50	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.50	4.00	4.25
3-month T-Bill	0.30	0.61	1.01	1.05	0.96	0.88	0.90	0.95	1.15	1.70	2.25	2.30
2-year Canada	1.74	1.39	1.38	1.68	1.83	1.55	1.45	1.55	1.80	2.15	2.30	2.50
5-year Canada	2.90	2.33	2.03	2.42	2.78	2.25	2.15	2.25	2.50	2.80	2.95	3.10
10-year Canada	3.57	3.08	2.76	3.12	3.35	3.05	3.00	3.20	3.30	3.45	3.65	3.85
30-year Canada	4.07	3.65	3.36	3.53	3.76	3.50	3.50	3.60	3.80	3.95	4.20	4.35
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	0.25	0.25	0.75	1.25
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.75	4.25
3-month T-Bill	0.15	0.17	0.15	0.12	0.09	0.02	0.05	0.15	0.20	0.40	1.00	1.40
2-year Treasury	1.02	0.60	0.42	0.59	0.82	0.50	0.50	0.55	0.85	1.10	1.40	1.80
5-year Treasury	2.54	1.77	1.26	2.00	2.28	1.70	1.65	1.80	2.00	2.45	2.75	3.10
10-year Treasury	3.83	2.93	2.51	3.29	3.47	3.10	3.00	3.20	3.50	3.80	4.10	4.50
30-year Treasury	4.71	3.89	3.68	4.33	4.51	4.35	4.30	4.40	4.55	4.70	4.95	5.20

Patricia Mohr (416) 866-4210  
[patricia\\_mohr@scotiacapital.com](mailto:patricia_mohr@scotiacapital.com)

### The IEA Releases 'Strategic' Oil Reserves to Dampen Oil Prices & Boost Growth

- **The Alberta oil sands — building export capability to fast-growing Asian markets is vital for the Canadian economy.**

WTI oil prices, the bellwether for North America, initially fell to US\$90 per barrel (-by US\$4.80) on news that the IEA, led by the United States, will release 60 million barrels of 'strategic' oil reserves, likely to reach oil markets by August. However, prices have rallied back to US\$95 in recent days, with investor 'risk appetite' returning on optimism over a Greek debt rollover.

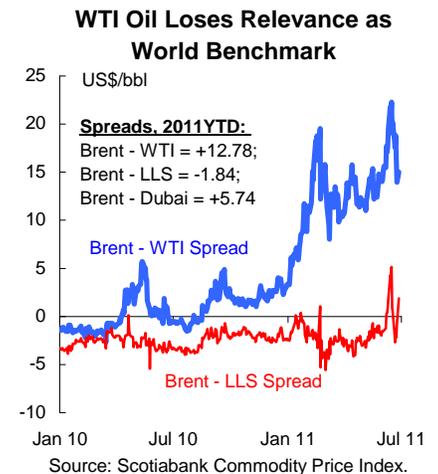
The decision by the IEA — representing 28 industrialized oil-consuming countries — is a substantial break with past policy. In contrast to previous 'emergency' releases — at the time of Hurricane Katrina in 2005 and Iraq's invasion of Kuwait in 1990-91 — the current release was not triggered by a genuine oil supply shortage linked to disrupted Libyan supplies. Instead it appears primarily intended to dampen oil prices and provide stimulus to a slowing U.S. economy and, to a lesser extent, the global economy. U.S. regulations were recently changed to allow this. There may have been some

concern that prices would escalate later in the year — with momentum building through the funds — curbing global growth. The move will help to sustain growth in China and 'emerging Asia', with oil prices possibly capped in 2012 by the potential for further releases should oil prices climb to high levels (say US\$120). However, this move will cool relations between OPEC and the IEA.

Prior to the announcement, Saudi Arabia had already boosted its output from 8.8 mb/d in May to 9.8 mb/d in June, with stepped-up sales especially to Japan, China and India. Saudi Arabia offered additional volumes recognizing that the 'call' for OPEC oil in 2011:H2 would likely exceed recent OPEC output (by about 1.5 mb/d). Retail gasoline prices in the United States had already moderated from almost US\$4 per gallon to US\$3.65 (now US\$3.60), providing relief to U.S. consumers. Combined with Saudi Arabia's stepped-up shipments, the release of 'strategic' stocks will over-supply the market in the third quarter. While U.S. 'strategic' stocks include 'light, sweet' crude (possibly similar to lost Libyan supplies), U.S. regulations do not permit these inventories to be sold abroad. While it might be possible for buyers to swap the crude with refineries in Italy and Spain (normally supplied by Libya), we understand that adjustments have already been made.

The outlook for oil prices in 2012 will depend greatly on Saudi Arabian policy. We expect the Kingdom's oil production to be scaled back in the late summer. Actual world supply/demand conditions in 2012 will remain firm, with modest non-OPEC supply gains and the demand for OPEC crude staying over 30 mb/d. While the WTI oil price forecast has been revised down slightly, it remains fairly high at an average of US\$97 for 2011 and US\$100 for 2012.

Turning to Canada, given the substantial forecast growth of Alberta oil sands production in the next 5-10 years (up 0.6-0.7 mb/d by 2015 and over 1.2 mb/d by 2020) in the face of only limited U.S. consumption gains — building further export infrastructure (pipelines or a unit-train system) to the B.C. Coast to reach fast-growing Asian markets is vital. China's petroleum consumption climbed 8.8% yr/yr in May, though it edged down m/m, and has advanced by 10.9% YTD. (Sinopec is a member of a consortium backing the proposed Enbridge Northern Gateway Pipeline to Kitimat.) In contrast, U.S. petroleum demand fell by 2.7% yr/yr in mid-June and will be largely flat in 2011. However, it is anticipated that 'politically secure' Canadian crude will eventually displace oil from Venezuela, Mexico and possibly the Middle East. Accessing Asian markets would also ensure world prices for Western Canada's oil. WTI oil has traded at a huge US\$12.78 discount this year to Brent (a world benchmark). This discount may fade once planned new pipelines link Cushing, Oklahoma to U.S. Gulf Coast refining centres. However, it will remain commercially very risky to rely on just one key export market.



Carlos Gomes (416) 866-4735  
[carlos\\_gomes@scotiacapital.com](mailto:carlos_gomes@scotiacapital.com)

### Rebooting Global Vehicle Production and Global Growth

- **Faster-than-expected improvement in production to add 0.5 percentage points to global GDP growth in the third quarter.**

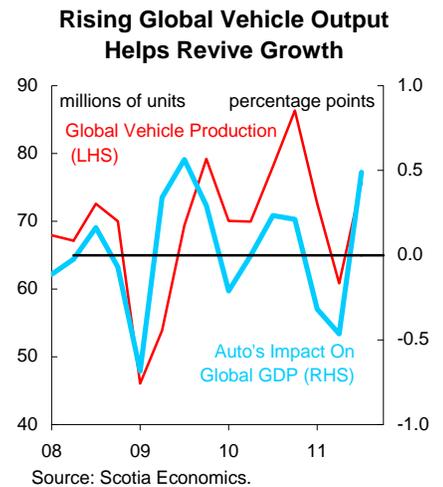
Global vehicle production bottomed in May, and will continue to strengthen in coming months, re-energizing global economic activity. Japan and other nations in Asia, such as Thailand, as well as North America will be the main beneficiaries of the rebound in global vehicle assemblies. We estimate that rising vehicle output will add at least an annualized 0.5 percentage points to global GDP growth in the third quarter. This represents a full percentage point reversal from the second quarter 'soft patch', when supply chain disruptions forced automakers to slash production.

The impact of rebounding vehicle output will be greatest in Asia, which accounts for two-thirds of overall production by Japan automakers. In fact, industrial production in Japan advanced 5.7% in May — the largest gain in nearly 60 years. The increase was led by a 36% month-to-month jump in the transportation equipment industry, as automakers began ramping up production. Further gains are scheduled for coming months, leading us to expect rising assemblies to add an annualized 1.5 percentage points to the nation's third-quarter economic growth.

The impact will be even greater in Thailand, where the auto industry represents 6% of overall economic activity. In addition, Japanese automakers — led by Toyota — account for 85% of the overall vehicle output in Thailand. Toyota resumed production in Thailand in late May, leading to a 7.6% jump in the nation's industrial activity. Other Japanese automakers also resumed production in Thailand this month. As a result, the Federation of Thai Industries expects vehicle assemblies in the June to August period to jump 30% above the level prevailing during the previous three months. We estimate that this rebound in assemblies will add at least an annualized 5 percentage points to Thailand's GDP growth in the third quarter — the largest contribution throughout the world.

Automakers are also gearing up to boost third-quarter production in North America 18% above a year earlier. This represents a sharp acceleration from the slowdown in the April-June period, when supply chain disruptions limited North American assemblies to an annual rate of only 12.4 million units, down from 13.3 million in the opening months of 2011. We estimate that third-quarter vehicle output in North America will climb to roughly an annualized 14.0 million units — the highest level since mid-2008, prior to the sharp fall-off in global economic activity later that year. In fact, assemblies in the U.S. began to improve in May, edging up to 7.9 million units, after a 12% plunge in April to only 7.8 million units. The improvement reflects rising output by the Detroit Three, as well as the ramping up of assemblies at Volkswagen's new assembly plant in Chattanooga, Tennessee.

