

Global Views

Weekly commentary on economic and financial market developments

September 23, 2011

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It Could All Come Down To Finland And Another Divisive US Fiscal Debate

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

European markets will start the week off being influenced by possible outcomes stemming from weekend meetings of the IMF and World Bank in Washington. Key speeches could be delivered on Saturday by ECB President Trichet and German Finance Minister Schäuble. Negotiations between the ‘troika’ (the ECB, EC and IMF) and Greece will continue into the weekend in Washington before the troika plans to return to Greece early next week to complete its assessment of Greece’s eligibility for the next tranche of funding due before Greece runs out of cash in the weeks ahead. Europe will then be consumed by suspense surrounding key parliamentary votes on whether or not to approve changes to the European Financial Stability Facility as per the latest Greek aid package. Finland votes first next week (Wednesday), and while a disagreement over collateral demands sparked an inability of a parliamentary committee to approve the EFSF changes, that vote faced a higher two-thirds bar than the bare majority needed in Parliament next week. One might think it’s not in Finland’s real interest to draw Germany’s ire by being the spoiler, given that small country’s reliance upon the German economy, but the vote risk will hang until the last hand is counted. Recall that all countries within the euro zone must unanimously pass their votes. That is then followed by a vote in Germany’s parliament the next day that I would expect to pass. The Opposition has been supportive of the changes. The uncertainty lies in the too small to matter FDP coalition partner, and with respect to internal revolt within Merkel’s CDU party. Operating throughout the high vote drama will be a heavy release calendar for German statistics starting with IFO business confidence (September) and retail sales (August) on Monday. An early October read on German consumer confidence follows on Tuesday. German September state-level CPI on Wednesday gives way to September jobs on Thursday. Pan-EC September confidence measures land Thursday, to be followed by euro zone CPI and unemployment on Friday. Peripheral auction risk returns with Belgium’s pseudo-government set to tap markets Monday, Spain on Tuesday and Italy on Wednesday/Thursday.

US markets will have one eye on European developments highlighted above, and the other eye on domestic data risk that is increasingly pushing into the period in which global confidence evaporated. Key market-moving releases could be September consumer confidence on Tuesday, August durable goods orders on Wednesday which could reflect new order weakness across a variety of other surveys, and August consumer spending on Friday. Regional surveys from the Chicago, Richmond, and Dallas Feds will round out the early betting on the next ISM print following already-released surveys from the NY and Philly Feds that point to continued contraction in the manufacturing sector during September. New home sales (Monday), final Q2 GDP revisions (Thursday) and pending home sales (Thursday) round out the release schedule. Fed speeches by Governor Raskin, and Fed Presidents Bullard, Kocherlakota, Lockhart, Rosengren and Plosser will keep the debate alive over possible QE3 and the aftermath of the twist (next will be drive the bus, and making pizza in a total flashback?) Pay attention to the latest squabble in Congress that puts in jeopardy a funding bill that could result in all nonessential government services being suspended as soon as the end of next week. The Tea Party has backed down from its earlier opposition to a U.S. funding bill to increase the budget of the Federal Emergency Management Agency’s disaster relief budget. The vote passed the House Thursday evening by a 219-203 margin. It did so, however, by passing along a difficult decision to the Democrat-controlled Senate. The Democrats think the \$3.65 billion in additional natural-disaster relief is too little after it was pared back by GOP spending concerns. The House also stripped funding for alternative energy programs favoured by the Democrats. Thus, Democratic leaders immediately commented last evening that they will reject the legislation that has been passed to them in the Senate. This matters because ultimately it leads to the need for a larger effort required to be in place by September 30th in order to enhance government funding by enough to get it through to mid-November.

Canadian markets will face high data risk surrounding next Friday’s monthly GDP figure for July. We’re expecting a decent gain but wouldn’t be surprised by a disappointment to the consensus median as we analyze on pages 3-4. BoC Governor Carney speaks on Sunday in Washington at the Institute of International Finance’s meeting on “Current Issues on Financial Reform” We don’t expect it to be a market mover, especially following Carney’s recent speech that we cover on page 7. His Senior Deputy Governor follows on Tuesday, speaking on “Managing Risks in the New Global Economic Landscape”. Canada auctions 2s, 5s and 7s next week.

Asian markets could influence the global tone toward the end of the week when the state and private sector manufacturing PMI readings land. The private sector flash version that is based upon an incomplete sample has already been released and posted another contraction signal. A bevy of Japanese readings on jobs, household spending, and CPI land next Thursday evening.

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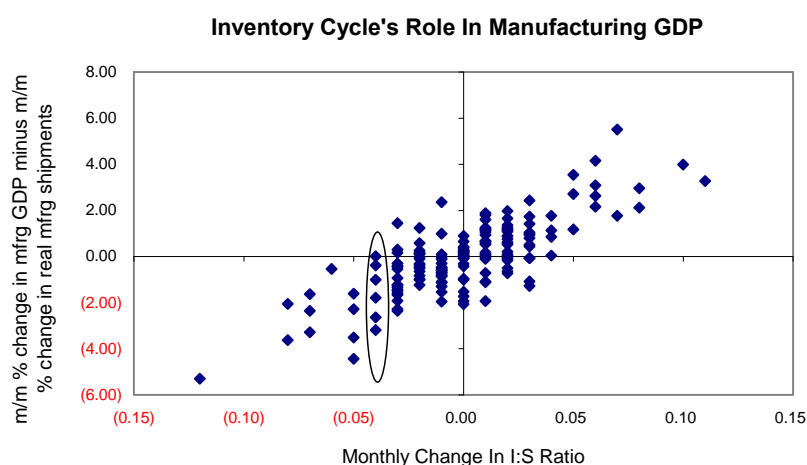
A Caution On Canada's July GDP Report

Will a sharp rebound in manufacturing shipments (nominal +2.7% m/m, real +2.8% m/m) that was largely due to higher volumes and not just prices, and the concomitant gain in exports (nominal +2.2% m/m, real +4.1% m/m) during July motivate a strong gain in Friday's July GDP? Not necessarily is the short answer.

Shipments are not what counts for GDP. What matters is how businesses met higher shipments: whether through higher production, and/or through selling down inventories. Value added in production would count for GDP growth, but depleting inventory investment would have an opposite drag effect.

Consider some evidence. First, manufacturing inventories did indeed decline by 0.5% m/m in non-annualized terms in July. Thus, manufacturers met some of the monthly shipments gain by selling down a portion of their inventory stockpiles that sit at a two-year high.

Second, consider the accompanying chart. The vertical axis plots the historical monthly gaps between growth rates in real manufacturing shipments minus growth rates in real manufacturing GDP as captured within the monthly GDP figures. When positive, manufacturing GDP out-performed real manufacturing shipments on the month, and vice versa. The horizontal axis shows what happened to the inventory cycle in the same months by taking the monthly difference in the inventory-to-sales (I:S)



Source: Statistics Canada, Scotia Capital Economics

ratio. By plotting the two together on the same chart, we can see how the extent to which gains in shipments flow through to gains in GDP depends in part upon what happened to inventory management. For instance, the upper right quadrant shows months when manufacturing GDP out-performed manufacturing shipments because higher production not only served growth in shipments but also added to inventories in a reinforcing fashion by having both production and inventories drive GDP growth. The lower left quadrant of the chart shows months when monthly manufacturing GDP under-performed monthly manufacturing shipments because sales were met through depleting inventory levels relative to sales and thus there was a more limited contribution to GDP growth from production — or an outright drag effect because inventories were depleted. The clear positive relationship shown on our chart demonstrates our point that the ability of manufacturing shipments to flow through to manufacturing GDP depends upon how the inventory cycle is being managed.

So where are we today? The July manufacturing report showed that shipments grew strongly but the ratio of inventories-to-sales fell. The ellipse drawn on the chart surrounds those observations in the past that recorded a decline in the I:S ratio of identical magnitude to the 0.04 decline recorded this past July. In other words, when that happens, the result is usually that monthly manufacturing GDP under-performs monthly shipments growth.

Now, consider a few practical actual examples from the past when the evidence on weak translation effects from shipments to GDP caught markets totally off guard in their GDP expectations. In February 2009, real

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manufacturing shipments grew by 3.4% m/m, but real manufacturing GDP fell by 1.0% m/m. In January of this year, real manufacturing shipments climbed by 4.2%, but real manufacturing GDP grew by a much milder 1.56%. In July 2009, real manufacturing shipments climbed by 6.6% but real manufacturing GDP climbed by a much milder 1.3% (this was the biggest monthly gap on record between the two measures). In March 2007 real manufacturing shipments climbed by 2.3% but real manufacturing GDP was flat. Clearly both theory and evidence support the view that shipment gains don't have to flow through to GDP gains.

For other points of caution on next Friday's GDP report see our data preview on page A1. Clearly the other point of caution concerns sustainability, since the July GDP figures won't capture any influences over the duration of the quarter during which global consumer, business and market confidence collapsed.

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The Provinces — Encouraging FY11 Final Results

- Similar to FY10, the Provinces' final FY11 reports indicate a substantial aggregate improvement on the governments' forecasts this past spring.

For the eight Provinces to date reporting their final results for fiscal 2010-11 (FY11), they have bettered their combined bottom line by \$4 billion from their forecasts published in their spring 2011 *Budgets* (see table below and charts on next page). This narrows the Provinces' aggregate published deficit for FY11 to \$18½ billion (1.1% of GDP), an improvement of almost 27% from the combined FY10 balance of \$25.2 billion (1.7% of GDP). Moreover, the release later this fall of final FY11 results from Quebec and Newfoundland & Labrador could well shrink the red ink further. For Quebec, monthly data for FY11, before year-end adjustments, suggest an FY11 shortfall \$0.5 billion narrower than projected in its March 2011 *Budget*. For Newfoundland & Labrador, the advantages of receiving Brent rather than WTI prices for its offshore oil production plus its robust output gains estimated at 6.0% for 2010 and 3.6% for 2011 should underpin the Province's forecast of a \$0.5 billion FY11 surplus. If Saskatchewan's and Alberta's FY11 transfers from their reserve funds to their respective bottom lines are excluded, the Provinces' aggregate final deficit to date is \$21.8 billion, shrinking \$5½ billion since the spring forecasts.

The Provinces' outperformance on their FY11 estimates mirrors their FY10 experience and reinforces the high international expectations for Canada's fiscal repair. The IMF, for example, projects virtually balanced books across all Canadian governments by mid-decade with gross debt beginning to head lower relative to GDP in 2013. Contributing factors to the Provinces' FY11 improvement include prudent assumptions and, in some instances such as Ontario and British Columbia, forecast reserves and contingency funds that drop to the bottom line if they are not fully drawn down. Provincial revenues in FY11 picked up, in part due to the jump in federal funding as Ottawa maintained the scheduled growth of its major transfers and allocated the second year of its stimulus package. The Provinces' own-source receipts also posted a solid gain, supported by record national employment, increased consumption and housing market activity, a further recovery in corporate profits and a jump of more than 20% in resource receipts. Although Ottawa and several Provinces proceeded with corporate tax reductions to increase their competitiveness, a number of jurisdictions raised fees and hiked sin taxes. Nova Scotia in July 2010 and Quebec in two stages — January 2011 and January 2012 — are taking advantage of the tax room vacated by Ottawa to lift their general sales tax rate by two

	Provincial Budget Balances												
	\$ millions unless otherwise noted											% of GDP	
	FY10			FY11			FY12f			Final FY10	Final* FY11		Update* FY12f
	Spring 2010 Budgets	Final	Change	Spring 2011 Budgets	Final*	Change	Spring 2011 Budgets	Update*	Change				
NL	-295	-33	262	485	n.a.	-	59	n.a.	-	-0.1	1.7		0.2
PE	-84	-74	10	-54	-52	2	-42	n.a.	-	-1.6	-1.1	-0.8	
NS	-488	-269	219	447	569	122	-390	-319	70	-0.8	1.6	-0.9	
NB	-743	-722	21	-740	-633	107	-449	n.a.	-	-2.6	-2.2	-1.5	
QC**	-4,257	-3,174	1,083	-4,200	n.a.	-	-3,800	n.a.	-	-1.0	-1.3	-1.1	
ON	-21,330	-19,262	2,068	-16,686	-14,011	2,675	-16,315	-15,994	322	-3.3	-2.3	-2.5	
MB	-555	-200	355	-467	-298	169	-438	n.a.	0	-0.4	-0.6	-0.8	
SK**	425	425	0	20	48	28	383	361	-22	0.8	0.1	0.5	
AB**	0	0	0	0	0	0	0	0	0	0	0	0	
BC	-2,775	-1,864	911	-1,265	-309	956	-925	-2,778	-1,853	-1.0	-0.2	-1.3	
Published - All Prov.	-30,102	-25,173	4,929	-22,460	-18,401	4,059	-21,917	-23,400	-1,483	-1.7	-1.1	-1.4	
**Budget Balances Before Major Transfers From Reserves													
Pre-Transfer QC	-4,690	-3,607	1,083	n.a.	n.a.	-	n.a.	n.a.	-	-1.2	-	-	
Pre-Transfer SK	-86	168	254	40	95	55	115	72	-43	0.3	0.2	0.1	
Pre-Transfer AB	-3,624	-1,032	2,592	-4,821	-3,410	1,411	-3,394	-1,344	2,050	-0.4	-1.3	-0.5	
Pre-Transfer - All Prov.	-34,670	-26,895	7,775	-27,261	-21,764	5,497	-25,578	-25,033	546	-1.8	-1.3	-1.5	
Federal	-53,800	-55,598	-1,798	-36,200	n.a.	-	-32,300	n.a.	-	-3.6	-2.2	-1.9	

*For FY11 Finals and FY12 Updates, spring 2011 *Budget* forecasts used if no updates available. Source: *Budget* documents, Statistics Canada, Scotia Economics.