Aside from the ramping up of production in North America to rebuild inventories as fast as possible, Japanese automakers are also shifting more vehicle assemblies to the region. This reflects a strong yen which is hindering their export competitiveness from Japan, as well as a desire to diversify their production in light of ongoing concerns over Japan's near-term electricity supply.



Gaelan MacKenzie (416) 607-0058  
gaelan\_mackenzie@scotiacapital.com

Mary Webb (416) 866-4202  
mary\_webb@scotiacapital.com

**Health Care Arithmetic Challenges OECD Nations**

- To sustainably restrain health spending relative to GDP, no silver bullet in terms of an institutional framework or policy combination stands out among OECD nations.

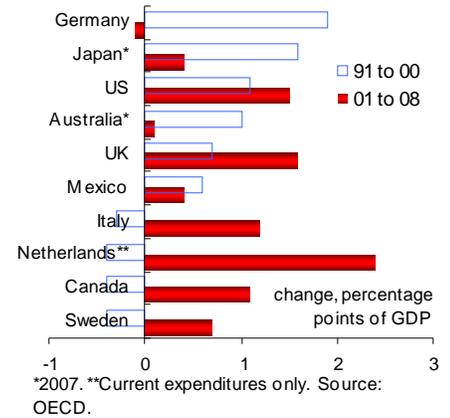
To address fiscal concerns, several developed nations have temporarily reversed the rise in their public-sector health outlays relative to GDP, but longer-term restraint of this ratio remains elusive. Between 1990 and 2000, Canada, the Netherlands, Italy and Sweden cut their public-sector health spending relative to GDP, but all reported sizeable subsequent jumps in health outlays. The longevity of more recent health cutbacks, such as Germany's, remains to be demonstrated (*top chart*). Across the OECD, regardless of the size of health expenditures — from 5.9% of GDP in Mexico in 2008 to 16% in the United States (*middle chart*) — total health outlays keep trending higher, climbing from an average of 6.9% of GDP in 1990 to 7.8% in 2000, then escalating to 9.0% in 2008. Although the private sector has absorbed some of the pressure, the rise in public-sector health spending among OECD members is still climbing, from 5.1% of GDP in 1990 to 5.6% in 2000 and 6½% in 2008.

Across the OECD, a visible driver of total and public-sector health outlays is per capita income, as well as the lagged effect of multi-year income trends (*bottom chart*), which reflects citizens' increasing demand for health care (to improve longevity and quality of life) and governments' greater fiscal ability to provide improved services. New medical technologies and their diffusion appear to pace income growth, and health care inflation, pushed up by technological innovations, pharmaceutical costs and professionals' expense, typically outpaces price increases for other consumption goods. Moreover, many OECD members still seek substantive health care improvements, such as Canada's recent attention to mental health issues. Adding further pressure is the expanding Seniors cohort in many advanced economies, and the escalation of health outlays for this group will likely require across-the-board downward per capita spending adjustments to manage this demographic change. In Canada, Seniors, accounting for just 14% of the population, absorb almost 44% of provincial/territorial governments' health spending, with per capita outlays for this cohort roughly five times that of the 25-54 age group.

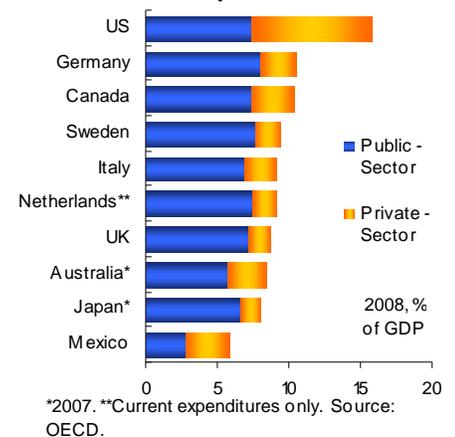
Health care affordability also relates to the absolute level of total or public-sector spending relative to GDP. On this metric, the steepness of the recent economic downturn and the less-than-robust recovery in a number of OECD nations represent a further setback in containing health expenditures relative to GDP. With the latest available data available only to 2008, the OECD estimates that the rise in total health outlays between 2008 and 2010 will average one percentage point of GDP across member nations if countries maintain their recent health spending growth rates.

The trend of health spending absorbing an ever-increasing share of GDP cuts across ideological and institutional frameworks. In the United States, where public funding accounted for 46½% of total health outlays in 2008, and the United Kingdom, where the public share was 82½%, public-sector expenditures on health in both countries rose by about 1½

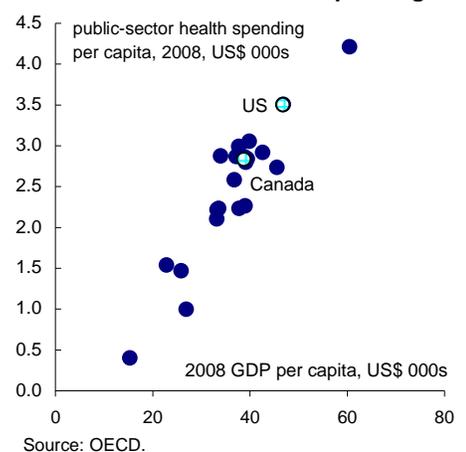
**Public-Sector Health Outlays Trend Higher**



**Total Health Expenditures / GDP**



**Income Effect on Health Spending**



Gaelan MacKenzie (416) 607-0058  
[gaelan\\_mackenzie@scotiacapital.com](mailto:gaelan_mackenzie@scotiacapital.com)

Mary Webb (416) 866-4202  
[mary\\_webb@scotiacapital.com](mailto:mary_webb@scotiacapital.com)

... continued from previous page

percentage points of GDP from 2000 to 2008. Since most advanced economies offer universal coverage of essential health care services, the basic coverage level is not a common differentiating factor in health spending growth. Fiscal characteristics, such as the gross debt burden, had no strong correlation to the growth of health spending relative to GDP. In several instances, reforms have indicated no clear advantage to different systems. For example, a variety of provider payment mechanisms have been used in various countries to meet different needs, ranging from fee-for-service payment at one extreme to fixed-per-patient payments. With drawbacks inherent in both extremes, a number of countries are moving towards mixed compensation systems that merge the two options. The OECD, using cluster analysis, identified six groups of advanced economies sharing broadly similar health institutions (*see summary below*). Interestingly, the study found that the efficiency of health care spending varied more within the country groups sharing similar institutional characteristics than between the groups, with no broad type of health care system performing systematically better than another.

Now, for most developed nations, the dual pressures of weaker government balance sheets and an expanding Seniors cohort relative to working-age adults, raise the ante for managing health care expenditure going forward. Some consensus is emerging on the potential value of transparent, evidence-based targets, benchmarks and reporting. Experience credits both macro- and micro-reforms and attention to both the supply and demand conditions for health care (*see Global Views, February 25, 2011*). A further and very significant complication in health reform is the difficulty in accurately assessing longer-term changes in health outcomes, yet doing so is critical to both the eventual cost and quality of health care.

<b>Typology of OECD Countries' Health Systems</b>
<p><b>Group 1:</b> Extensive reliance on market mechanisms in regulating basic and "over-the-basic" insurance; substantial private provision of health care            Germany, Netherlands, Slovak Republic, Switzerland</p>
<p><b>Group 2:</b> Public basic insurance coverage supplemented by private insurance; heavy reliance on market mechanisms at the provider level, with wide patient choice among providers; fairly large incentives to produce high volumes of services contained by gate-keeping arrangements            Australia, Belgium, Canada, France</p>
<p><b>Group 3:</b> Public basic insurance coverage with little additional private insurance; extensive private provision of care, with wide patient choice among providers; large incentives to produce high volumes of services; no gate-keeping; soft budget constraints; limited information on quality and prices to stimulate competition            Austria, Czech Republic, Greece, Japan, Korea, Luxembourg</p>
<p><b>Group 4:</b> Mostly public insurance; ample choice of providers but limited private supply and prices are tightly regulated; gate-keeping is virtually nonexistent            Iceland, Sweden, Turkey</p>
<p><b>Group 5:</b> Mostly public insurance; health care is provided by a heavily regulated public system; the role of gate-keeping is important; Patient choice among providers is limited; fairly soft budget constraints            Denmark, Finland, Mexico, Portugal, Spain</p>
<p><b>Group 6:</b> Mostly public insurance; health care is mainly provided by a heavily regulated public system; strict gate-keeping; little decentralisation; tight budget constraint            Hungary, Ireland, Italy, New Zealand, Norway, Poland, United Kingdom</p>
<p>Note: The United States did not respond to the survey informing these results and is not included.            Source: Joumard, I., C. Andre, and C. Nicq, 2010 "Health Care Systems: Efficiency and Institutions," Economics Department Working Paper No. 769 (Paris: Organization for Economic Cooperation and Development).</p>

## UK — Brace For Weak Growth (...Again)

### Poor Service

- As we highlighted ahead of time, the services sector data for April were much weaker than consensus expectations. We fully expect a rebound next month as normal service was resumed. However, even assuming a bounce in services, industrial and construction output in May, the average of the quarterly data implies a significant drag on Q2 GDP.

### History Lessons

The consensus has persistently been wrong-sided by GDP data in the UK since the credit crunch began. Part of that has been due to insufficient attention to the monthly data that feed into the quarterly GDP. We have more information than normal about the likely make-up of the Q2 GDP data given the distortions related to the Royal wedding. In very simple terms, output (in services, manufacturing and construction) shrank in April largely due to the additional public holiday. This was very similar, albeit less extreme, to what happened in June 2002 when the Queen's Golden Jubilee celebrations involved an additional public holiday. One month later, output rebounded by roughly as much as it fell the prior month. We assume that the same will be true over the coming month — starting with industrial production that will be released over the coming week.