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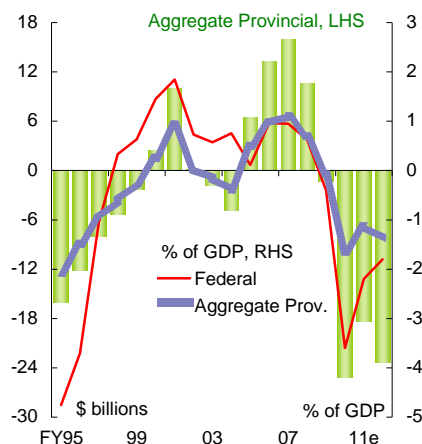
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percentage points. For the Provinces' debt service, historically low interest rates continue to generate sizeable savings from *Budget* estimates. Provincial program spending growth in FY11 remained positive but slower, curtailed by one-time events plus tighter management of Department budgets, education and health networks and year-end outlays.

For FY12, the spring *Budgets* project a combined provincial deficit widening back to almost \$22 billion (1.3% of GDP), and without transfers from reserves, to an aggregate \$25½ billion, even with two Provinces, Saskatchewan and Newfoundland & Labrador, expecting surpluses. Contributing to the widening in the Provinces' combined FY12 shortfall are Ontario's unexpectedly narrow FY11 gap, Nova Scotia's return to red ink as its annual university assistance payments resume a more regular trend and British Columbia's enlarged deficit due to the \$1.6 billion repayment of federal HST assistance with the summer referendum decision to return to a Provincial Sales Tax. Countering the widening deficit trend, however, is Alberta's Q1 *Update* that narrows its projected red ink (before a Sustainability Fund transfer) by \$2.1 billion to \$1.3 billion.

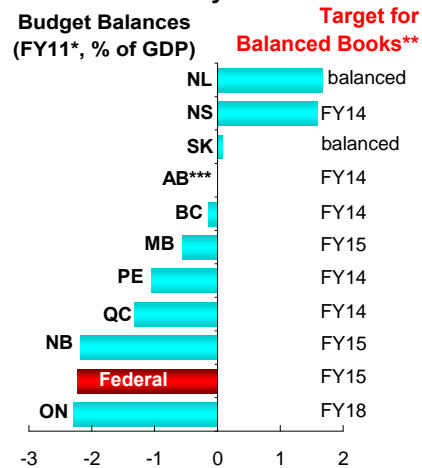
For FY12, significantly outperforming *Budget* forecasts will be tougher as Canada's real GDP growth slows to an average of roughly 2% in 2011 and 2012, compared with the March 2011 *Consensus* forecast of annual gains averaging 2.8%. However, the Provinces' practice of prudent assumptions and contingency reserves should offer some insurance, though the year-end assist to the bottom line from untapped reserves may be more modest. Interest rates have edged even lower in FY12, pointing to another year of substantial saving on interest charges relative to *Budget* forecasts. In several Provinces, program spending reviews are either under way, or planned, suggesting options for additional expenditure reductions to stay on track, particularly for the five Provinces aiming for balanced books in FY14. The substantial improvement in the final FY11 deficits has strengthened the Provinces' fiscal situation entering FY12 relative to their *Budget* plans, in some instances providing sizeable pre-borrowing for FY12. With the better-than-expected deficits in both FY10 and FY11, the net debt relative to GDP of the nine Provinces excluding Alberta (which reports a net financial asset position) is still expected to peak over the next year, above, but not sharply higher than the prior 34.4% high in the mid-1990s.

Budget Balances – In Aggregate...



Source: *Budget* documents, Statistics Canada, Scotia Economics.

...And By Province



*Final results except for NL and QC. **Without reserve funds. ***After Sustainability Fund transfer. Source: *Budget* documents.

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BoC's Carney Provides Implicit Rate Guidance

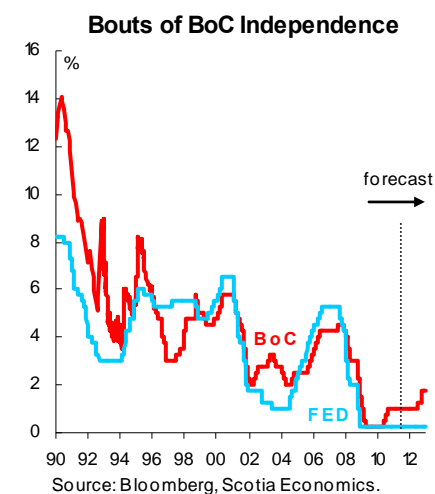
- Exerting influence up the curve seems to be preferred to cutting rates.

Our reading of a key speech delivered by BoC Governor Mark Carney this past week is that it offered some implicit rate guidance in what was a very dovish overall tone. The speech's tone did what it had to in that any other bias at this juncture would have risked surprising the curve's benign posture.

One issue concerns prospects for near-term rate cuts that, while not directly addressed, may be inferred through two observations. First, when Carney discussed policy flexibility, he vaguely emphasized tools such as liquidity measures, noting that the "Bank has a wide range of tools to provide exceptional liquidity." If he was thinking of the need for incurring the risks of returning to the lower zero bound on rates, one might have expected him to address this possibility with somewhat greater clarity. We continue to think that while a rate cut is certainly not impossible given building global and domestic headwinds, the BoC has set a high bar on such a move and would choose to first utilize other tools in order to address any potential liquidity shocks. Second, Carney re-emphasized how "the policy rate can return to its long-run level after inflation is projected to reach the 2% target and output is projected to reach its potential" and that plays to the extended pause and slow removal of the punch bowl argument again — likely not rate cuts. The outcome — by anchoring reasonably low yields across the front end of the curve through longer-run rate guidance — can be essentially the same to the curve as a formal rate cut in the near term not accompanied by such longer-run guidance. With Canada 2s yielding 0.84% it isn't clear that there would be much mileage to rate cuts.

Further to the argument that Carney is choosing to exert influence further up the curve rather than cut rates is that he put additional emphasis upon flexibility toward his own inflation target. Again, this is not new, but Carney chose to re-emphasize that he is not mechanistically driven by a rigid inflation forecast horizon and did so by citing examples over the period during which the BoC has explicitly targeted inflation. Even though this is an explicit inflation-targeting central bank, Carney emphasized that over the last two decades, the desired forecast horizon within which to return inflation to its 2% target has varied between as little as two quarters and as much as 11 quarters. Thus, the BoC responds to shocks with what it thinks is a realistic policy horizon judged by its own merits at the time. He noted that on eight occasions, the BoC extended the targeting horizon beyond eight quarters. This adds to sentiment that this time around, the BoC will take a long time during which to evaluate inflation dynamics without acting in an overly hasty manner on monetary policy. That serves as one reason why markets generally looked through the upside surprise to August CPI, which the BoC (and Scotia) believes will face downside pressure into next year.

Carney also, however, hedges his bets by distancing himself from those arguing that he will match the Fed's loose rate commitment and only tighten policy when the Fed thinks it is appropriate to do so — perhaps by mid-2013. It isn't new or unexpected for the BoC to assert its independence, but when Carney emphasized that the long-run BoC-Fed spread has oscillated between +/- 200 pts over the past two decades of BoC inflation targeting (see chart), he's telling markets and forecasters not to simply punt out their BoC views into the middle of 2013 in a manner that would be consistent with the Fed's loose commitment. That's one key reason why we've erred more cautiously on the side of having the BoC on hold until the end of 2012Q3 but with admittedly enormous uncertainty attached to our views at this point. With the Fed targeting the end of 2012Q2 for completion of its 'twist' policy of reinvesting short-term Treasury products into the belly and long-end of the curve, the implication to our forecast is that it would be difficult for the BoC to begin raising rates before the expiration of this program since doing so may risk undesirably incurring an inverted yield curve. Should QE3 arrive amid a global recession, then the BoC is likely fully taken out of the picture through to 2013 which is our fat tail risk in any event.



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U.S. Businesses: Flush With Cash, But Confidence Poor

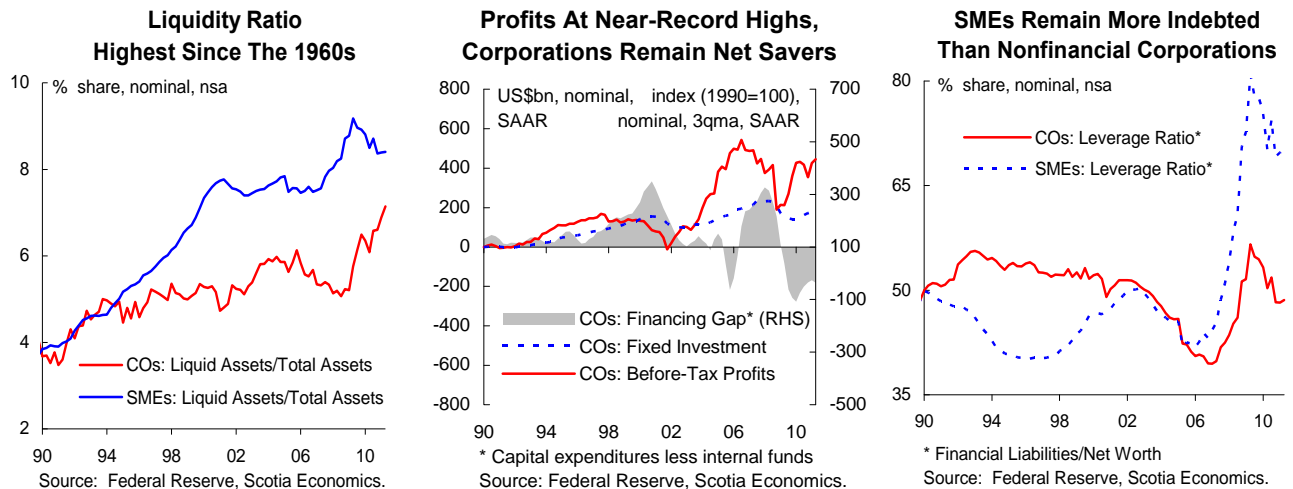
- **With solid profit margins and ample liquidity, business confidence is the key missing ingredient.**

U.S. businesses boosted already-high levels of liquidity in the second quarter, a reflection of uncertainty over the global economic and fiscal outlook. This was especially true for nonfinancial corporations (COs), where demand for cash even outpaced growth in cash equivalents (government securities, mutual funds, foreign deposits, etc.). The small- and medium-size enterprises (SME) continued to juggle a preference for liquidity with a limited access to the credit market, a balancing act that has been pushing the share of liquid assets lower for two years (chart 1).

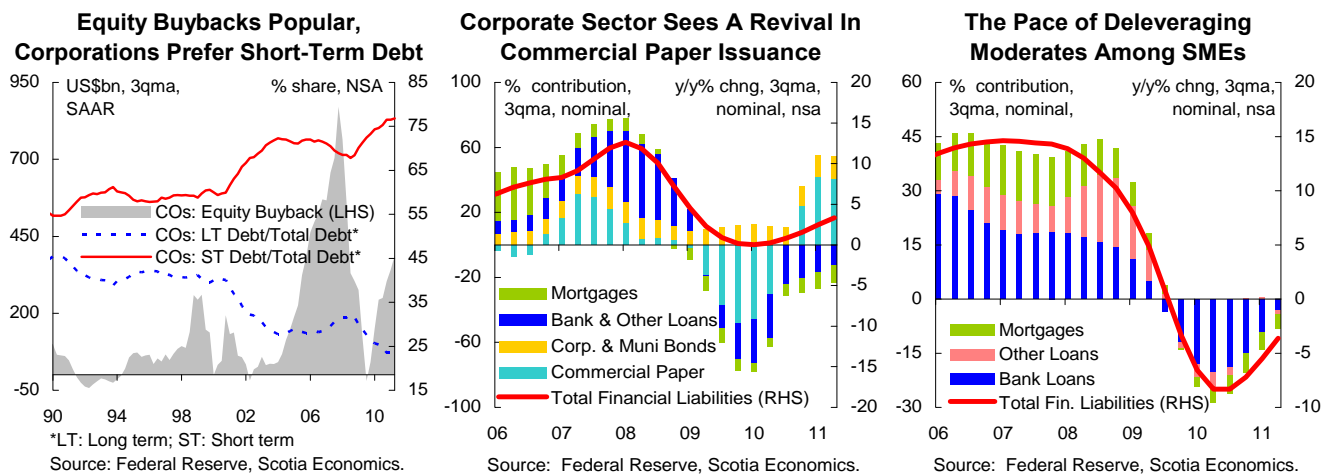
While before-tax corporate profits continued to hover around record highs, growth in capital expenditure was more subdued, leaving ample excess internal funds (chart 2). Leverage ratios are improving, but still remain well above their long-run averages (chart 3). SMEs appear to be disproportionately more indebted (see chart 3), likely because mortgages make up three-quarters of their debt profile and because their net worth deteriorated more sharply during the most recent downturn, and has since failed to recover.