### So What?

The gyrations in the data are just noise and should be overlooked. The fact that Prince William and Kate Middleton walked down the aisle at Westminster Abbey and most of the country had an extra day off work should not make any difference whatsoever to the fundamentals underpinning economic growth. However, we fear that the commentary that will accompany the Q2 data will be rather more short-sighted.

When we crunch the numbers, the swings in the monthly indicators are likely to imply a drag on the quarterly averages that feed into GDP. This will artificially depress Q2 growth, but boost Q3 growth.

We calculate that on the back of what we already know for services, construction and industrial production, a reading of 0.1 to 0.2% q/q for headline GDP is likely during Q2. That compares to the latest implied BoE projection of more like 0.7% q/q. The flipside is that the output is likely to rebound by around 0.6 to 0.7% q/q during Q3.

Having not grown for the last 6 months, we believe that there is a risk that the market takes fright from the lack of GDP growth and raises question marks about the coalition government's austerity plans. There have already been warnings of a possible downgrade to the UK's sovereign credit rating if growth disappoints. We doubt that the UK will be downgraded, but that is unlikely to stop the market pricing in a bigger risk of such.

Furthermore, advocates of 'plan b' (i.e. those who would prefer a slower pace of fiscal consolidation) are likely to increase the volume of their calls for a softening in the fiscal consolidation plan.

At the very least a weak Q2 GDP reading will temper expectations of a rate hike any time soon. We doubt that the BoE will raise rates before mid-2012 at the earliest. At the other extreme, there could be further speculation that the BoE will reengage in quantitative easing. We doubt further QE will be delivered. In particular, the economy is not in recession any more, inflation is likely to rise to above 5% y/y and there is precious little evidence to show that QE actually helped to boost activity. The BoE has conceded that if it does restart its asset purchase programme, the scale of purchases will have to be even bigger than during the first phase in order to have the same impact. Hence we are talking serious sums of purchases — GBP100bn or more if the BoE does consider QE2. This is not a fine tuning exercise, so there will have to be a compelling case to pull the trigger. Deputy Governor, Paul Tucker this week confirmed that there is a significant threshold that would have to be passed in order to trigger further QE.

Sacha Tihanyi (852) 6117-6070  
[sacha\\_tihanyi@scotiacapital.com](mailto:sacha_tihanyi@scotiacapital.com)

### THB Ahead of the Weekend Election

- **THB underperformance in recent weeks has been driven by portfolio flows bent on avoiding political uncertainty. However, weakness would be overdone in the context of a benign political outcome. Nevertheless, all electoral outcomes are not “THB-equal”, and there is non-negligible risk to our end of year 29.00 forecast for USDTHB.**

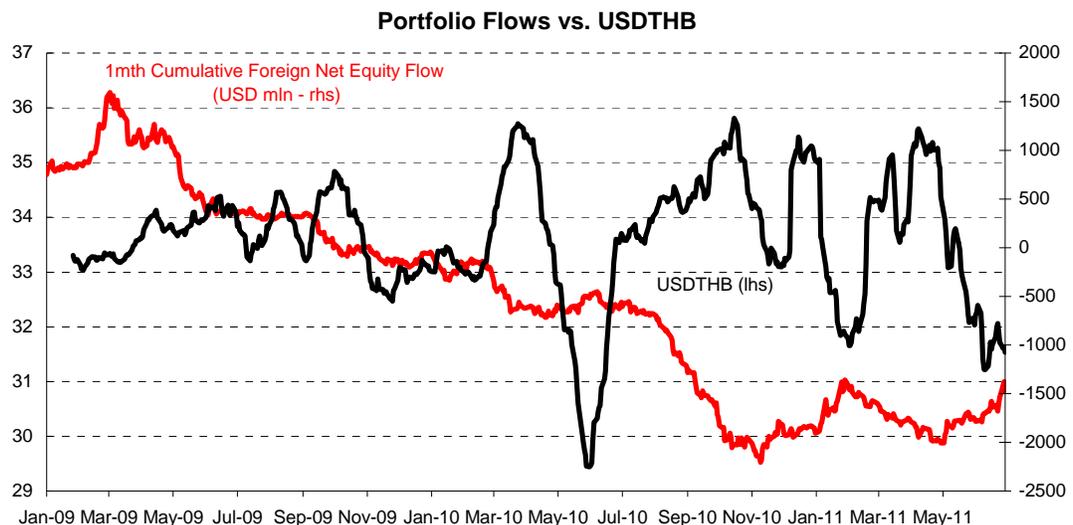
The past eight weeks have brought the most significant trend THB depreciation since January of this year. The baht has suffered under the weight of political uncertainty heading into this weekend’s leadership election, with fears over the potential for unrest and generalized worry over the prospect of a new government taking its toll on the currency.

Political analysis by our colleagues in Thailand (see Siam Senses: SET resiliency, by Pimpaka Nichgaroon, available upon request) lays down a convincing case for this election to bring significantly less violence (if any at all) than that which occurred during the May 2010 political rallies. They also note that the near-term risk for a coup is virtually nil as the military’s stance appears to be one of acceptance of whatever election result transpires.

It is in this context that the weakness in THB, the worst performing Asian currency since the beginning of May, if not perfectly understandable, seems a bit overdone. It is perhaps the case that the recent degree of THB selling provides a buying opportunity considering our end of year target of 29.00 in USDTHB.

#### WHY THE THB WEAKNESS?

Foreign portfolio players seem to have played a reasonably prominent role in THB depreciation in recent weeks. If we take equity flow as a proxy for overall flows, the trend in foreign selling (as measured by rolling one month net foreign equity purchases) has reached an impressive level. In the month ended June 29th, foreign institutional investors have been net sellers of nearly \$1.1bn worth of Thai equities, with that same sum coming in at over \$1.2bn at one point mid month. This is the largest amount of net equity selling since the April to May period of political unrest in 2010 (see chart). Interestingly, during the equity rally on Thursday, the market saw the largest one day net purchase of Thai stocks by foreign investors since early May, and the first day of positive inflows in six sessions. This inflow coincided with the largest daily THB gain against the USD (at 0.65%) since October of 2010, and the fifth largest daily gain in the past 2.5 years.



Source: Scotia FX Strategy, The Stock Exchange of Thailand

... continued from previous page

Thai equities have not lost as much ground from market top to bottom over the past two months as they did during the April through May 2010 period of weakness (at about 75% of the loss level), but THB has weakened off significantly more than during that period, as is obvious from our chart. Why do we see such a weakening in THB now as compared to the pre-summer 2010 period, and is the weakness justified?

### **A LESS INTERVENTIONIST BANK OF THAILAND**

One prominent reason that we can see as an explanation for this higher degree of volatility is that policymakers seem not to have been fighting THB depreciatory pressures to the same degree as they did during the 2010 period. For instance, the weekly reserves data published by the Bank of Thailand shows that from the first week that the Bank began net-selling US dollars into the market (presumably buying THB) in early May 2010, to the last week it finished selling reserves (a total of five weeks), it spent a cumulative 4.82bn. Since the Bank of Thailand began selling reserves during the recent volatility (week one of May, when THB began to rapidly weaken) the Bank of Thailand has spent a cumulative \$4.43bn, however this has been done over seven weeks. On an average weekly intervention basis, as a measure of intensity, the 2010 period saw nearly \$1bn in reserves spent per week, whereas the current statistic accounts for around \$0.6bn in reserves spent per week. Thus it appears that the Bank of Thailand has been less intensive in its intervention efforts since deciding to become a net seller of reserves. It is possible that policymakers have decided to accommodate a bit more THB weakness in order to provide some short term support to industry, or perhaps they feel that their efforts would be wasted considering that they view this volatility as temporary and that after the outcome of the election confidence will reestablish itself.

### **THB GOING INTO THE WEEKEND ELECTION**

Should a relatively benign electoral outcome be realized, our base case is that THB finds support and stages a trend recovery on a resumption of capital inflows. However, there are varying degrees of “favourability” for THB, depending on the actual electoral outcome. A coalition government headed by the Democrats would likely be most favoured by the market considering the continuity it represents. A coalition headed by Puea Thai would be less favoured considering the military’s stance and certain comments on currency policy that have been made recently (see below). An outright win by Puea Thai would be least favoured from the point of view of political risk for THB, as it could bring the eventual return of exiled leader Thaksin Shinawatra, and thus the greatest potential for military intervention down the line.

There is also some degree of risk that has been introduced with the recent comments from former Thai Finance Minister, and Puea Thai’s economics chief, Suchart Thadathamrongvej. The former Finance Minister has stated that not only will he seek to keep the baht competitive, but that a managed fixed exchange rate is better than a flexible rate. What this could mean exactly for THB policy in a Puea Thai led government is unclear, but we will monitor policy should such an outcome be realized. In the interim we reiterate our end of year target for USDTHB of 29.00. Should we see the political situation deteriorate, and the current weakening trend in THB see sustained follow-through, we may revisit our target to incorporate the new reality.