With excess cash on hand, companies are favouring shareholder-friendly initiatives (equity buybacks, higher dividend payments, cash-financed transactions) (chart 4). Credit conditions are gradually improving, but at a slower pace for SMEs (charts 5, 6). Historically low interest rates have made refinancing and short-term debt more attractive (chart 4), commercial paper and corporate bonds in particular (chart 5). While companies are acting with caution amid uncertainty, the improving quality of corporate balance sheets and capital investments should help them ride out this bumpy economic period to allow businesses to take advantage of future opportunities, such as additional expansions to the emerging markets, especially with the weaker U.S. dollar.

Charts 1, 2, 3



Charts 4, 5, 6



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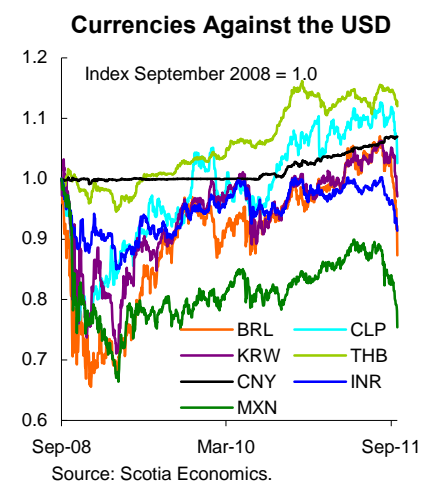
Fleeting Exchange Rate Weakness Could Still Spur Inflation

- **The current safe haven run could last long enough to bring back inflationary concerns.**

The recent spurt of emerging market currency weakness will prove temporary. Fundamental exchange rates drivers continue to be tilted against rich countries as the weakened outlook for growth and interest rates trail developing country prospects. The search for yield will continue to favour the latter, with persistently elevated global food and fuel cost concerns reducing the risk of coordinated monetary easing by emerging-market central banks. However, our previous expectation for economic fundamentals to drive a persistent revaluation of emerging market currencies against the US dollar clearly has not materialized, as funds are migrating back towards safe havens while investors hold their breath around the travails of the European crisis.

After remaining range-bound on a strengthening path, emerging market currencies have finally capitulated, following their equity markets into the eye of the global financial storm. Since September 1st, the Brazilian real (BRL), the Chilean (CLP) and Mexican (MXN) pesos, the South Korean won (KRW), and the Indian rupee (INR) have lost 15%, 8.8%, 8.7%, 8.1%, and 4.9% respectively, against the US dollar. This depreciatory wave has brought the BRL, KRW, CLP and the INR back below the respective levels that prevailed prior to the global crisis of September 2008. The MXN was one of the few currencies that never reclaimed its pre-crisis level.

Although recent exchange rate weakness provides relevant emerging market economies with an export advantage, central bankers in these nations now face the prospect of lower demand from rich countries. They have in response shifted into wait-and-see mode, holding the current monetary policy stance, despite headline inflation gauges continuing to surpass respective targets, by wide margins in some countries.



Inflation still a threat

It is hard to envisage an emerging market central bank switching nimbly towards looser monetary conditions when output is expanding at close to or above its potential rates, and local labour markets remain tight. Falling demand from rich countries will take time to work through the system, particularly for those economies that are less open to international trade. Currency strength has been helping to keep inflationary pressures at bay within a context of elevated prices for imported commodities. Therefore, the recent bout of exchange rate depreciation poses the risk of accelerating inflationary pressures, as tradable goods prices threaten to compound the advances in locally determined non-tradable goods costs. Indeed, the present episode of exchange rate weakening will risk derailing the stabilization efforts of the central banks in those nations where inflation was already on a downtrend. This threat of resurging inflation will be more latent in countries that are less active in free international trade as demand for their products is mostly determined by local conditions. India and Brazil come to mind.

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Manufacturing Output In The NAFTA Region

- The Mexican manufacturing sector has outperformed its Canadian and US counterparts

Mexico's manufacturing output is leading the country's economic recovery with activity already surpassing pre-recession levels. While a close link to the U.S. is inevitable, Mexico's manufacturing rebound has been almost twice as fast, with production now almost 4.5% above the 2007 pre-recession peak (please see chart below). Mexico's factory output is thus 22.9% above the May 2009 trough, comparing favorably with the 11.5% gain in the United States, and the 18.2% advance seen by Canadian manufacturers, who seem to be stalled as a result in part of Canadian dollar strength.

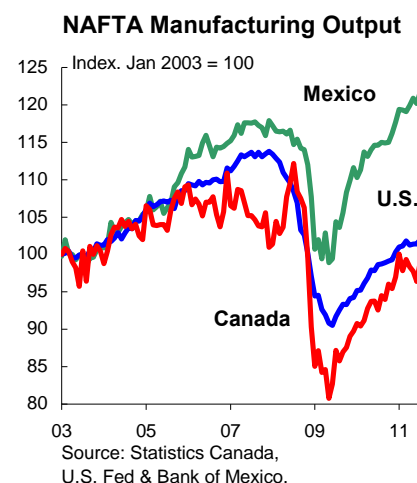
The correlation between the index of Mexican manufacturing output and that of the United States has widened from a pre-crisis (2000-09) average of 0.95, to a post-crisis (January 2009 to July 2011) average of 0.83. Part of the explanation for the divergence lies in competitiveness gains as Mexican labour costs have remained relatively low, which have combined with a weakened currency (the peso has failed to regain the total value lost as a result of the 2008 global crisis, and currently stands 30% weaker than its pre-crisis level).

Taking into account all the components of the industrial sector in Mexico, industrial activity grew by a solid 13.6% from May 2009 to July 2011, and is now slightly above (almost 1.0%) the pre-recession level. However, both the mining and the construction sector remain below their pre-crisis levels by 8.0% and 4.8% respectively.

The outperformance of the Mexican manufacturing rebound can be adequately characterized by the evolution of exports of durable goods, with shipments of automobiles playing a prominent role. Vehicle and parts production account for roughly 15% of overall manufacturing activity and close to 20% of total Mexican exports. Latest data have outbound shipments of autos expanding at a 23.9% y/y rate in July, with units delivered to the U.S. market rising at a 24.5% yearly rate.

Within the context of elevated global fuel costs, Mexico's geographical position entails a strategic advantage to supply to both the North American and the South American markets. A persistent drive to market diversification has resulted in a rising share of Mexican auto sales directed towards South America and Canada, as the U.S. share in overall car exports has fallen to 65%, from 80% in 2008. Indeed, the number of units of Mexican automobile exports to the rest of Latin America grew 65% y/y in the January-July period of this year. Cumulative volumes to Europe and Canada expanded at 12% and 14% yearly rates, respectively, while those to the U.S. increased at a 10.7% y/y pace. Latin America, Europe and Canada thus now account for a combined 31.8% of total Mexican car exports, almost half the share of units shipped to the U.S.

Automakers are increasingly adopting Mexico's low-cost platform to assemble vehicles and export cars and light trucks all over the world. As a result, vehicle production in Mexico has soared by 52% over the past six years. In contrast, even with last year's rebound, assemblies coming out of both Canada and the United States remain at least 25% below the levels prevailing in 2004.



The View From Europe: UK: QE2 — ‘When’ & ‘How’, Not ‘If’

- The minutes of the September MPC meeting were more dovish than a month earlier — unsurprisingly given the worsening in the economic outlook. Although there were no additional dissenters in favour of QE at this stage, the thrust of the discussion suggested it is a matter of time before the Bank announces that it is embarking on another round of asset purchases. The likely downward revisions to the Bank’s macroeconomic projections in the November *Inflation Report* appears to be the most appropriate time for a move.

Mind your language

The thrust of the MPC minutes was unequivocally dovish. The highlights included:

- The downside risks [to inflation] had clearly increased further;
- For most members, the decision of whether to embark on further monetary policy easing at this meeting was finely balanced since the weakness and stresses of the past month had significantly strengthened the case for an immediate resumption of asset purchases;
- For some members, a continuation of the conditions seen over the past month would probably be sufficient to justify an expansion of the asset purchase programme at a subsequent meeting; and
- The committee looked at the range of possible policy actions available to loosen monetary policy conditions were that judged appropriate.

For some time, the MPC minutes, Inflation Report and accompanying commentary have suggested that if the downside risks to the Bank’s latest projections materialise, then the Bank will restart asset purchases. Those downside risks are materialising. There has been some hesitancy on the part of the MPC, perhaps wanting to make sure that recent weakness has not been transitory. We believe that the weakness is enduring, hence if we take the MPC at its word, sooner or later they will have to deliver further QE.

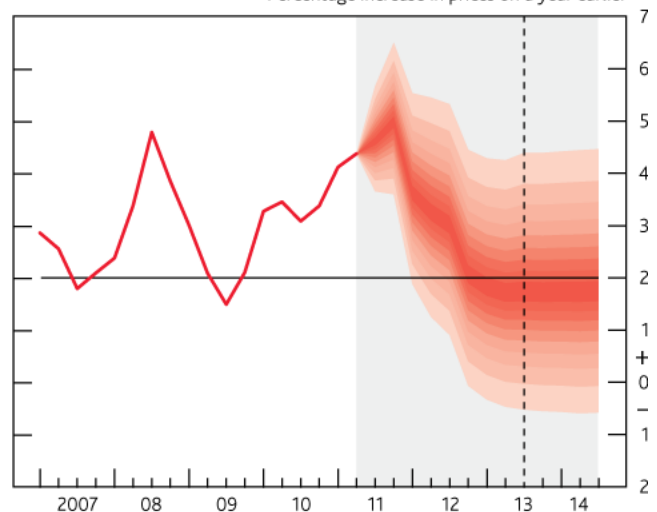
Back to basics

The start and end-point of any forecast of Bank of England monetary policy is the Bank’s inflation projection (Chart 1). If the Bank projects that inflation will be below the 2% target at the medium term horizon, it has typically loosened monetary policy and vice versa.

The latest projections, published in August, showed the mid-point of the Bank’s inflation projection at 1.7%-1.8% y/y 2- years ahead. Although that is a reasonable margin below the 2% inflation target in comparison with the pre-credit crunch BoE projections, it was clearly not sufficient to provoke further policy easy in the latest two months.

Two issues are likely to have held Bank back until now. Firstly, the projection over the early quarters of the projection showed inflation substantially above target, making several members concerned about

Chart 1: BoE Inflation Projection (Market Rate Expectations)
Percentage increase in prices on a year earlier



Source: Bank of England

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rising inflation expectations. Secondly, although GDP growth has been disappointing, it hasn't been anywhere near as negative as during the first phase of QE.

Despite inflation remaining well above target the MPC's worst fears over inflation expectations have not materialised over recent quarters, which should have been reassuring. Moreover, the minutes conceded that the Bank's optimism for upcoming GDP growth has suffered another blow. The point is that the barriers to further QE are becoming less and less obstructive. Furthermore, downward revisions to the Bank's outlook for growth argue for a downward revision to its medium term inflation projection — down to levels comparable with during the first round of QE.

If the Inflation Report was Today...

We calculate that if the Bank's inflation projection was to take account of the recent deterioration in the GDP growth outlook, the movement in equities, oil, the GBP and near-term inflation, the Bank's 2-year inflation projection would be around 1.6% y/y (Table 1).

		Aug	Nov	% Chg	Impact on BoE Inflation Projection
Oil*	Spot (USD)	117.43	112.9	-3.9	-0.1
	Spot (GBP)	72.16	71.09	-1.5	
GBP*	Effective GBP	79.28	78.7	-0.7	0.07
	Near quarter inflation fcast	5	4.9	-0.1	-0.03
GDP forecast	2011	1.6	1	-0.6	-0.2
	2012	2.2	1.5	-0.7	
FTSE All-Share*		3015	2732	-9.4	-
Market rate expectations				-25bp	0.1
					-0.16

* 15 working day average
Source: Macrobond

The biggest influence on this occasion is likely to be the downward revisions to the Bank's growth projections. To be clear, any forecast of GDP growth will be hostage to fortune given the upcoming revisions from the ONS on 5 October. Nonetheless, the % q/q growth rates implied by the latest BoE projections are far too high in our view. A downward revision of around ¾% points appears likely, which we believe should subtract around 0.2 percentage points from the Bank's medium term inflation projection.

Other influences have been rather more stable. Perhaps the most significant counterinfluence that may limit the extent of the downward revisions to the inflation projection has been the pushing back of interest rate hike expectations. The money market curve has shifted down by around 25bp — which we suspect will add around 0.1 percentage point to the Bank's medium term projection.