Camilla Sutton (416) 866-5470  
[camilla\\_sutton@scotiacapital.com](mailto:camilla_sutton@scotiacapital.com)

Eric Theoret (416) 863-7030  
[eric\\_theoret@scotiacapital.com](mailto:eric_theoret@scotiacapital.com)

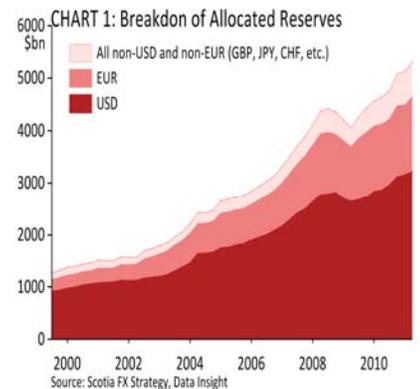
### FX Reserve Allocation Suggestive of Important Trends

- A shift away from USD and EUR should benefit JPY, GBP and the other non-majors including CAD.

Global FX reserves have seen dramatic growth over the last decade and now stand at \$9.7tn (allocated reserves stand at \$5.3tn). Central banks look for two key characteristics in FX reserves: liquidity and capital preservation. The USD, due in part to the depth of its capital markets, has long been the FX reserve currency of choice and will likely remain so for many years to come.

#### An acceleration in the trend to diversify outside of USD reserves

As the top chart highlights, most reserves (60.7%) are held in USD and because of the overall growth in reserves generally, the dollars allocated to the USD have grown steadily and now stand at \$3.2tn. In percentage terms the diversification away from the USD stabilized during the financial crisis, but has recently accelerated. From the third quarter of 2009 to the end of 2010, approximately 61% of reserves were held in USD. However, in Q1 11 the percentage dropped to a new low of 60.7%, suggesting that the diversification away from USD is once again in favour.



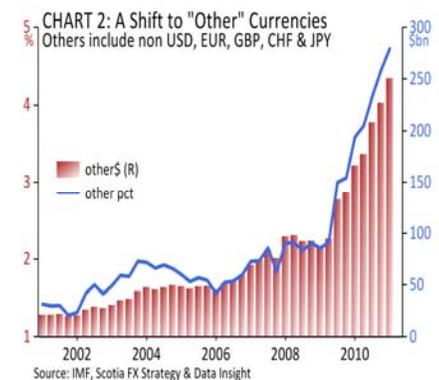
#### The shifting importance of EUR as a reserve vehicle

EUR has been widely believed to be the USD alternative of choice.

However, the percentage of allocated reserves held in EUR reached their peak (27.9%) in the third quarter of 2009 and has now drifted down to 26.6%. This is partly reflective of the European sovereign crisis, but it also started before the current issues erupted. Due to the overall growth in FX reserves, even a dropping percentage, includes significant buying of EUR. However, should there be a further drop in the allocation to EUR it would weigh on the currency. The currencies that have benefitted from the two noted trends above are JPY and 'other non major' currencies as well as GBP to a lesser degree. The CHF is not a reserve vehicle.

#### CAD positive trends intensify

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



#### Emerging market versus advanced economies

The way the emerging market allocates reserves is notably different than the advanced economies. Since most of the growth in reserves is from the emerging market, where total reserves have grown by 10.4% over the last 10-years (versus 3% in the advanced economies), these trends are important. Chart 3 highlights that emerging FX reserve managers have decreased both their EUR and USD exposure in favour of other non-majors, GBP and JPY.



#### The impact of growing reserves on gold

As the size of FX reserves increase, FX reserve managers appear increasingly likely to accumulate gold as part of their reserves (China, Russia and Mexico are a few examples). This is positive for gold prices.

Karen Cordes Woods (416) 862-3080  
[karen\\_woods@scotiacapital.com](mailto:karen_woods@scotiacapital.com)

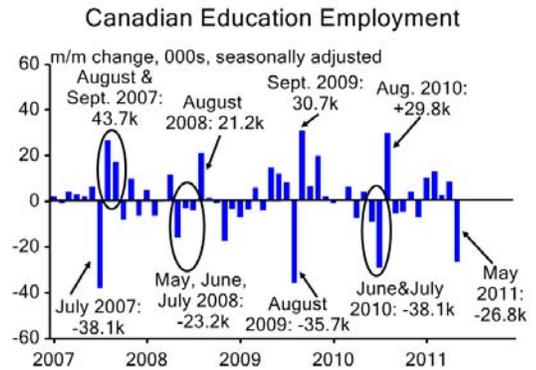
Derek Holt (416) 863-7707  
[derek\\_holt@scotiacapital.com](mailto:derek_holt@scotiacapital.com)

## Key Data Preview

### CANADA

**Canadian employment** (Friday) will be the main focus for Canadian markets next week despite the release of several second tier economic data reports throughout the week, including industrial product and raw materials prices, building permits, new home prices and the Ivey PMI. However, the results may be disappointing unless we witness another solid gain in self-employment in June which was the sole reason behind May's unexpectedly strong report. In fact, excluding self-employment, Canadian employment would have contracted in May as a decline in public paid jobs more than offset another positive print in the private sector. As such, we are expecting Canadian employment to rise by about 10k in June as the economy continues to chug along at a sluggish pace amid weak

consumer spending, a further contraction in fiscal stimulus, an underperforming trade sector and weakening home construction. A few uncertainties remain, however, including whether we will witness another decline in education employment after more than 25,000 education workers were laid off last month. As the accompanying chart illustrates, going back to 2007 when the effect became more material, employment in the education sector has been quite volatile in the summer months, declining in May, June and/or July to only then be reversed in its entirety in August (with the exception of 2009 when education layoffs were held off until August and reversed in September). In addition, we could witness a rebound in manufacturing employment after three months of declines as auto production comes back on line after supply chain disruptions from Japan's earthquake/tsunami in mid-March sharply reduced auto production in Canada.

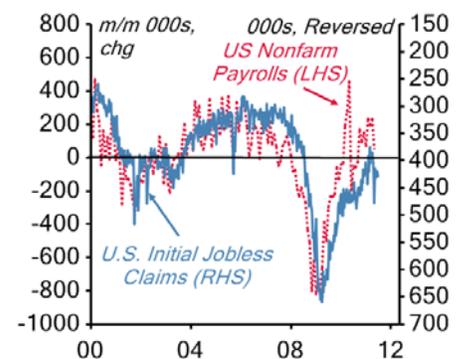


Source: Statistics Canada, Scotia Capital Economics

### UNITED STATES

The **US nonfarm payrolls report** (Friday) will likely be the focus next week after May's report came in weaker than expected and initial jobless claims remain over the critical 400k mark, suggesting we could witness another soft employment print in June. Economic fundamentals have continued to weaken with US Q1 real GDP coming in weaker than expected while Q2 economic growth will likely follow suit, especially if US consumer spending does not pick up in the last month of the quarter. In fact, given the weakness in consumer spending, employment in the retail sector has started to decline with relatively broad-based cuts. One wild card will be manufacturing employment which witnessed a decline of 5,000 workers in May after six months of gains. Given that some of this weakness is likely temporary due to the supply chain disruptions stemming from Japan's earthquake/tsunami, we are expecting to witness a rebound in the next few months. Average hourly earnings will also remain in the spotlight given how sluggish wage growth has been, rising in May by the slowest pace of growth since 2004, while real wages remain negative, limiting consumption going forward.

### US Initial Jobless Claims Point to Slower Nonfarm Payrolls Growth



Source: BLS Scotia Capital Economics

While the ISM manufacturing index will likely decline below 50 in June for the first time since July 2009, suggesting that the US manufacturing sector contracted at the end of Q2, the **ISM non-manufacturing index** (Wednesday), which measures the US services sector, should hold up a little better. However, further deterioration in retail sales — and household spending in general — will likely cause the index to decline somewhat in June although it should remain in expansionary territory as retail sales continue to grow on a year-over-year basis.

Daniela Blancas (416) 862-3908  
[daniela\\_blancas@scotiacapital.com](mailto:daniela_blancas@scotiacapital.com)

Alan Clarke (44 207) 826-5986  
[alan\\_clarke@scotiacapital.com](mailto:alan_clarke@scotiacapital.com)

Tuuli McCully (416) 863-2859  
[tuuli\\_mccully@scotiacapital.com](mailto:tuuli_mccully@scotiacapital.com)

... continued from previous page

**EUROPE**

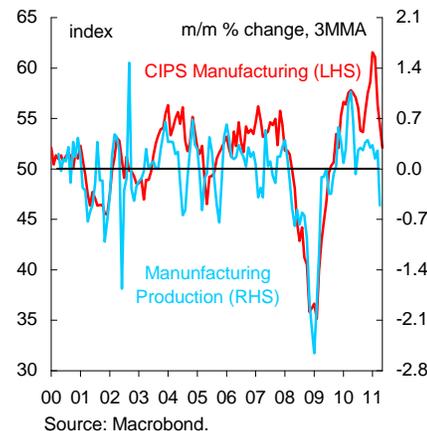
We expect UK industrial production to bounce back in May, following the Royal Wedding-induced slump the prior month. The extended Easter break associated with the Royal Wedding meant that for most people there was one less working day in April. As such, the level of output should have reverted back to normal in May, implying a rebound of a similar magnitude to the prior month's fall. Other influences were at work. Warmer than usual weather meant that demand for heating slumped — down by 5% m/m. The weather remained clement in May, hence this drop is unlikely to be reversed. Last month's decline in overall production was much smaller than we feared given the experience of June 2002 (when there was an additional public holiday as part of the Queen's Golden Jubilee celebrations). Hence there is a risk that the extent of the fall is revised larger.

Swedish monetary authorities will likely continue the process of interest rate normalization following the next scheduled policy meeting on July 5<sup>th</sup>, raising the repo rate by 25 basis points to 2.0%. The policymakers have indicated that in order to stabilize inflation close to the central bank's 2% target (consumer prices increased by 3.3% y/y in May) and to avoid resource utilization being too high, the key rate will be raised to 2.5% by the first quarter of 2012, and further to 3.2% by early 2013. The central bank's new forecast for the interest rate path will be published next week. Inflation will likely remain relatively high in the coming quarters due to an expected acceleration in wage adjustments and declining spare capacity in the economy. Swedish economic fundamentals are strong with the economy remaining in robust growth territory, though some signs of deceleration are emerging. Output expansion is broadly-based across the external sector, investment and private consumption, with real GDP likely to expand by around 4% this year.

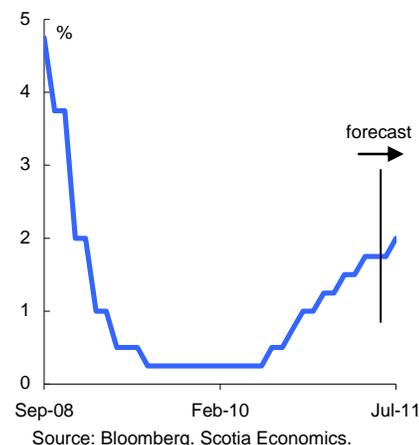
**MEXICO & LATIN AMERICA**

Inflation data will attract investors' attention next week as Chile, Colombia, Brazil and Mexico will be releasing estimates for June. With the exception of Mexico, inflation in all of these countries has been increasing in the last 6-8 months, prompting central banks in the region to tighten monetary policy. In Colombia, inflation has shown some signs of stabilization, hovering slightly above the central bank's 3.0% tolerance threshold at 3.02% y/y in May. Inflationary pressures continue to build in Chile, reaching 3.3% y/y in May; however, inflation expectations for the coming 12 months have decreased from 4.0% to 3.7%. Brazilian consumer prices, measured by the IPCA Index, are still growing but at a slower pace, and they remain near the upper limit of the central bank tolerance range. We expect inflation in Brazil to close the year at 6.5%. In contrast to the rest of the region, inflationary pressures in Mexico continue to be muted, with the rate of increase in the CPI reaching 3.25% y/y in May, one of the lowest prints since July 2006. Prices remain subdued as the government maintains domestic fuel price controls, agricultural prices have declined and the MXN has appreciated. We expect inflation to close the year at 3.60%.

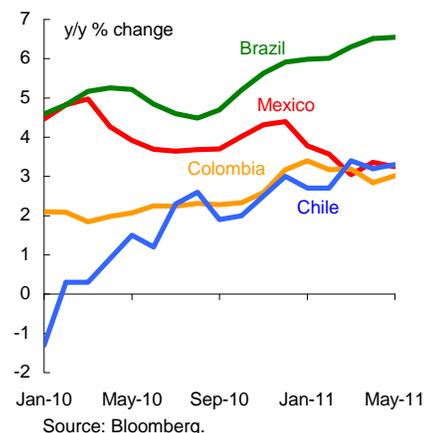
**U.K. Industrial Production**



**Sweden - Repo Rate**



**Inflation in Latin America**



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

North America								
Country	Date	Time	Event	Period	BNS	Consensus	Latest	
CA	07/04	08:30	Industrial Product Price (MoM)	MAY	0.0	-0.4	0.5	
CA	07/04	08:30	Raw Materials Price Index (MoM)	MAY	-3.0	-3.0	6.8	
MX	07/04	13:00	IMEF Manufacturing Index	JUN	--	--	53.7	
MX	07/04	13:00	IMEF Non Manufacturing Index	JUN	--	--	53.1	
MX	07/05	09:00	Consumer Confidence	JUN	--	--	89.3	
US	07/05	10:00	Factory Orders (MoM)	MAY	1.0	1.0	-1.2	
US	07/06	07:00	MBA Mortgage Applications (WoW)	1-Jul	--	--	-2.7	
US	07/06	07:30	Challenger Job Cuts (YoY)	JUN	--	--	-4.3	
CA	07/06	08:30	Building Permits (MoM)	MAY	5.0	5.0	-21.1	
US	07/06	10:00	ISM Non-Manf. Composite	JUN	53.0	53.7	54.6	
US	07/07	08:15	ADP Employment Change (000s)	JUN	70.0	60.0	38.0	
CA	07/07	08:30	New Housing Price Index (MoM)	MAY	0.2	0.2	0.3	
US	07/07	08:30	Initial Jobless Claims (000s)	1-Jul	430	--	428	
US	07/07	08:30	Continuing Claims (000s)	25-Jun	3700	--	3702	
CA	07/07	10:00	Ivey Purchasing Managers Index SA	JUN	--	62.0	65.5	
MX	07/07	10:00	Consumer Prices Core (MoM)	JUN	0.3	--	0.2	
MX	07/07	10:00	Consumer Prices (MoM)	JUN	0.2	--	-0.7	
MX	07/07	10:00	Consumer Prices (YoY)	JUN	3.5	--	3.3	
US	07/07		ICSC Chain Store Sales (YoY)	JUN	--	--	5.4	
CA	07/08	07:00	Full Time Employment Change (000s)	JUN	--	--	32.9	
CA	07/08	07:00	Net Change in Employment (000s)	JUN	10.0	10.0	22.3	
CA	07/08	07:00	Participation Rate	JUN	--	--	66.8	
CA	07/08	07:00	Part Time Employment Change (000s)	JUN	--	--	-10.6	
CA	07/08	07:00	Unemployment Rate	JUN	7.4	7.4	7.4	
US	07/08	08:30	Change in Nonfarm Payrolls (000s)	JUN	70.0	90.0	54.0	
US	07/08	08:30	Change in Private Payrolls (000s)	JUN	--	105.0	83.0	
US	07/08	08:30	Change in Manufact. Payrolls (000s)	JUN	--	-5.0	-5.0	
US	07/08	08:30	Unemployment Rate	JUN	9.1	9.0	9.1	
US	07/08	08:30	Avg Hourly Earning (MoM) All Emp	JUN	0.2	0.2	0.3	
US	07/08	08:30	Avg Weekly Hours All Employees	JUN	34.4	34.4	34.4	
US	07/08	08:30	Chg in Household Survey Empl (000s)	JUN	--	--	105.0	
US	07/08	10:00	Wholesale Inventories (MoM)	MAY	--	0.7	0.8	
MX	07/08	10:00	<b>Overnight Rate</b>	8-Jul	<b>4.50</b>	<b>4.50</b>	<b>4.50</b>	
US	07/08	15:00	Consumer Credit (US\$ bns)	MAY	--	5.0	6.2	
MX	JUL 8-15		Vehicle Exports (AMIA)	JUN	--	--	176951	
MX	JUL 8-15		Vehicle Production (AMIA)	JUN	--	--	213329	

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

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

Europe							
Country	Date	Time	Event	Period	BNS	Consensus	Latest
SP	07/04	03:00	Unemployment MoM Net (000s)	JUN	--	--	-79.7
UK	07/04	04:30	PMI Construction	JUN	--	--	54.0
UK	07/04	04:30	BoE Housing Equity Withdrawal (£ bns)	1Q	--	--	-7.0
EC	07/04	05:00	Euro-Zone PPI (MoM)	MAY	-0.2	-0.1	0.9
EC	07/04	05:00	Euro-Zone PPI (YoY)	MAY	6.2	6.3	6.7
UK	JUL 4-7		Halifax House Prices sa (MoM)	JUN	0.0	--	0.1
SP	07/05	03:15	Spain June Services PMI				
SW	07/05	03:30	<b>Riksbank Interest Rate</b>	5-Jul	<b>2.00</b>	<b>2.00</b>	<b>1.75</b>
IT	07/05	03:45	PMI Services	JUN	--	49.5	50.1
FR	07/05	03:50	PMI Services	JUN F	56.7	--	56.7
GE	07/05	03:55	PMI Services	JUN F	58.3	58.3	58.3
EC	07/05	04:00	PMI Composite	JUN F	53.6	--	53.6
EC	07/05	04:00	PMI Services	JUN F	54.2	54.2	54.2
UK	07/05	04:30	PMI Services	JUN	53.0	53.3	53.8
EC	07/05	05:00	Euro-Zone Retail Sales (MoM)	MAY	-1.5	-1.0	0.9
EC	07/05	05:00	Euro-Zone Retail Sales (YoY)	MAY	--	-0.6	1.1
UK	07/05	19:01	BRC Shop Price Index YoY	JUN	--	--	2.3
SP	07/06	03:00	Industrial Output WDA (YoY)	MAY	--	--	-1.6
SP	07/06	03:00	Industrial Output NSA (YoY)	MAY	--	--	-4.1
EC	07/06	05:00	Euro-Zone GDP s.a. (QoQ)	1Q F	0.8	--	0.8
EC	07/06	05:00	Euro-Zone GDP s.a. (YoY)	1Q F	2.5	--	2.5
EC	07/06	05:00	Euro-Zone Household Cons (QoQ)	1Q F	0.3	--	0.3
EC	07/06	05:00	Euro-Zone Gross Fix Cap (QoQ)	1Q F	2.1	--	2.1
EC	07/06	05:00	Euro-Zone Govt Expend (QoQ)	1Q F	0.8	--	0.8
GE	07/06	06:00	Factory Orders MoM (sa)	MAY	-1.0	-0.1	2.8
FR	07/07	02:45	Trade Balance (€ mns)	MAY	--	--	-7144
UK	07/07	04:30	Industrial Production (MoM)	MAY	1.5	1.0	-1.7
UK	07/07	04:30	Manufacturing Production (MoM)	MAY	1.5	1.0	-1.5
GE	07/07	06:00	Industrial Production SA (MoM)	MAY	2.1	0.5	-0.6
UK	07/07	07:00	BOE Asset Purchase Target (£ bns)	JUL	200.0	200.0	200.0
UK	07/07	07:00	<b>BOE Announces Rates</b>	7-Jul	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>
EC	07/07	07:45	<b>ECB Announces Interest Rates</b>	7-Jul	<b>1.50</b>	<b>1.50</b>	<b>1.25</b>
GE	07/08	02:00	Exports SA (MoM)	MAY	--	1.5	-5.6
GE	07/08	02:00	Imports SA (MoM)	MAY	--	1.2	-2.4
GE	07/08	02:00	Current Account (€ bns)	MAY	--	7.0	8.8
GE	07/08	02:00	Trade Balance (€ bns)	MAY	--	11.0	10.9
FR	07/08	02:30	Bank of France Bus. Sentiment	JUN	--	--	103.1
FR	07/08	02:45	Central Govt. Balance (€ bns)	MAY	--	--	-61.4
SW	07/08	03:30	Industrial Prod. s.a. (MoM)	MAY	--	--	-0.7
SW	07/08	03:30	Industrial Orders s.a. (MoM)	MAY	--	--	-0.1
IT	07/08	04:00	Industrial Production sa (MoM)	MAY	--	0.1	1.0
UK	07/08	04:30	PPI Input NSA (MoM)	JUN	1.0	0.1	-2.0
UK	07/08	04:30	PPI Output n.s.a. (MoM)	JUN	0.0	0.1	0.2
UK	07/08	04:30	PPI Output Core NSA (MoM)	JUN	0.2	0.1	0.2