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In sum, our calculation suggests that the Bank's 2-year ahead inflation projection would be around 1.6% y/y if the *Inflation Report* was published today. That compares to 1.65% at the time of the final instalment of QE1 in November 2009. As we have highlighted before, throughout 2010, the Bank's 2-year ahead inflation projection ranged between 1.2% y/y and 1.45% y/y. That was a much bigger target undershoot, yet the Bank did not pursue further policy ease. However, the main difference was that GDP growth recorded gains of close to 1% q/q and the composite of the two PMI surveys was above 55 for most of the year.

Hence although the Bank is unlikely to forecast as much of an inflation target undershoot as it did through 2009 and 2010, the unfavourable GDP growth outlook, coupled with the intensification in the financial market logjams is likely to support the case for another injection of asset purchases over the coming months.

Conclusion

Our latest published forecast has been that it is a close call, but the Bank would probably not re-engage in QE. We will be revising our key forecast for the UK economy in the upcoming Global Forecast Update publication. In light of this week's MPC minutes and the deterioration in the outlook for the economy, it is looking increasingly likely that QE2 is a case of when and not if. The likely evolution in the Bank's economic projections point to a move in November. If elevated inflation (above 5% y/y) is too high for some members to justify further easing in November, then a delay until February (when inflation will be around 2 percentage points lower) is likely.

Although the Bank discussed possible alternative methods of implementing policy loosening, we expect that QE2 would be very similar to QE1. Namely, we expect the bulk of the programme to rely on purchases of conventional gilts — though perhaps with a bias towards longer dated paper.

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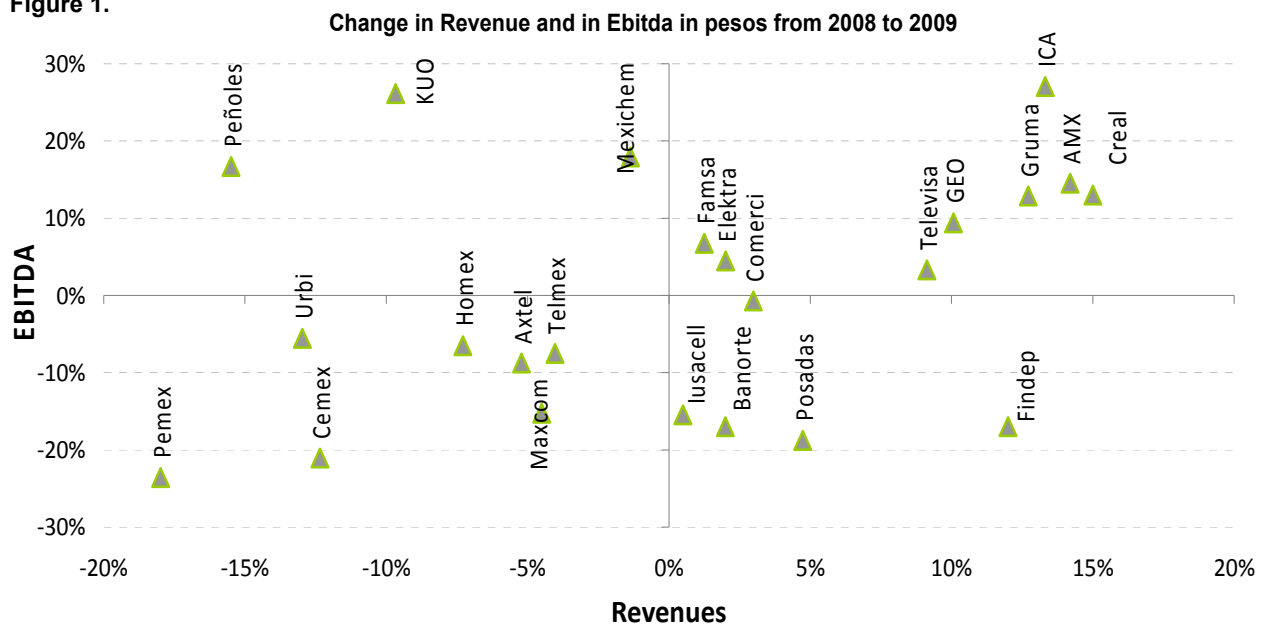
Defensive Mexican Corporates

Despite the Mexican economy’s negative 6% growth rate in 2009, half of Mexican corporates actually managed to improve their profitability in that year. We draw three lessons from the 2009 recession that we think have important investment implications for those EM corporate investors concerned about the possibility of another global downturn: (1) Not all construction is cyclical; (2) Performance differs significantly across exporters; (3) Industry trends and industry positioning can surmount even the strongest macroeconomic factors.

With economists revising downwards their projections for US and Mexican economic growth, and some even predicting a recession in the US, many investors are surely concerned about how to re-position their emerging market corporate portfolio. The starting point for our analysis is to look back at what happened to fundamentals of today’s Mexican corporates bond issuers during the 2009 recession. Considering the sharpness of that recession as well as the fact that Mexico was one of the countries in Latin America whose growth was most impacted, we think the evolution of corporate fundamentals in Mexico during this period provides an important reference point for what could happen to firms across a variety of industries if the current downturn worsens.

When we looked at the change in corporate fundamentals in terms of revenues and Ebitda in Figure 1, we were immediately surprised at the number of firms that had actually done well during the recession; just as many firms improved their performance in 2009 as worsened their performance. That presented an interesting puzzle in light of the fact that economic growth in that year was -6.1% and some industries had suffered tremendously; for example, Mexican auto sales fell 26% in 2009. The graph prompted us to consider the factors driving the performance of some of these corporates in more detail, with any eye towards projecting financial performance in the event of another downturn. While we have analyzed most of these firms in detail, in this article we present just some of the more surprising lessons we found from our analysis of these firms’ sensitivities to global economic factors.

Figure 1.



Source: All financial data from Bloomberg.
 Interest income and net income shown for financial institutions instead of revenues and Ebitda.
 No adjustments have been made to the data in relation to acquisitions or divestments.
 Not shown in the graph are Satmex, Bimbo, and Bio Pappel, all of which had very positive performance and would be off the chart. Also excluded was CFE, with strongly negative performance.

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Lesson 1. Not all construction is cyclical

Everyone knows that the construction sector suffers during an economic downturn. Consider for example the recent yield widening in Cemex bonds or the 2009 default of Mexican firm IUSA, which supplies construction equipment in Mexico and the US. More noteworthy, then, is that fact that there are some firms in the construction industry that actually performed well during the downturn. The drop in Ebitda for homebuilders Urbi and Homex was only 6%, while homebuilder Geo actually saw Ebitda rise by 9%. Empresas ICA, which builds and manages large infrastructure projects, saw sales rise by 13% and Ebitda grow by 27%.

We have written about the homebuilders in much detail before (see our comprehensive article “Making Houses like Tortillas,” October 18, 2010). Since the government finances most of the houses produced by these builders, and even the downpayment comes from a government controlled fund to which employees make mandatory contributions, housing demand is much less cyclical than it would be otherwise. Because the revenues of these firms are in pesos while their bonds are in dollars, many have hedged against the currency depreciation that would likely occur in another downturn.

Another example of the close relationship between corporates and public policy is ICA, which is one of the few construction firms capable of handling the government’s largest infrastructure projects. While we were not following ICA back in 2009, based on our recent meetings with ICA management and with senior officials of Banobras, the Mexican Development Bank charged with financing infrastructure, we can speculate why ICA may prove more resilient than other construction firms in another downturn. First, with Mexican government finances conservatively managed, there is a reasonable expectation that the government could enact counter-cyclical fiscal policy with a significant infrastructure component if necessary. Second, even though Banobras has been recently encouraging partial private sector funding of infrastructure projects, they receive multi-year binding commitments for funding, helping to ensure that their projects would not be immediately impacted by a drying up of foreign capital markets. Third, ICA often operates with a backlog of projects that could represent a year of work, making it resistant to short-term downturns. Our argument here is not that ICA would be unaffected by a downturn, but rather that some of its characteristics may help to mitigate another recession’s impact relative to other construction firms.

Lesson 2. Performance differs significantly across exporters

Another downturn for Mexico would surely include the following counteracting forces: lower export prices in dollars, a weaker Mexican peso which could actually raise export prices in pesos, lower input prices in dollars, higher input prices in pesos, and lower volumes. Differences in the import content of firm inputs, in the destination of exports, and in the sensitivity of prices to global conditions can create drastically different performance between exporters.

Pemex performed the worst, with Ebitda down by 24%. A 25% decline in global oil prices, made worse by a 7% decline in oil production unrelated to the global crisis, is of course the explanation for this. In contrast, profits for Peñoles, a mining company producing a variety of metals, saw an increase in Ebitda of 17%, which is about equal to the MXN currency depreciation rate of 18% in that year. Prices, in dollars, declined for all of its metals with the exception of gold, and a 65-day strike affected production. Meanwhile costs in dollars fell as well, especially since 52% of firm costs are in pesos and the rate of currency depreciation significantly outpaced the fall in USD metals prices.

Mexichem, a petrochemical company, fared relatively well thanks to the fact that the majority of its sales go to Latin America, allowing it to maintain stable sales levels as costs fell due to lower raw materials prices and

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lower energy costs. Kuo, a conglomerate with divisions in chemicals, automotive, and packaged food, handled the crisis by reorienting its production to those products with better margins, and it was helped by the reduction in global raw materials prices.

Lesson 3. Industry trends and industry positioning can surmount even the strongest macroeconomic factors

Despite the magnitude of the crisis, we were surprised that industry trends and competitive forces continued to play a critical role in determining profitability. In telecom, America Movil grew thanks to its 3G data services, while Televisa gained with the help of its triple play offering. Meanwhile, telecom companies such as Maxcom and Telmex suffered because of their weaker positions in the industry. Retailers Comerci, Famsa, and Elektra saw modest growth, a surprising development when we consider the latter two's reliance on the sale of durable goods which should have fallen significantly. We would tentatively explain this growth by the long-run rise of the middle-class as well as to the availability of financing for such purchases. Perhaps a related phenomenon was the increase in both interest income and net income at payroll lender Credito Real, which contrasted sharply with flat interest income and a 17% drop in net income at Banorte, the latter being what we would have expected from a financial institution during a crisis.

We also found interesting the stories of Gruma, the largest manufacturer of corn flour and tortillas in the world, and that of Bimbo, a large worldwide bakery and seller of Mexican food. Of course, the basic food products made by these firms have low income elasticities and that provides significant resilience to the firms. What we found interesting, however, is how the firm's large scale, brands, and distribution networks allowed them to take advantage of rapid changes in the environment. For example, Gruma was able to adjust its prices upwards in 2008 in order to reflect higher raw materials prices, so much so that profits actually increased in 2008. Nevertheless, when raw materials prices fell in 2009, rather than lowering its prices back to prior levels, Gruma was actually able to raise effective prices even further, by keeping price per package stable while actually reducing the number of tortillas in each package. In the case of Bimbo, the price of wheat, a crucial input, fell 33% in 2009, allowing the company to boost profit margins during the recession. In addition, management explained to us that demand shifted during the recession—for example, with the crisis, some people who were trying to save money began to eat more at home or to prepare their sandwiches at home, a trend that Bimbo was able to successfully adapt to by reconfiguring its distribution network. Bimbo's acquisition of a higher margin business in the US also played an important role in the firm's results.