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

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

Asia Pacific							
Country	Date	Time	Event	Period	BNS	Consensus	Latest
JN	07/01	00:00	Official Reserve Assets (US\$ bns)	JUN	--	--	1139.5
SK	07/01	00:00	South Korea FDI (YoY)	2Q	--	--	30.1
CH	07/02	21:00	China Non-manufacturing PMI	JUN	--	--	61.9
AU	07/03	21:30	Building Approvals (MoM)	MAY	--	--	-1.3
AU	07/03	21:30	Retail Sales s.a. (MoM)	MAY	--	--	1.1
HK	07/04	04:30	Retail Sales - Value (YoY)	MAY	--	28.2	27.7
HK	07/04	04:30	Retail Sales - Volume (YoY)	MAY	--	22.0	21.9
PH	07/04	21:00	Consumer Price Index (YoY)	JUN	--	4.7	4.5
AU	07/04	21:30	Trade Balance (AU\$ mns)	MAY	--	--	1597
CH	07/04	22:30	China HSBC Services PMI	JUN	--	--	54.3
MA	07/05	00:01	Exports (YoY)	MAY	--	11.0	11.1
MA	07/05	00:01	Imports (YoY)	MAY	--	8.5	9.4
MA	07/05	00:01	Trade Balance (MYR bns)	MAY	--	10.8	11.0
AU	07/05	00:30	<b>RBA Cash Target</b>	5-Jul	<b>4.75</b>	<b>4.75</b>	<b>4.75</b>
NZ	07/06	18:45	GDP (QoQ)	1Q	--	--	0.2
NZ	07/06	18:45	GDP (YoY)	1Q	--	--	0.8
JN	07/06	19:50	Machine Orders (MoM)	MAY	--	3.0	-3.3
AU	07/06	21:30	Employment Change (000s)	JUN	--	--	7.8
AU	07/06	21:30	Full Time Employment Change (000s)	JUN	--	--	-22.0
AU	07/06	21:30	Part Time Employment Change (000s)	JUN	--	--	29.8
AU	07/06	21:30	Participation Rate	JUN	--	--	65.6
AU	07/06	21:30	Unemployment Rate	JUN	--	--	4.9
TA	07/07	04:00	Total Trade Balance (US\$ bns)	JUN	--	1.0	1.2
TA	07/07	04:00	Total Exports (YoY)	JUN	--	19.1	9.5
TA	07/07	04:00	Total Imports (YoY)	JUN	--	22.5	19.3
MA	07/07	06:00	<b>Overnight Rate</b>	7-Jul	<b>3.00</b>	<b>3.00</b>	<b>3.00</b>
JN	07/07	19:50	Bank Lending incl Trusts (YoY)	JUN	--	-0.5	-0.7
JN	07/07	19:50	Current Account Total (¥ bns)	MAY	--	388.0	405.6
JN	07/07	19:50	Adjusted Current Account Total (¥ bns)	MAY	--	304.0	546.3
JN	07/07	19:50	Trade Balance - BOP Basis (¥ bns)	MAY	--	-759.0	-417.5
JN	07/08	00:30	Bankruptcies (YoY)	JUN	--	--	4.9

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

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

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	07/04	07:30	Central Bank Weekly Economists Survey				
BZ	07/04	10:00	Trade Balance (FOB) - Weekly (US\$ mns)	3-Jul	--	--	656.0
CL	07/05	08:30	Economic Activity (YoY)	MAY	--	6.6	6.3
BZ	07/05	09:00	CNI Capacity Utilization Rate	MAY	--	--	82.0
CO	07/05	20:00	Consumer Price Index (MoM)	JUN	--	0.2	0.3
CO	07/05	20:00	Consumer Price Index (YoY)	JUN	--	3.1	3.0
BZ	07/06	09:30	Vehicle Sales (Anfavea)	JUN	--	--	318534
BZ	07/06	09:30	Vehicle Production (Anfavea)	JUN	--	--	303549
BZ	07/06	09:30	Vehicle Exports (Anfavea)	JUN	--	--	44882
BZ	07/07	08:00	IBGE Inflation IPCA (MoM)	JUN	--	0.1	0.5
BZ	07/07	08:00	IBGE Inflation IPCA (YoY)	JUN	--	6.6	6.6
CL	07/07	08:30	Trade Balance (US\$ mns)	JUN	--	--	1792.3
PE	07/07		<b>Reference Rate</b>	JUL	<b>4.25</b>	<b>4.25</b>	<b>4.25</b>
CL	07/08	08:00	CPI (MoM)	JUN	--	0.3	0.4
CL	07/08	08:00	CPI (YoY)	JUN	--	3.6	3.3
CL	07/08	08:00	CPI Ex Perishables & Fuel (MoM)	JUN	--	0.2	0.3

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

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

## North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
CA	07/05	10:30	Canada to Sell CAD5.325 Bln 98-Day Bills
CA	07/05	10:30	Canada to Sell CAD2.025 Bln 182-Day Bills
CA	07/05	10:30	Canada to Sell CAD2.025 Bln 364-Day Bills
US	07/05	11:30	U.S. to Sell 3-Month Bills
US	07/05	11:30	U.S. to Sell 6-Month Bills
US	07/06	11:00	U.S. Fed to Purchase USD2.5-3.5 Bln Notes/Bonds
US	07/06	11:30	U.S. to Sell 4-Week Bills
CA	07/06	12:00	Canada to Sell 5-Year Notes

## Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
PD	07/04	06:00	Poland to Sell 51-Week T-bills
AS	07/05	05:00	Austria to Sell Bonds
SZ	07/05	05:30	Switzerland to Sell 3-Month Bills
UK	07/05	05:30	U.K. to Sell 3.75% 2021 Gilt
UK	07/06	05:30	U.K. to Sell 1.25% I/L 2027 Gilt
SP	07/07	04:30	Spain to Sell 3.25% 2016 Bonds
FR	07/07	05:00	France to Sell Bonds
PD	07/07	06:30	Poland to Hold Exchange Offer Auctions
UK	07/08	06:10	U.K. to Sell Bills

## Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
JN	07/04	23:35	Japan to Sell 6-Month Bills
JN	07/04	23:45	Japan to Sell 10-Year Bond
CH	07/05	23:00	China to Sell 7 Year Bond
JN	07/05	23:35	Japan to Sell 3-Month Bills
AU	07/06	20:30	Australia to Sell Treasury Notes
JN	07/06	23:45	Japan to Sell 30-Year Bond

Source: Bloomberg, Scotia Economics.

## Events for the week of July 4 - 8

## North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
CA	JUN 30-JUL 8		Prince William and Catherine Middleton Visit Canada
US	07/07	12:30	Fed's Hoenig Speaks in Ada, Oklahoma
MX	07/08	10:00	Overnight Rate

## Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
EC	07/03		Euro-Area Finance Ministers Meet on Aid for Greece
IT	07/04	02:45	Blanchflower, Ghizzoni, Tremonti, Gurria at Rome Conference
SW	07/05	03:30	Riksbank Interest Rate
GE	07/05	04:00	German High Court Hears Euro-Bailout Opponents' Case
GE	07/05	13:00	Germany's Schaeuble Holds Speech in Honor of Steinbrueck
UK	07/07	07:00	Bank of England Monetary Policy Committee Decision
UK	07/07	07:00	BOE Asset Purchase Target
UK	07/07	07:00	BOE Announces Rates
EC	07/07	07:45	ECB Announces Interest Rates
EC	07/07	08:30	Trichet Speaks at ECB Monthly News Conference
GE	07/08	03:30	German Upper House to Vote on Financing of Bank Levy
EC	07/08	13:30	ECB's Bini Smaghi Speaks in Poros, Greece

## Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
AU	07/05	00:30	RBA Cash Target Rate
NZ	07/05	18:00	Government Financial Statements
MA	07/07	06:00	Overnight Rate
AU	07/07	23:15	RBA's DeBelle Speaks in Adelaide on Current Account Deficits

## Latin America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
PE	07/07		Reference Rate

Source: Bloomberg, Scotia Economics.

## Global Views

## 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	August 9, 2011	0.25	--
Banco de México – Overnight Rate	4.50	July 8, 2011	4.50	4.50

We have pushed out our expectation for the first rate hike by the Bank of Canada (BoC) to Q2 2012 as the BoC takes a more dovish stance as it continues to face multiple headwinds. These headwinds include fiscal retrenchment, continued strength in the Canadian dollar, higher capital and liquidity requirements, elevated commodity prices that are crowding out wage growth, tighter mortgage lending rules, rolling global fiscal shocks that create a backdrop of instability in financial markets, and increased risks facing fixed-term borrowing costs over 2012-13. We have also pushed out our forecast for the Federal Reserve to start raising its fed funds target rate to Q3 2012, one quarter after the Bank of Canada, as the speed of the US recovery continues to disappoint while global economic growth starts to slow. Influenced by contained inflationary expectations and stable monetary conditions in the US, Banco de Mexico is in no hurry to increase the reference rate. We believe that the monetary tightening cycle will be initiated in the second half of 2012.

## 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	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	July 29, 2011	8.25	--
Hungarian National Bank – Base Rate	6.00	July 26, 2011	6.00	--
Central Bank of the Republic of Turkey – 1 Week Repo Rate	6.25	July 21, 2011	6.25	--

Euro zone policymakers will likely continue the gradual process of monetary policy normalization following the Governing Council's meeting on July 7th, taking the main refinancing rate from the current level of 1.25% to 1.50%. In the context of the UK's uncertain economic growth outlook combined with our view that inflationary pressures will likely ease significantly next year, we have revised our forecast for the beginning of the Bank of England's monetary policy tightening cycle. We now expect that policymakers will begin a gradual process of normalization in the second quarter of 2012, taking the Bank Rate to 1.25% by end-2012.

## 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	7.50	July 26, 2011	7.50	--
Hong Kong Monetary Authority – Base Rate	0.50	TBA	0.50	--
Central Bank of China Taiwan – Discount Rate	1.88	TBA	--	--
Bank Negara Malaysia – Overnight Policy Rate	3.00	July 7, 2011	3.00	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	6.75
Central Bank of the Philippines – Overnight Policy Rate	4.50	July 28, 2011	4.50	--

We expect the Reserve Bank of Australia to keep the Cash Target Rate on hold following the next monetary policy meeting on July 5th. Monetary tightening will likely resume later on in the third quarter of 2011.

## 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	12.50	--
Banco Central de Chile – Overnight Rate	5.25	July 14, 2011	5.50	--
Banco de la República de Colombia – Lending Rate	4.25	July 29, 2011	4.50	--
Banco Central de Reserva del Perú – Reference Rate	4.25	July 7, 2011	4.25	4.25

After four consecutive adjustments in the reference rate, the central bank of Peru left the rate unchanged at 4.25% in June, due to slower-than-expected economic activity. We anticipate that the monetary authorities will hold the rate steady for another month, though the inflation rate remains close to the upper limit of the central bank's expected range (2 +/- 1%).

## 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	2.7	2.5	2.1	1.8	2.9	2.1
United States	1.8	2.9	2.5	2.7	2.6	1.6	2.8	2.0
Mexico	1.9	5.5	4.4	3.8	4.9	4.4	3.6	3.8
United Kingdom	1.7	1.4	1.2	1.5	1.9	3.7	4.7	2.0
Euro zone	0.9	1.6	1.8	1.7	2.1	2.2	2.8	2.1
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	6.0	5.8	2.5	2.1	4.0	3.7
<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	1.00	1.00	1.50	2.00	2.25
Federal Reserve	0.25	0.25	0.25	0.25	0.25	0.25	0.75	1.25
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	0.50	0.50	0.50	0.75	1.00	1.25
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	0.10	0.10	0.10
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	0.96	0.96	0.95	0.95	0.94	0.94
Canadian Dollar (CADUSD)	1.03	1.06	1.04	1.04	1.05	1.05	1.06	1.06
Euro (EURUSD)	1.42	1.47	1.45	1.50	1.48	1.46	1.43	1.40
Sterling (GBPUSD)	1.60	1.64	1.61	1.63	1.65	1.67	1.69	1.70
Yen (USDJPY)	83	79	79	80	82	83	84	85
Australian Dollar (AUDUSD)	1.03	1.07	1.08	1.09	1.09	1.10	1.10	1.11
Chinese Yuan (USDCNY)	6.5	6.5	6.4	6.3	6.2	6.1	6.0	5.9
Mexican Peso (USDMXN)	11.9	11.6	11.9	12.0	12.1	12.1	12.2	12.3
Brazilian Real (USDBRL)	1.63	1.57	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	97	100				
Brent Oil (US\$/bbl)	50	80	110	114				
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	1,000	1,055				
Newsprint (US\$/tonne)	572	607	655	715				
Lumber (US\$/mfbm)	275	254	265	270				

<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>10Q4</b>	<b>11Q1</b>	<b>Latest</b>	<b>United States</b>	<b>2010</b>	<b>10Q4</b>	<b>11Q1</b>	<b>Latest</b>
Real GDP (annual rates)	3.2	3.1	3.9		Real GDP (annual rates)	2.9	3.1	1.9	
Current Acc. Bal. (C\$B, ar)	-50.9	-41.1	-35.7		Current Acc. Bal. (US\$B, ar)	-471	-449	-477	
Merch. Trade Bal. (C\$B, ar)	-9.0	1.5	5.5	-11.1 (Apr)	Merch. Trade Bal. (US\$B, ar)	-646	-637	-730	-697 (Apr)
Industrial Production	4.6	6.0	5.6	5.0 (Apr)	Industrial Production	5.3	6.2	5.2	8.2 (May)
Housing Starts (000s)	192	179	178	184 (May)	Housing Starts (millions)	0.58	0.54	0.58	0.56 (May)
Employment	1.4	1.7	1.9	2.1 (May)	Employment	-0.8	0.5	0.9	0.2 (May)
Unemployment Rate (%)	8.0	7.7	7.8	7.4 (May)	Unemployment Rate (%)	9.6	9.6	8.9	9.1 (May)
Retail Sales	5.5	5.3	2.5	3.6 (Apr)	Retail Sales	6.8	8.1	8.6	14.3 (May)
Auto Sales (000s)	1561	1554	1577	1656 (Apr)	Auto Sales (millions)	11.5	12.3	13.0	11.8 (May)
CPI	1.8	2.3	2.6	4.8 (May)	CPI	1.6	1.3	2.1	4.8 (May)
IPPI	1.0	2.6	3.9	-5.0 (Apr)	PPI	4.2	3.8	5.0	10.7 (May)
Pre-tax Corp. Profits	21.2	19.1	13.4		Pre-tax Corp. Profits	36.8	16.1	9.3	
<b>Mexico</b>					<b>Brazil</b>				
Real GDP	5.4	4.4	4.6		Real GDP	6.7	4.2	3.8	
Current Acc. Bal. (US\$B, ar)	-5.6	-14.0	-5.5		Current Acc. Bal. (US\$B, ar)	-47.4	-48.0	-58.3	
Merch. Trade Bal. (US\$B, ar)	-3.0	-4.2	7.6	6.7 (May)	Merch. Trade Bal. (US\$B, ar)	20.2	30.0	12.7	42.3 (May)
Industrial Production	6.0	4.8	5.3	1.4 (Apr)	Industrial Production	10.5	3.6	2.5	-0.1 (Apr)
CPI	4.2	4.2	3.5	7.1 (May)	CPI	5.1	6.1	6.8	12.2 (May)
<b>Chile</b>					<b>Italy</b>				
Real GDP	5.2	5.8	9.8		Real GDP	1.2	1.5	1.0	
Current Acc. Bal. (US\$B, ar)	3.1	4.9	2.9		Current Acc. Bal. (US\$B, ar)	-0.07	-0.07	-0.11	-0.10 (Apr)
Merch. Trade Bal. (US\$B, ar)	11.6	17.7	17.4	21.5 (May)	Merch. Trade Bal. (US\$B, ar)	-39.1	-46.3	-77.2	-65.2 (Apr)
Industrial Production	0.6	2.7	11.5	12.6 (May)	Industrial Production	6.5	5.3	2.4	3.7 (Apr)
CPI	1.4	2.5	2.9	3.3 (May)	CPI	1.6	1.8	2.3	4.0 (May)
<b>Germany</b>					<b>France</b>				
Real GDP	3.5	3.8	4.8		Real GDP	1.4	1.4	2.2	
Current Acc. Bal. (US\$B, ar)	188.0	250.8	195.2	152.3 (Apr)	Current Acc. Bal. (US\$B, ar)	-44.5	-86.6	-57.4	-54.3 (Apr)
Merch. Trade Bal. (US\$B, ar)	201.5	219.8	209.4	206.4 (Apr)	Merch. Trade Bal. (US\$B, ar)	-38.9	-39.1	-54.4	-59.4 (Apr)
Industrial Production	10.1	11.8	13.0	9.6 (Apr)	Industrial Production	5.1	4.6	4.8	2.6 (Apr)
Unemployment Rate (%)	7.7	7.4	7.3	7.0 (Jun)	Unemployment Rate (%)	9.8	9.6	9.5	9.4 (Apr)
CPI	1.1	1.5	2.1	2.3 (Jun)	CPI	1.5	1.6	1.8	3.6 (May)
<b>Euro Zone</b>					<b>United Kingdom</b>				
Real GDP	1.7	1.9	2.5		Real GDP	1.4	1.5	1.6	
Current Acc. Bal. (US\$B, ar)	-77	-41	-173	-113 (Apr)	Current Acc. Bal. (US\$B, ar)	-71.6	-72.2	-74.0	
Merch. Trade Bal. (US\$B, ar)	32.0	53.2	-61.7	-61.7 (Apr)	Merch. Trade Bal. (US\$B, ar)	-153.0	-171.9	-142.4	-144.9 (Apr)
Industrial Production	7.4	8.0	6.6	5.4 (Apr)	Industrial Production	2.1	3.3	2.0	-1.1 (Apr)
Unemployment Rate (%)	10.0	10.0	9.9	9.8 (Apr)	Unemployment Rate (%)	7.9	7.9	7.7	7.7 (Mar)
CPI	1.6	2.0	2.5	4.3 (May)	CPI	3.3	3.4	4.1	7.7 (May)
<b>Japan</b>					<b>Australia</b>				
Real GDP	4.0	2.4	-0.7		Real GDP	2.7	2.7	1.0	
Current Acc. Bal. (US\$B, ar)	195.9	176.8	184.0	58.4 (Apr)	Current Acc. Bal. (US\$B, ar)	-31.8	-37.4	-37.9	
Merch. Trade Bal. (US\$B, ar)	74.8	60.4	29.1	-70.1 (May)	Merch. Trade Bal. (US\$B, ar)	19.3	25.8	21.5	33.3 (Apr)
Industrial Production	16.6	6.8	-2.5	9.6 (May)	Industrial Production	4.3	0.0	-5.4	
Unemployment Rate (%)	5.1	5.0	4.7	4.7 (Apr)	Unemployment Rate (%)	5.2	5.2	5.0	4.9 (May)
CPI	-0.7	0.1	0.0	0.3 (Apr)	CPI	2.8	2.7	3.3	
<b>China</b>					<b>South Korea</b>				
Real GDP	10.3	9.8	9.7		Real GDP	6.2	4.7	4.2	
Current Acc. Bal. (US\$B, ar)	305.4				Current Acc. Bal. (US\$B, ar)	28.2	36.6	10.4	27.1 (May)
Merch. Trade Bal. (US\$B, ar)	181.6	247.0	-5.9	156.6 (May)	Merch. Trade Bal. (US\$B, ar)	41.2	52.1	29.6	26.2 (May)
Industrial Production	13.5	13.5	14.8	13.3 (May)	Industrial Production	16.6	9.9	11.2	22.8 (May)
CPI	4.6	4.6	5.4	5.5 (May)	CPI	3.0	3.6	4.5	6.9 (May)