Conclusion

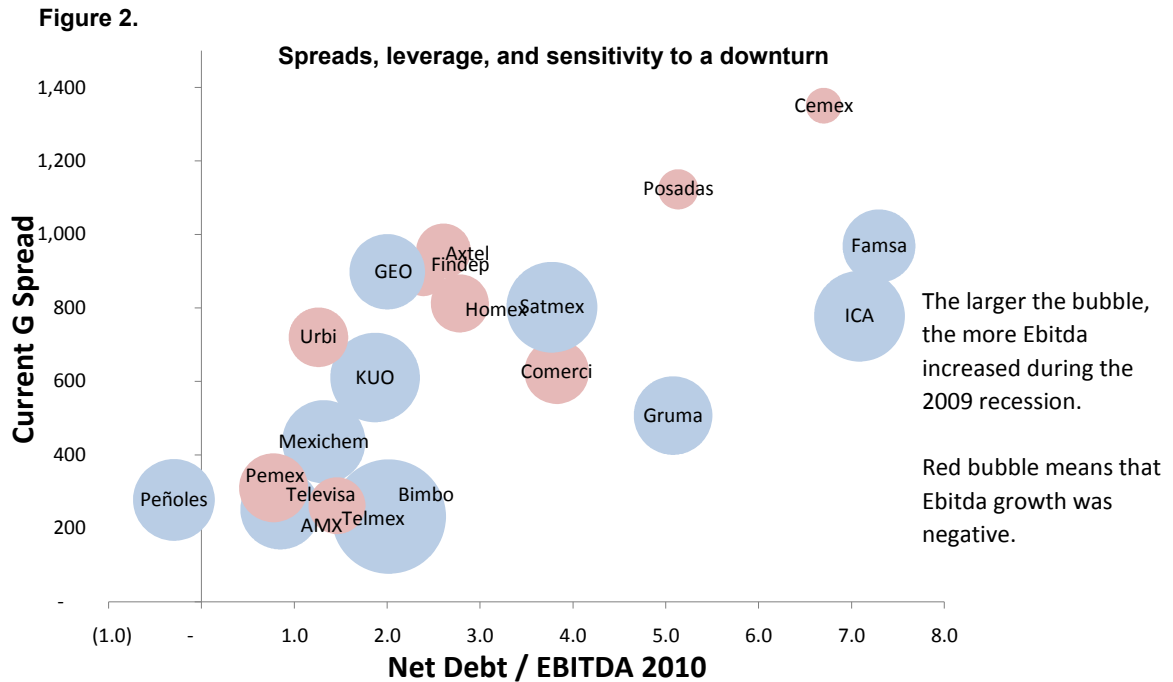
The last global recession entailed a significant number of defaults in Mexico. We examined seven such defaults on global bonds that occurred in 2008 and 2009. The causes were quite diverse. Two were due primarily to derivatives exposure (Comerci and Vitro), while two others occurred in highly cyclical industries (GISSA, a maker of automobile parts, and IUSA, which operates in construction). Two companies had started with weak positions prior to the recession: Bio Pappel had low margins leaving it exposed to any unfavourable changes in the ratio of finished goods to raw materials prices (paper and pulp), neither of which it had much control over. Mortgage-company Metrofinanciera had poor asset quality. Finally, entertainment company CIE faced a slowdown in advertising revenue and lower consumer disposable income, though some non-recessionary factors also played a role including laws restricting gambling and smoking. The fact that defaults occurred across many industries and did not affect all firms within an industry equally creates difficulties in preparing for a downturn, but it may also create some opportunities for investors.

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As shown in Figure 2, firms with low sensitivities to economic downturns are distributed across a wide range of spreads. In other words, spreads on Mexican corporates price a variety of factors only one of which is sensitivity to a downturn. Some of these factors may become less important as global economic factors reassert themselves. That means that if all corporate spreads widen proportionally to current spreads, we could see some opportunities develop for yield pickup.



Source: Bloomberg and Scotia Capital. Market prices as of Friday morning, September 23, 2011.

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Key Data Preview

CANADA

Canadian real GDP (Friday) will likely grow by about 0.3% m/m in July, the strongest monthly gain since January of this year. However, there are several caveats to this estimate. First and foremost, we are only able to observe roughly one-third of the Canadian economy via the indicators that Statistics Canada releases through the month: price-adjusted retail sales, price-adjusted wholesale sales, price-adjusted manufacturing shipments, housing starts and aggregate hours worked. Looking at these metrics alone, we would have estimated growth at a much higher level than 0.3% as we witnessed strong gains in every component but real retail sales which registered a 0.9% decline in July. And indeed, several temporary factors will likely provide a boost to real GDP in July such as a reversal from the postal strike which hit in June, a rebound in oil production following the wildfires and flooding in Western Canada in May, and an increase in auto production following the Japanese-induced shutdown in the early Spring which started to return in June. Having said that, taken together, all of these temporary factors would only account for about 7.5% of real GDP. Secondly, while housing starts jumped over 4% in July, providing some support to real GDP during the month, the gains were all in the multi-family segment, suggesting that the translation into real GDP will be more moderate than if the gains were all in the single-family segment. Finally, we aren't able to directly measure how much inventories may have affected the monthly real GDP print as measured within the retail, wholesale and manufacturing shipments reports. However, we do know that real manufacturing inventories actually declined in July which would take some of the wind out of the sails of the headline GDP print. Nonetheless, some of this weakness will be offset by a rise in both wholesale and retail inventories during the month, suggesting there will be some trade-off amongst these metrics. See our piece titled "A Caution On July's GDP Report" for further discussion on the inventories picture in Canada.

UNITED STATES

The **Conference Board's consumer confidence report** (Tuesday) will start the week off with a bang. Most analysts are expecting a rebound in the metric given the sharp decline in August and the equity rally mid-month although the estimates vary. While we agree with the base case that consumer confidence will likely improve slightly in September, we would argue that there is a risk of a weaker-than-expected print given the heavy weight towards the labour market in this confidence survey (as compared to the University of Michigan survey which is focused more upon financial conditions) after job growth stalled in August for the first time since September 2010. Layoff worries have increased south of the border as economic activity slows markedly and businesses pull back on spending amid increased uncertainty over the European debt situation and the resulting spillover effects. Time, however, will also likely play a large role in this preliminary reading given how volatile equities have been this month. Indeed, those who filled out the survey before September 12 were likely more pessimistic about the future than those who filled it out during last week's equity rally from the 12th to the 16th. In addition, given that the preliminary estimates are only taken up to September 18th, the recent global market rout suggests that even a better-than-expected print in next week's report could be revised down in the final estimates for the month once all of the surveys have been received.

There is also a risk of a weaker-than-anticipated print for both of the components within the August **personal income and spending** (Friday) report. On the income side, nominal incomes declined in August for the first time in almost 2 years as both aggregate hours worked and average hourly earnings fell on the month. Given the decent correlation between this measure and personal incomes, this raises the likelihood that we could witness a corresponding decline in incomes in August. On the spending side, on the other hand, we will likely witness a modest gain as sluggish retail sales are offset by a further gain in the services component. However, given the strong gain in services expenditures in July, the probability of a similar gain in August is quite small.

Weaker transportation orders will likely be behind much of the decline in headline **durable goods orders** (Wednesday) in August as durable orders ex-transportation should rise modestly. However, there is a strong possibility that even core orders turn negative in August after the August ISM new orders component remained below 50 in August for the second consecutive month, suggesting that new orders contracted on the month. In addition, as the European debt situation continues without a resolution, business confidence will moderate even further, likely resulting in a further decline in business investment as measured in this report via the non-defense capital goods component, ex-aircrafts.

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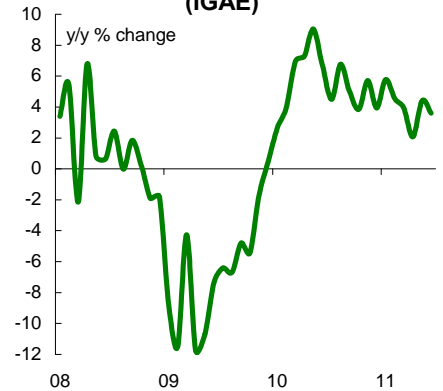
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MEXICO

The Global Economic Activity Indicator (IGAE), a proxy for monthly GDP in Mexico, still suggests that the country's economic activity remains solid, despite a slight decrease in June. Industrial activity has stabilized in the last four months around its pre-crisis level, showing slower rates of growth. In June it increased at an annual rate of 3.7% y/y, while decreasing 0.57% m/m against May. Nonetheless, the services sector remains on a solid growth trajectory, surpassing its pre-crisis level and growing by 3.8% y/y in June. We expect the IGAE to expand by 3.7% y/y in July.

Mexican Global Economic Indicator (IGAE)

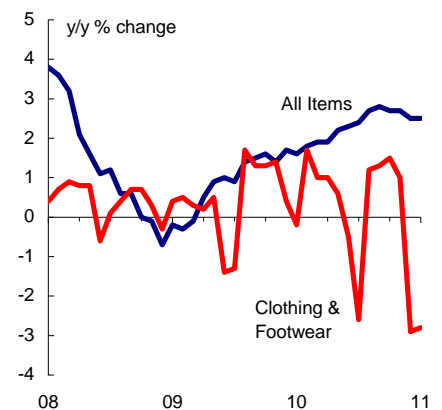


Source: Thomson Reuters.

EUROPE

Headline inflation in the euro zone likely accelerated in September, and could reach higher by the end of the year before subsiding toward the European Central Bank's (ECB) target through 2012. We expect the flash CPI estimate (September 30th) to show a 0.4% m/m gain in prices, which will bring the index back around its June level, while the annual pace of inflation should edge up to 2.6% y/y. Supporting price gains this month are the weakened euro, which fell from a high of 1.45 per US dollar in late August to 1.37 by mid-September, as well as an uptick in energy prices, and a change in the computation of seasonal factors for clothing and footwear. The methodological adjustment likely overestimated the drop in prices for clothing and footwear during the summer sale season, at 2.9% and 2.8% in July and August, respectively. Given the fairly sizeable weight of the component in the overall index (6.7%), these declines detracted 0.2 percentage points from the headline inflation rate in each month. We can therefore expect some pushback from this component on base effects in September, though with a deteriorating growth picture and ultra-low confidence, underlying inflationary pressures will likely remain contained.

Euro Zone Inflation

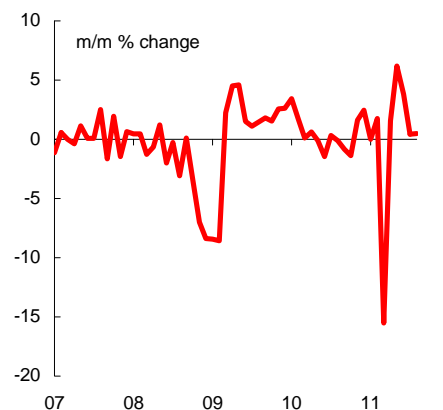


Source: Bloomberg.

ASIA

We estimate Japan's industrial output to have expanded by 1.2% m/m in August, which would take it well ahead of the average level registered during 2010, an outstanding year in terms of both industrial sector growth and the resulting overall GDP expansion. Japan's total exports value has rebounded back above last year's average, as the country's industrial platform is clearly on the mend. While adverse global headwinds should naturally have an effect on manufacturing in the nation, the sector's outlook is still favourably tilted as it caters mainly to Asian demand, a region that continues to register healthy growth. Moreover, the automotive industry, a heavy hitter in manufacturing, continues to display improving signs as Japanese dealers worldwide strive to bring back the ratio of sales to inventories to pre-March levels.

Japan's Industrial Output



Source: Scotia Economics.

Key Indicators for the week of September 26 - 30

North America								
Country	Date	Time	Event	Period	BNS	Consensus	Latest	
US	09/26	08:30	Chicago Fed Nat Activity Index	AUG	--	-0.4	-0.1	
MX	09/26	09:00	Trade Balance (USD millions)	AUG P	--	--	-1178.8	
US	09/26	10:00	New Home Sales (000s)	AUG	290	295	298	
US	09/26	10:00	New Home Sales (MoM)	AUG	-2.8	-1.0	-0.7	
US	09/26	10:30	Dallas Fed Manf. Activity Index	SEP	--	-8.0	-11.4	
US	09/27	09:00	S&P/CS 20 City (MoM) SA	JUL	-0.1	0.1	-0.1	
US	09/27	09:00	S&P/CS Composite-20 (YoY)	JUL	--	-4.6	-4.5	
MX	09/27	10:00	Central Bank Announces International Reserves for Prev. Week					
US	09/27	10:00	Consumer Confidence Index	SEP	46	46.2	44.5	
US	09/27	10:00	Richmond Fed Manufact. Index	SEP	--	-9.0	-10.0	
US	09/28	07:00	MBA Mortgage Applications (WoW)	23-Sep	--	--	0.6	
US	09/28	08:30	Durable Goods Orders (MoM)	AUG	-1.2	-0.4	4.1	
US	09/28	08:30	Durables Ex Transportation (MoM)	AUG	0.2	0.0	0.8	
US	09/28	08:30	Cap Goods Orders Nondef Ex Air (MoM)	AUG	--	-0.4	-0.9	
CA	09/28	09:00	Teranet/National Bank HPI (MoM)	JUL	--	--	1.7	
MX	09/28	09:00	Global Economic Indicator IGAE (YoY)	JUL	3.68	3.90	3.60	
CA	09/29	08:30	Industrial Product Price (MoM)	AUG	0.2	-0.3	-0.4	
CA	09/29	08:30	Raw Materials Price Index (MoM)	AUG	-4	-2.5	-1.2	
US	09/29	08:30	GDP (QoQ) (Annualized)	2Q T	1.1	1.2	1.0	
US	09/29	08:30	Personal Consumption (QoQ)	2Q T	--	0.4	0.4	
US	09/29	08:30	GDP Price Index (QoQ)	2Q T	--	2.4	2.4	
US	09/29	08:30	Core PCE (QoQ)	2Q T	--	2.2	2.2	
US	09/29	08:30	Initial Jobless Claims (000s)	23-Sep	425.0	420.0	423.0	
US	09/29	08:30	Continuing Claims (000s)	17-Sep	3730.0	3727.5	3727.0	
US	09/29	10:00	Pending Home Sales (MoM)	AUG	-1.5	-1.7	-1.3	
US	09/29	11:00	Kansas City Fed Manf. Activity Index	SEP	--	--	3.0	
US	09/30	08:30	Personal Income (MoM)	AUG	0.0	0.1	0.3	
US	09/30	08:30	Personal Spending (MoM)	AUG	0.1	0.2	0.8	
US	09/30	08:30	PCE Deflator (YoY)	AUG	--	2.9	2.8	
US	09/30	08:30	PCE Core (MoM)	AUG	--	0.2	0.2	
US	09/30	08:30	PCE Core (YoY)	AUG	--	1.7	1.6	
CA	09/30	08:30	Gross Domestic Product (MoM)	JUL	0.3	0.3	0.2	
US	09/30	09:45	Chicago Purchasing Manager Index	SEP	--	55.5	56.5	
US	09/30	09:55	U. of Michigan Confidence Index	SEP F	--	57.8	57.8	
US	09/30	10:00	NAPM-Milwaukee Index	SEP	--	55.5	58.3	
MX	09/30	15:30	Budget Balance (MXN billions) (YTD)	AUG	--	--	-164.3	

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

Key Indicators for the week of September 26 - 30

Europe								
Country	Date	Time	Event	Period	BNS	Consensus	Latest	
SW	09/26	03:30	Trade Balance (SEK billions)	AUG	--	6.0	12.2	
GE	09/26	04:00	IFO - Business Climate Index	SEP	105.0	106.5	108.7	
GE	09/26	04:00	IFO - Current Assessment Index	SEP	115.0	115.7	118.1	
GE	09/26	04:00	IFO - Expectations Index	SEP	97.0	97.3	100.1	
IT	09/26	04:00	Consumer Confidence Index SA	SEP	--	98.5	100.3	
FR	09/26	12:00	Jobseekers- Net Change (000s)	AUG	6.0	33.3	36.1	
GE	09/26	00:00	Retail Sales (MoM)	AUG	-0.6	-0.5	0.3	
IR	SEP 26-30		Retail Sales(Volume) (MoM)	AUG	--	--	-0.5	
IR	SEP 26-30		Property Prices (MoM)	AUG	--	--	-0.8	
UK	SEP 26-30		Nat'wide House prices sa (MoM)	SEP	-0.2	0.0	-0.6	
GE	09/27	02:00	GfK Consumer Confidence Survey	OCT	5.0	5.0	5.2	
IT	09/27	04:00	Hourly Wages (MoM)	AUG	--	0.1	0.0	
UK	09/27	06:00	CBI Reported Sales Survey	SEP	--	-15.0	-14.0	
SP	09/27		Spain Budget Balance (EUR billions) (YTD)	AUG	--	--	-22.7	
GE	09/27	00:00	Import Price Index (MoM)	AUG	--	-0.3	0.8	
FR	09/28	01:30	Gross Domestic Product (QoQ)	2Q F	0.0	0.0	0.0	
GE	09/28	03:00	CPI - Saxony (YoY)	SEP	--	--	2.4	
SW	09/28	03:15	Consumer Confidence	SEP	--	1.2	4.3	
GE	09/28	04:00	CPI - Brandenburg (YoY)	SEP	--	--	2.1	
GE	09/28	04:00	CPI - Hesse (YoY)	SEP	--	--	1.9	
IT	09/28	04:00	Business Confidence	SEP	--	98.2	99.9	
GE	09/28	06:00	CPI - Bavaria (YoY)	SEP	--	--	2.2	
GE	09/28		Consumer Price Index (MoM)	SEP P	0.0	-0.1	0.0	
GE	09/28		Consumer Price Index (YoY)	SEP P	2.5	2.4	2.4	
GE	09/28		CPI - Baden Wuerttemberg (YoY)	SEP	--	--	2.5	
GE	09/28		CPI - EU Harmonised (MoM)	SEP P	0.1	-0.1	0.0	
GE	09/28		CPI - EU Harmonised (YoY)	SEP P	2.8	2.6	2.5	
GE	09/28		CPI - North Rhine-West. (YoY)	SEP	--	--	2.3	
SP	09/29	03:00	Total Housing Permits (MoM)	JUN	--	--	12.9	
SP	09/29	03:00	CPI (EU Harmonised) (YoY)	SEP P	2.5	2.7	2.7	
SP	09/29	03:00	Consumer Price Index (YoY)	SEP P	--	3.0	3.0	
SP	09/29	03:00	Retail Sales (Real) (YoY)	AUG	--	--	-6.0	
SW	09/29	03:30	Retail Sales s.a. (MoM)	AUG	--	0.0	-0.7	
GE	09/29	03:55	Unemployment Change (000's)	SEP	-10.0	-8.0	-8.0	
GE	09/29	03:55	Unemployment Rate (%) (SA)	SEP	7.0	7.0	7.0	
IT	09/29	04:00	Deficit to GDP (year to date)	2Q	--	--	7.8	
NO	09/29	04:00	Retail sales - vol sa (MoM)	AUG	--	0.7	-0.7	
UK	09/29	04:30	Net Consumer Credit (GBP billions)	AUG	--	0.2	0.2	
UK	09/29	04:30	Net Lending Sec. on Dwellings (GBP billions)	AUG	--	0.8	0.7	
UK	09/29	04:30	Mortgage Approvals (000s)	AUG	49.0	49.7	49.2	
EC	09/29	05:00	Business Climate Indicator	SEP	--	-0.1	0.1	
EC	09/29	05:00	Euro-Zone Economic Confidence	SEP	96.0	96.0	98.3	
UK	09/29	19:01	GfK Consumer Confidence Survey	SEP	-32.0	-33.0	-31.0	
FR	09/30	02:45	Producer Prices (MoM)	AUG	--	0.0	-0.1	
FR	09/30	02:45	Consumer Spending (MoM)	AUG	--	0.1	1.2	
NO	09/30	03:00	Unemployment Rate (%)	SEP	2.7	2.6	2.7	
SW	09/30	03:30	Wages - Non-Manual Workers (YoY)	JUL	--	--	2.4	
IT	09/30	04:00	Unemployment Rate (%) (SA)	2Q	8.1	8.0	8.2	
IT	09/30	04:00	Unemployment Rate (%) (SA)	AUG P	8.0	8.0	8.0	
EC	09/30	05:00	Euro-Zone CPI Estimate (YoY)	SEP	2.6	2.5	2.5	
EC	09/30	05:00	Euro-Zone Unemployment Rate (%)	AUG	10.0	10.0	10.0	
IT	09/30	05:00	CPI (NIC incl. tobacco) (YoY)	SEP P	--	2.9	2.8	
IT	09/30	05:00	CPI - EU Harmonized (MoM)	SEP P	1.0	1.0	0.4	
IT	09/30	05:00	CPI - EU Harmonized (YoY)	SEP P	2.6	2.6	2.3	
IT	09/30	06:00	PPI (MoM)	AUG	--	0.1	0.3	
PO	09/30		Industrial Production (MoM)	AUG	--	--	-3.0	
PO	09/30		Retail Sales (MoM)	AUG	--	--	2.5	
SP	09/30		Current Account (EUR billions)	JUL	--	--	-2.3	

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

Key Indicators for the week of September 26 - 30

Asia Pacific

Country	Date	Time	Event	Period	BNS	Consensus	Latest
PH	SEP 20-25		Budget Deficit/Surplus (PHP billions)	AUG	--	--	9.22
CH	SEP 24-28		Leading Index	AUG	--	--	102.25
NZ	09/25	17:45	Trade Balance (NZD millions)	AUG	--	-321.0	129.0
NZ	09/25	17:45	Exports (NZD billions)	AUG	--	3.4	3.7
NZ	09/25	17:45	Imports (NZD billions)	AUG	--	3.8	3.6
PH	09/26	21:00	Total Imports (YoY)	JUL	--	--	6.6
PH	09/26	21:00	Total Monthly Imports (USD millions)	JUL	--	--	4503.4
PH	09/26	21:00	Trade Balance (USD millions)	JUL	--	--	-376.0
CH	09/26	22:00	Industrial Profits (YoY) YTD	AUG	--	--	28.3
TA	09/27	04:00	Coincident Index (MoM)	AUG	--	--	-0.2
TA	09/27	04:00	Leading Index (MoM)	AUG	--	--	0.0
HK	09/27	04:30	Exports (YoY)	AUG	--	8.9	9.3
HK	09/27	04:30	Imports (YoY)	AUG	--	10.6	10.2
HK	09/27	04:30	Trade Balance (HKD billions)	AUG	--	-22.6	-35.9
SK	09/27	17:00	Business Survey- Manufacturing	OCT	--	--	86.0
SK	09/27	17:00	Business Survey- Non-Manufacturing	OCT	--	--	83.0
AU	09/27	21:00	HIA New Home Sales (MoM)	AUG	--	--	-8.0
SK	09/28	19:00	Current Account (USD million)	AUG	--	--	4938.4
SK	09/28	19:00	Goods Balance (USD million)	AUG	--	--	5893.6
JN	09/28	19:50	Retail Trade (MoM) SA	AUG	0.25	0.2	-0.3
JN	09/28	19:50	Large Retailers' Sales (YoY)	AUG	--	-0.6	0.8
AU	09/28	21:30	Job Vacancies (QoQ)	AUG	--	--	-4.5
TA	09/29	04:00	Benchmark Interest Rate	30-Sep	1.875	1.875	1.875
NZ	09/29	17:45	Building Permits (MoM)	AUG	--	-1.5	13.0
SK	09/29	19:00	Industrial Production (MoM)	AUG	-1.1	-0.5	-0.4
SK	09/29	19:00	Industrial Production Mfg(YoY)	AUG	4.6	--	3.8
SK	09/29	19:00	Service Industry Output (YoY)	AUG	--	--	3.8
SK	09/29	19:00	Leading Index (YoY)	AUG	--	--	2.0
JN	09/29	19:30	Job-To-Applclicant Ratio	AUG	--	0.7	0.6
JN	09/29	19:30	Overall Hhold Spending (YoY)	AUG	--	-2.8	-2.1
JN	09/29	19:30	Jobless Rate (%)	AUG	--	4.7	4.7
JN	09/29	19:30	Tokyo CPI (YoY)	SEP	--	-0.2	-0.2
JN	09/29	19:30	Tokyo CPI Ex-Fresh Food (YoY)	SEP	--	-0.1	-0.2
JN	09/29	19:30	Natl CPI (YoY)	AUG	--	0.1	0.2
JN	09/29	19:30	Natl CPI Ex-Fresh Food (YoY)	AUG	--	0.1	0.1
JN	09/29	19:50	Industrial Production (MoM)	AUG P	1.2	1.5	0.4
NZ	09/29	21:00	NBNZ Activity Outlook	SEP	--	--	43.3
NZ	09/29	21:00	NBNZ Business Confidence	SEP	--	--	34.4
AU	09/29	21:30	Private Sector Credit (MoM)	AUG	--	0.2	0.2
CH	09/29	21:35	MNI September Business Condition Survey				
CH	09/29	22:30	HSBC Manufacturing PMI	SEP	--	--	49.9
JN	09/30		Vehicle Production (YoY)	AUG	--	--	-8.9
JN	09/30	01:00	Construction Orders (YoY)	AUG	--	--	5.7
JN	09/30	01:00	Annualized Housing Starts (millions)	AUG	--	0.9	1.0
JN	09/30	01:00	Housing Starts (YoY)	AUG	--	4.5	21.2
TH	09/30	03:30	Foreign Reserves (USD billions)	23-Sep	--	--	184.8
TH	09/30	03:30	Total Exports (YOY)	AUG	22.5	--	36.4
TH	09/30	03:30	Total Imports (YOY)	AUG	19.8	--	13.1
TH	09/30	03:30	Total Trade Balance (USD millions)	AUG	1500	--	2705
TH	09/30	03:30	Current Account Balance (USD millions)	AUG	--	--	3574
TH	09/30	03:30	Business Sentiment Index	AUG	--	--	51.2
HK	09/30	05:00	Govt Mthly Budget Surp/Def (HKD billions)	AUG	--	--	2.2
IN	09/30	07:30	Current Account Balance (USD billions)	2Q	--	--	-5.4
CH	09/30	21:00	PMI Manufacturing	SEP	50.4	--	50.9
SK	09/30	21:00	Ext Trade - Export (YoY)	SEP	23.1	--	25.9
SK	09/30	21:00	Ext Trade - Imports (YoY)	SEP	28	--	28.9
SK	09/30	21:00	Ext Trade - Balance in (USD millions)	SEP	3600	--	821
TA	09/30	22:00	HSBC Taiwan Manufacturing PMI	SEP	--	--	45.2

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

Key Indicators for the week of September 26 - 30

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	09/26	07:30	Central Bank Weekly Economists Survey					
BZ	09/26	10:00	Trade Balance (FOB) - Weekly	25-Sep	--	--	1213.0	
BZ	09/27	07:00	FGV Consumer Confidence	SEP	--	--	118.7	
BZ	09/29	07:00	FGV Inflation IGP-M (MoM)	SEP	--	0.7	0.4	
BZ	09/29	07:00	FGV Inflation IGP-M (YoY)	SEP	--	7.4	8.0	
CL	09/29	08:00	Industrial Production (YoY)	AUG	--	-0.6	0.7	
CL	09/29	08:00	Industrial Sales (YoY)	AUG	--	--	2.4	
CL	09/29	08:00	Copper Production Total (tons)	AUG	--	--	373498	
CL	09/29	08:00	Retail Sales (YoY)	AUG	--	10.5	9.6	
CL	09/30	08:00	Unemployment Rate (%)	AUG	--	7.6	7.5	
BZ	09/30	09:30	Net Debt % GDP	AUG	--	39.1	39.4	
CO	09/30	12:00	Urban Unemployment Rate (%)	AUG	--	11.2	11.3	
CO	09/30		Overnight Lending Rate	30-Sep	4.50	4.50	4.50	