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

Source: Bloomberg, Scotia Economics.

## Interest Rates (% , end of period)

Canada	10Q4	11Q1	Jun/23	Jun/30*	United States	10Q4	11Q1	Jun/23	Jun/30*
BoC Overnight Rate	1.00	1.00	1.00	1.00	Fed Funds Target Rate	0.25	0.25	0.25	0.25
3-mo. T-bill	0.95	0.96	0.88	0.83	3-mo. T-bill	0.12	0.09	0.01	0.02
10-yr Gov't Bond	3.12	3.35	2.90	3.13	10-yr Gov't Bond	3.29	3.47	2.91	3.18
30-yr Gov't Bond	3.53	3.76	3.38	3.56	30-yr Gov't Bond	4.33	4.51	4.17	4.42
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	1.49	1.51	3-mo. T-bill	0.40	0.80	1.14	1.19
10-yr Gov't Bond	2.96	3.35	2.87	3.03	10-yr Gov't Bond	3.36	3.71	3.31	3.42
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	1.09	0.99	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	3.15	3.38
					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	5.11	5.21
10-yr Gov't Bond	1.13	1.26	1.12	1.14	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	0.96	¥/US\$	81.12	83.13	80.51	80.74
CADUSD	1.00	1.03	1.02	1.04	US¢/Australian\$	102.33	103.29	105.23	107.09
GBPUSD	1.561	1.603	1.601	1.605	Chinese Yuan/US\$	6.61	6.55	6.47	6.46
EURUSD	1.338	1.416	1.426	1.449	South Korean Won/US\$	1126	1097	1077	1068
JPYEUR	0.92	0.85	0.87	0.85	Mexican Peso/US\$	12.340	11.905	11.863	11.727
USDCHF	0.94	0.92	0.84	0.84	Brazilian Real/US\$	1.661	1.632	1.591	1.563

## Equity Markets (index, end of period)

United States (DJIA)	11578	12320	12050	12387	U.K. (FT100)	5900	5909	5674	5932
United States (S&P500)	1258	1326	1284	1318	Germany (Dax)	6914	7041	7149	7364
Canada (S&P/TSX)	13443	14116	12980	13232	France (CAC40)	3805	3989	3788	3973
Mexico (Bolsa)	38551	37441	35327	36740	Japan (Nikkei)	10229	9755	9597	9816
Brazil (Bovespa)	69305	68587	61194	62294	Hong Kong (Hang Seng)	23035	23528	21759	22398
Italy (BCI)	1048	1120	1038	1029	South Korea (Composite)	2051	2107	2056	2101

## Commodity Prices (end of period)

Pulp (US\$/tonne)	968	970	1020	1020	Copper (US\$/lb)	4.42	4.26	4.07	4.22
Newsprint (US\$/tonne)	640	640	640	640	Zinc (US\$/lb)	1.10	1.05	1.01	1.05
Lumber (US\$/mfbm)	268	297	237	--	Gold (US\$/oz)	1405.50	1439.00	1523.00	1505.50
WTI Oil (US\$/bbl)	91.38	106.72	91.02	95.27	Silver (US\$/oz)	30.63	37.87	36.01	35.02
Natural Gas (US\$/mmbtu)	4.41	4.39	4.19	4.36	CRB (index)	332.80	359.43	330.21	336.90

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

This report has been prepared on behalf of Scotia Capital and is not for the use of private individuals. The Scotia Capital trademark is used in association with the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and some of its subsidiaries, including Scotia Capital Inc., Scotia Capital (USA) Inc., Scotiabank Europe plc; Scotia Capital (Europe) Limited; Scotiabank (Ireland) Limited – all members of the Scotiabank Group and authorized users of the mark. The Bank of Nova Scotia, a Canadian chartered bank, is incorporated in Canada with limited liability. The Bank of Nova Scotia, Scotiabank Europe plc, Scotia Capital (Europe) Limited and Scotia Capital Inc. are each authorized and regulated by the Financial Services Authority (FSA) in the U.K.

Opinions, estimates and projections contained herein are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither the Bank of Nova Scotia, its affiliates, employees or agents accepts any liability whatsoever for any loss arising from the use of this report or its contents. The Bank of Nova Scotia, its affiliates, employees or agents may hold a position in the products contained herein. This report is not a direct offer financial promotion, and is not to be construed as, an offer to sell or solicitation of an offer to buy any products whatsoever.

This market commentary is regarded as a marketing communication. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This report has been prepared by SCOTIA CAPITAL INC. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotia Capital Inc., nor its affiliates accept liability whatsoever for any loss arising from any use of this report or its contents. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts. Scotia Capital Inc., its affiliates and/or their respective officers, directors or employees may from time to time acquire, hold or sell securities and/or commodities and/or commodity futures contracts mentioned herein as principal or agent. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without in each case the prior express consent of Scotia Capital. SCI is authorized and regulated by The Financial Services Authority. U.S. residents: Scotia Capital (USA) Inc., a wholly owned subsidiary of Scotia Capital Inc., accepts responsibility for the contents herein, subject to the terms and limitations set out above. Any U.S. person wishing further information or to effect transactions in any security discussed herein should contact Scotia Capital (USA) Inc. at 212-225-6500.

Each research analyst named in this report or any subsection of this report certifies that (1) the views expressed in this report in connection with securities or issuers that he or she analyzes accurately reflect his or her personal views; and (2) no part of his or her compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by him or her in this report.

The Research Analyst's compensation is based on various performance and market criteria and is charged as an expense to certain departments of Scotia Capital Inc., including investment banking.

Scotia Capital Inc. and/or its affiliates: expects to receive or intends to seek compensation for investment banking services from issuers covered in this report within the next three months; and has or seeks a business relationship with the issuers referred to herein which involves providing services, other than securities underwriting or advisory services, for which compensation is or may be received. These may include services relating to lending, cash management, foreign exchange, securities trading, derivatives, structured finance or precious metals.

For Scotia Capital Research Analyst standards and disclosure policies, please visit [www.scotiacapital.com/disclosures](http://www.scotiacapital.com/disclosures)

---

### 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](mailto:scotia_economics@scotiacapital.com)

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