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

Global Auctions for the week of September 26 - 30

North America

Country	Date	Time	Event
US	09/26	11:30	U.S. to Sell 3-Month Bills
US	09/26	11:30	U.S. to Sell 6-Month Bills
CA	09/27	10:30	Canada to Sell CAD8.9 Bln 98-Day Bills
CA	09/27	10:30	Canada to Sell CAD3.3 Bln 182-Day Bills
CA	09/27	10:30	Canada to Sell CAD3.3 Bln 364-Day Bills
US	09/27	11:00	U.S. Fed to Purchase USD0.25-0.75 Bln TIPS
US	09/27	11:30	U.S. to Sell 4-Week Bills
US	09/27	13:00	U.S. to Sell 2-Year Notes
US	09/28	13:00	U.S. to Sell 5-Year Notes
US	09/29	13:00	U.S. to Sell 7-Year Notes

Europe

Country	Date	Time	Event
GE	09/26	05:15	Germany to Sell EU3 Bln 12-Mth Bills
BE	09/26	05:30	Belgium to Sell 4.25% 2041 Bonds
BE	09/26	05:30	Belgium to Sell 4.5% 2026 Bonds
BE	09/26	05:30	Belgium to Sell 4.25% 2021 Bonds
BE	09/26	05:30	Belgium to Sell 3.25% 2016 Bonds
FR	09/26	09:00	France to Sell Bills
EC	09/26	09:30	ECB Announces Bond Purchases
SP	09/27	04:30	Spain to Sell 3M and 6M Bills
IT	09/27	05:00	Italy to Sell Bills & Zero Coupon Notes
EC	09/27	05:15	ECB Announces Allotment in 7-Day Main Refinancing Tender
SZ	09/27	05:30	Switzerland to Sell 3-Month Bills
NE	09/27	06:00	Netherlands to Sell Up to EUR 3Bln 1% 2014 Bond
EC	09/27	07:00	ECB Announces Allotment in 7-Day Term Deposits
IT	09/28	05:00	Italy to Sell I/L Bonds
GE	09/28	05:15	Germany to Sell EU6 Bln 5-Year Notes
EC	09/28	05:15	ECB Announces Allotment in 3-Month Tender
IT	09/29	05:00	Italy to Sell Bonds/Floating Rate Notes
UK	09/30	06:10	U.K. to Sell Bills

Asia Pacific

Country	Date	Time	Event
SK	09/25	22:30	Korea to Sell KRW1 Tln 20-Year Bonds
SI	09/26	00:00	Singapore to sell 91-Day T-Bills
MA	09/26	00:00	Bank Negara to Sell MYR2 Bln 261-Day Notes
MA	09/26	00:00	Bank Negara to Sell MYR2 Bln 170-Day Notes
AU	09/26	21:00	Australia Plans to Sell CIB Bonds
TH	09/26	23:00	Bank of Thailand to Sell THB15 Bln 28D Bills
TH	09/26	23:00	Bank of Thailand to Sell THB20 Bln 91D Bills
TH	09/26	23:00	Bank of Thailand to Sell THB18 Bln 182D Bills
HK	09/26	23:30	Hong Kong to Sell HKD9 Bln 182-D Bills
HK	09/26	23:30	Hong Kong to Sell HKD28.405 Bln 91-D Bills
JN	09/26	23:45	Japan to Sell 2-Year Bond
TA	09/27	00:30	Taiwan to Sell TWD35 Bln 10-Yr Bonds
PH	09/27	01:30	Philippines Plans to Sell PHP9.0 Bln 25-Year Bonds Due 2036
ID	09/27	04:30	Indonesia to Sell 5-Yr to Maturity Government Bond
ID	09/27	04:30	Indonesia to Sell 20-Yr to Maturity Government Bond
ID	09/27	04:30	Indonesia to Sell 1-Yr to Maturity Treasury Bills
KZ	09/27	08:00	Kazakhstan to Sell up to KZT10 Bln Fixed-Rate Bonds Due 2022
TH	09/27	23:00	Thailand to Sell THB9 Bln Bonds due 2017
TH	09/27	23:00	Thailand to Sell THB180 Bln 3D Bills
JN	09/27	23:35	Japan to Sell 3-Month Bills
SI	09/28	00:00	Singapore to sell 2-Year Bonds
IN	09/28	05:30	India to Sell INR 70Bln 91-Day Bills
IN	09/28	05:30	India to Sell INR 30Bln 182-Day Bills
KZ	09/29	08:00	Kazakhstan to Sell up to KZT13 Bln Floating Rate Bonds Due 2018

Source: Bloomberg, Scotia Economics.

Events for the week of September 26 - 30

North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	09/24	10:00	International Monetary Fund-World Bank Hold Annual Meetings
CA	09/25	08:15	Bank of Canada's Carney Speaks in Washington
US	09/25	10:00	International Monetary Fund-World Bank Hold Annual Meetings
CA	09/26	07:45	OSFI Superintendent Julie Dickson Speaks in Toronto
US	09/26	08:30	Fed's Raskin Speaks on Loan Servicing in Washington
US	09/26	09:30	Fed's Bullard Speaks in New York
US	09/26	15:00	Fed's Kocherlakota Speaks on Debt Panel in Chicago
CA	09/27		Canada-Brazil Forum in Toronto
US	09/27	12:30	Fed's Lockhart Speaks on Economy in Jacksonville, Florida
US	09/27	13:20	Fed's Fisher Speaks on Dissent in Dallas, Texas
CA	09/27	16:25	Bank of Canada's Macklem Speaks in Vancouver
US	09/28	02:40	Fed's Rosengren Speaks at Swedbank Seminar in Stockholm
US	09/28	17:00	Fed's Bernanke Speaks in Cleveland, Ohio
US	09/29	02:50	Fed's Rosengren Speaks on Bank Regulation in Stockholm
US	09/29	08:30	Fed's Plosser Speaks on Economy in Radnor, Pennsylvania
US	09/29	13:00	Fed's Lockhart Speaks in Atlanta
US	09/30	11:00	Fed's Bullard to Speak in San Diego

Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
GE	09/24	05:00	Merkel Attends CDU Party Event in Lower Saxony
EC	09/24	13:30	ECB's Weidmann, Germany's Schaeuble Speak in Washington
EC	09/24	16:45	ECB's Stark Speaking at IIF meeting in Washington
EC	09/24	19:00	ECB's Trichet Speaking in Washington at IIF meeting
FR	09/25		French Senate Elections
UK	SEP 25-29		Labour Party Conference
UK	09/27	19:00	BOE Publishes Statement on Financial Policy Committee Meeting
FI	09/28	07:00	Finnish Parliament EFSF Vote
LX	09/28	08:00	ECB's Mersch Speaks At Luxembourg Two-Day Event
PO	09/29	04:00	Portugal Releases Report on Excessive Deficit Procedure
SP	09/29	19:00	Deadline For Spanish Lenders to Complete Recapitalization
GE	09/29		German Lawmakers Vote on European Rescue Fund Changes
EC	09/29		European Commission Issues Quarterly Report on the Euro Area

Latin America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
CO	09/30		Overnight Lending Rate

Source: Bloomberg, Scotia Economics.

Global Central Bank Watch

North America

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
Bank of Canada – Overnight Target Rate	1.00	October 25, 2011	1.00	--
Federal Reserve – Federal Funds Target Rate	0.25	November 2, 2011	0.25	--
Banco de México – Overnight Rate	4.50	October 14, 2011	4.50	--

In a speech earlier this week, BoC Governor Carney told markets to look through inflation figures - coming just one day before the Cdn inflation figures were released, rising by slightly more than expected - given the considerable flexibility that the BoC has in altering the horizon over which it evaluates inflation pressures and because it expects a softening inflation profile through weak growth, commodity and CAD influences into next year. This supports our view that the BoC will likely remain on hold until at least the end of Q3 2012. In the U.S., the FOMC announced this past week that it would be engaging in "operation twist" in order to bring down long-term interest rates. In addition, the FOMC announced that it would be reinvesting principal payments into agency MBS to help support conditions in the mortgage markets.

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	1.50	October 6, 2011	1.50	--
Bank of England – Bank Rate	0.50	October 6, 2011	0.50	0.50
Swiss National Bank – Libor Target Rate	0.00	December 15, 2011	0.00	--
Central Bank of Russia – Refinancing Rate	8.25	October 21, 2011	8.25	--
Hungarian National Bank – Base Rate	6.00	October 25, 2011	6.00	--
Central Bank of the Republic of Turkey – 1 Week Repo Rate	5.75	October 20, 2011	5.75	--

The downside risks to growth in both the euro zone and the UK have intensified in recent months; however, our current forecast still calls for the European Central Bank (ECB) and the Bank of England (BoE) to remain on hold at their October 6 meetings. Second quarter growth was generally weak and the data for the third quarter so far, particularly the leading PMI and investment surveys, point to further slowing in the second half of 2011. If upcoming inflation prints fall lower than expectations, the case for near-term loosening (in the form of QE2 by the BoE and a rate cut by the ECB) will strengthen.

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	October 7, 2011	0.10	--
Reserve Bank of Australia – Cash Target Rate	4.75	October 3, 2011	4.75	--
Reserve Bank of New Zealand – Cash Rate	2.50	October 26, 2011	2.50	2.50
People's Bank of China – Lending Rate	6.56	TBA	--	--
Reserve Bank of India – Repo Rate	8.25	October 25, 2011	8.25	--
Hong Kong Monetary Authority – Base Rate	0.50	TBA	0.50	--
Central Bank of China Taiwan – Discount Rate	1.88	September 29, 2011	1.88	1.88
Bank Negara Malaysia – Overnight Policy Rate	3.00	November 11, 2011	3.00	--
Bank of Korea – Bank Rate	3.25	October 12, 2011	3.25	--
Bank of Thailand – Repo Rate	3.50	October 19, 2011	3.25	--
Bank Indonesia – Reference Interest Rate	6.75	October 11, 2011	6.75	--
Central Bank of the Philippines – Overnight Policy Rate	4.50	October 20, 2011	4.50	--

As is the case with other central banks in Asia, the monetary authority of Taiwan will likely remain in wait-and-see mode, holding the benchmark interest rate constant at the upcoming monetary policy meeting. Inflation eased for the second straight month in August as home prices reflected lower increases in food and fuel cost items. Concerns over global growth and the demand for exports from higher income countries will likely drive the monetary policy decision this time around.

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	12.00	October 19, 2011	11.50	--
Banco Central de Chile – Overnight Rate	5.25	October 13, 2011	5.25	--
Banco de la República de Colombia – Lending Rate	4.50	September 30, 2011	4.50	4.50
Banco Central de Reserva del Perú – Reference Rate	4.25	October 6, 2011	4.25	--

We anticipate that the central bank of Colombia will likely maintain its interest rate unchanged at 4.50% at the September meeting. Recent indicators suggest that Colombian economic performance remains solid, with local demand among the main contributors to growth. However, concerns regarding the impact of the deceleration of the U.S. and other Latin American economies on Colombia, as well as the intensified correction in regional currency and securities markets, will prompt the central bank to continue its neutral monetary policy stance.

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	November 10, 2011	5.50	--

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

	2000-09	2010	2011f	2012f	2000-09	2010	2011f	2012f
Output and Inflation (annual % change)								
		Real GDP			Consumer Prices²			
World ¹	3.6	5.1	3.9	4.2				
Canada	2.1	3.2	2.2	2.1	2.1	1.8	2.7	1.9
United States	1.7	3.0	1.7	2.1	2.6	1.6	2.8	1.9
Mexico	1.7	5.4	3.7	3.5	4.9	4.4	3.6	3.8
United Kingdom	1.7	1.4	1.2	1.5	1.9	3.7	4.4	2.1
Euro zone	1.1	1.7	1.7	1.4	2.0	2.2	2.5	2.0
Japan	0.6	4.0	0.3	3.5	-0.3	-0.4	1.1	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	4.9	5.3	3.1	3.5	3.7	3.3
Brazil	3.3	7.5	4.0	4.5	6.7	5.9	6.5	5.5
Chile	3.7	5.2	6.5	5.5	3.5	1.4	4.0	3.5
Peru	5.2	8.8	6.2	5.6	2.5	2.1	3.8	2.7
Central Bank Rates (% end of period)	11Q1	11Q2	11Q3f	11Q4f	12Q1f	12Q2f	12Q3f	12Q4f
Bank of Canada	1.00	1.00	1.00	1.00	1.00	1.00	1.25	1.75
Federal Reserve	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
European Central Bank	1.00	1.25	1.50	1.50	1.50	1.50	1.50	1.50
Bank of England	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Swiss National Bank	0.25	0.25	0.00	0.00	0.00	0.00	0.25	0.25
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	4.75	5.00	5.00	5.00	5.25	5.25
Exchange Rates (end of period)								
Canadian Dollar (USDCAD)	0.97	0.96	0.96	0.96	0.95	0.95	0.94	0.94
Canadian Dollar (CADUSD)	1.03	1.04	1.04	1.04	1.05	1.05	1.06	1.06
Euro (EURUSD)	1.42	1.45	1.45	1.50	1.48	1.46	1.43	1.40
Sterling (GBPUSD)	1.60	1.61	1.63	1.65	1.66	1.67	1.69	1.70
Yen (USDJPY)	83	81	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	6.3	6.3	6.2	6.1	6.0	5.9
Mexican Peso (USDMXN)	11.9	11.7	12.3	12.3	12.3	12.2	12.3	12.5
Brazilian Real (USDBRL)	1.63	1.56	1.59	1.60	1.61	1.62	1.64	1.65
Commodities (annual average)	2000-09	2010	2011f	2012f				
WTI Oil (US\$/bbl)	51	79	94	97				
Brent Oil (US\$/bbl)	50	80	113	118				
Nymex Natural Gas (US\$/mmbtu)	5.95	4.40	4.40	4.75				
Copper (US\$/lb)	1.78	3.42	4.30	4.30				
Zinc (US\$/lb)	0.73	0.98	1.05	1.06				
Nickel (US\$/lb)	7.11	9.89	11.00	9.35				
Gold, London PM Fix (US\$/oz)	522	1,225	1,635	1,800				
Pulp (US\$/tonne)	668	960	990	1,040				
Newsprint (US\$/tonne)	572	607	648	715				
Lumber (US\$/mfbm)	275	254	255	260				

¹ World GDP for 2000-09 are IMF estimates; 2010e-12f are Scotia Economics' estimates based on a 2010 PPP-weighted sample of 38 countries.

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

Canada	2010	11Q1	11Q2	Latest	United States	2010	11Q1	11Q2	Latest
Real GDP (annual rates)	3.2	3.6	-0.4		Real GDP (annual rates)	3.0	0.4	1.0	
Current Acc. Bal. (C\$B, ar)	-50.9	-40.3	-61.3		Current Acc. Bal. (US\$B, ar)	-471	-478	-472	
Merch. Trade Bal. (C\$B, ar)	-9.0	6.9	-14.4	-9.0 (Jul)	Merch. Trade Bal. (US\$B, ar)	-646	-729	-762	-728 (Jul)
Industrial Production	4.6	5.3	1.5	0.0 (Jun)	Industrial Production	5.3	5.3	3.8	3.3 (Aug)
Housing Starts (000s)	192	178	193	185 (Aug)	Housing Starts (millions)	0.58	0.58	0.57	0.57 (Aug)
Employment	1.4	1.9	1.6	1.4 (Aug)	Employment	-0.8	0.9	0.9	1.0 (Aug)
Unemployment Rate (%)	8.0	7.8	7.5	7.3 (Aug)	Unemployment Rate (%)	9.6	8.9	9.1	9.1 (Aug)
Retail Sales	5.5	2.5	4.0	3.9 (Jul)	Retail Sales	6.8	8.6	8.1	7.5 (Aug)
Auto Sales (000s)	1561	1573	1572	1584 (Jul)	Auto Sales (millions)	11.6	13.0	12.1	12.1 (Aug)
CPI	1.8	2.6	3.4	3.1 (Aug)	CPI	1.6	2.1	3.4	3.8 (Aug)
IPPI	1.0	4.1	5.0	-5.1 (Jul)	PPI	4.2	4.9	7.0	6.5 (Aug)
Pre-tax Corp. Profits	21.2	12.9	14.8		Pre-tax Corp. Profits	25.0	2.8	1.1	
Mexico					Brazil				
Real GDP	5.4	4.6	3.3		Real GDP	6.7	3.8	2.7	
Current Acc. Bal. (US\$B, ar)	-5.7	-4.2	-10.4		Current Acc. Bal. (US\$B, ar)	-47.4	-58.3	-43.4	
Merch. Trade Bal. (US\$B, ar)	-3.0	7.6	5.7	-14.1 (Jul)	Merch. Trade Bal. (US\$B, ar)	20.2	12.6	39.2	46.5 (Aug)
Industrial Production	6.0	5.2	3.4	3.2 (Jul)	Industrial Production	10.5	2.6	0.7	1.4 (Jul)
CPI	4.2	3.5	3.3	3.4 (Aug)	CPI	5.1	6.8	6.5	7.2 (Aug)
Chile					Italy				
Real GDP	5.2	10.0	6.8		Real GDP	1.2	1.0	0.8	
Current Acc. Bal. (US\$B, ar)	3.1	0.7	0.1		Current Acc. Bal. (US\$B, ar)	-0.07	-0.12	-0.08	0.03 (Jul)
Merch. Trade Bal. (US\$B, ar)	11.6	16.5	15.5	5.9 (Aug)	Merch. Trade Bal. (US\$B, ar)	-39.1	-77.2	-45.6	24.6 (Jul)
Industrial Production	0.5	11.7	7.8	0.7 (Jul)	Industrial Production	6.5	2.2	1.9	-1.3 (Jul)
CPI	1.4	2.9	3.3	3.2 (Aug)	CPI	1.6	2.3	2.7	2.9 (Aug)
Germany					France				
Real GDP	3.6	4.6	2.8		Real GDP	1.4	2.1	1.6	
Current Acc. Bal. (US\$B, ar)	187.6	194.8	156.6	128.5 (Jul)	Current Acc. Bal. (US\$B, ar)	-44.5	-59.7	-106.5	-23.7 (Jul)
Merch. Trade Bal. (US\$B, ar)	201.5	209.3	208.4	174.7 (Jul)	Merch. Trade Bal. (US\$B, ar)	-39.1	-54.3	-52.5	-54.3 (Jul)
Industrial Production	10.1	12.8	7.7	10.3 (Jul)	Industrial Production	5.1	4.8	2.2	3.7 (Jul)
Unemployment Rate (%)	7.7	7.3	7.1	7.0 (Aug)	Unemployment Rate (%)	9.8	9.7	9.7	9.9 (Jul)
CPI	1.1	2.1	2.3	2.4 (Aug)	CPI	1.5	1.8	2.1	2.2 (Aug)
Euro Zone					United Kingdom				
Real GDP	1.7	2.4	1.6		Real GDP	1.4	1.6	0.7	
Current Acc. Bal. (US\$B, ar)	-77	-169	-163	-54 (Jul)	Current Acc. Bal. (US\$B, ar)	-71.6	-74.0		
Merch. Trade Bal. (US\$B, ar)	32.0	-68.5	-9.1	56.8 (Jul)	Merch. Trade Bal. (US\$B, ar)	-153.0	-142.4	-160.3	-172.6 (Jul)
Industrial Production	7.4	6.5	4.0	4.1 (Jul)	Industrial Production	2.1	2.0	-0.8	-0.7 (Jul)
Unemployment Rate (%)	10.1	9.9	9.9	9.9 (Jul)	Unemployment Rate (%)	7.9	7.7	7.8	7.9 (Jun)
CPI	1.6	2.5	2.8	2.5 (Aug)	CPI	3.3	4.1	4.4	4.5 (Aug)
Japan					Australia				
Real GDP	4.0	-0.7	-1.1		Real GDP	2.7	1.0	1.4	
Current Acc. Bal. (US\$B, ar)	195.9	193.9	74.7	149.5 (Jul)	Current Acc. Bal. (US\$B, ar)	-32.9	-41.7	-22.4	
Merch. Trade Bal. (US\$B, ar)	74.8	31.8	-55.0	-45.7 (Aug)	Merch. Trade Bal. (US\$B, ar)	19.3	21.9	48.8	26.6 (Jul)
Industrial Production	16.6	-2.5	-7.0	-1.7 (Jul)	Industrial Production	4.5	-4.7	-3.3	
Unemployment Rate (%)	5.1	4.7	4.6	4.7 (Jul)	Unemployment Rate (%)	5.2	5.0	4.9	5.3 (Aug)
CPI	-0.7	-0.5	-0.4	0.2 (Jul)	CPI	2.8	3.3	3.6	
China					South Korea				
Real GDP	10.3	9.7	9.5		Real GDP	6.2	4.2	3.4	
Current Acc. Bal. (US\$B, ar)	305.4				Current Acc. Bal. (US\$B, ar)	28.2	10.4	22.0	59.3 (Jul)
Merch. Trade Bal. (US\$B, ar)	181.5	-8.2	186.0	213.1 (Aug)	Merch. Trade Bal. (US\$B, ar)	41.2	29.1	33.4	5.7 (Aug)
Industrial Production	13.5	14.8	15.1	13.5 (Aug)	Industrial Production	16.6	11.2	6.7	5.4 (Jul)
CPI	4.6	5.4	6.4	6.2 (Aug)	CPI	3.0	4.5	4.2	5.3 (Aug)

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

Source: Bloomberg, Scotia Economics.

Interest Rates (% , end of period)

	11Q1	11Q2	Sep/16	Sep/23*		11Q1	11Q2	Sep/16	Sep/23*
Canada					United States				
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	0.90	0.87	0.78	3-mo. T-bill	0.09	0.01	0.00	-0.01
10-yr Gov't Bond	3.35	3.11	2.29	2.04	10-yr Gov't Bond	3.47	3.16	2.05	1.78
30-yr Gov't Bond	3.76	3.55	2.93	2.69	30-yr Gov't Bond	4.51	4.37	3.31	2.84
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US\$B)	60.4	62.3	63.1	(Jul)	FX Reserves (US\$B)	128.3	136.6	138.7	(Jul)
Germany					France				
3-mo. Interbank	1.26	1.51	1.50	1.48	3-mo. T-bill	0.80	1.18	0.49	0.41
10-yr Gov't Bond	3.35	3.03	1.86	1.75	10-yr Gov't Bond	3.71	3.41	2.60	2.56
FX Reserves (US\$B)	64.8	66.0	66.9	(Jul)	FX Reserves (US\$B)	61.0	60.3	59.5	(Jul)
Euro-Zone					United Kingdom				
Refinancing Rate	1.00	1.25	1.50	1.50	Repo Rate	0.50	0.50	0.50	0.50
Overnight Rate	0.90	1.72	0.95	1.04	3-mo. T-bill	4.85	4.85	4.85	4.85
FX Reserves (US\$B)	319.9	317.2	321.3	(Jul)	10-yr Gov't Bond	3.69	3.38	2.48	2.37
					FX Reserves (US\$B)	75.3	79.7	81.2	(Jul)
Japan					Australia				
Discount Rate	0.30	0.30	0.30	0.30	Cash Rate	4.75	4.75	4.75	4.75
3-mo. Libor	0.14	0.13	0.13	0.13	10-yr Gov't Bond	5.49	5.21	4.24	4.02
10-yr Gov't Bond	1.26	1.14	1.00	0.99	FX Reserves (US\$B)	33.3	40.3	40.4	(Jul)
FX Reserves (US\$B)	1080.6	1100.8	1110.8	(Jul)					

Exchange Rates (end of period)

USDCAD	0.97	0.96	0.98	1.03	¥/US\$	83.13	80.56	76.79	76.31
CADUSD	1.03	1.04	1.02	0.97	US¢/Australian\$	103.29	107.22	103.62	97.90
GBPUSD	1.603	1.605	1.579	1.546	Chinese Yuan/US\$	6.55	6.46	6.38	6.39
EURUSD	1.416	1.450	1.380	1.353	South Korean Won/US\$	1100	1068	1111	1166
JPYEUR	0.85	0.86	0.94	0.97	Mexican Peso/US\$	11.906	11.713	13.052	13.783
USDCHF	0.92	0.84	0.88	0.90	Brazilian Real/US\$	1.632	1.563	1.733	1.859

Equity Markets (index, end of period)

United States (DJIA)	12320	12414	11509	10733	U.K. (FT100)	5909	5946	5368	5053
United States (S&P500)	1326	1321	1216	1134	Germany (Dax)	7041	7376	5574	5187
Canada (S&P/TSX)	14116	13301	12264	11458	France (CAC40)	3989	3982	3031	2807
Mexico (Bolsa)	37441	36558	35181	32627	Japan (Nikkei)	9755	9816	8519	8560
Brazil (Bovespa)	68587	62404	57210	53619	Hong Kong (Hang Seng)	23528	22398	19455	17669
Italy (BCI)	1120	1039	789	747	South Korea (Composite)	2107	2101	1840	1697

Commodity Prices (end of period)

Pulp (US\$/tonne)	990	1035	990	990	Copper (US\$/lb)	4.26	4.22	3.98	3.31
Newsprint (US\$/tonne)	640	640	640	640	Zinc (US\$/lb)	1.05	1.05	0.99	0.88
Lumber (US\$/mfbm)	290	237	257	255	Gold (US\$/oz)	1439.00	1505.50	1794.00	1689.00
WTI Oil (US\$/bbl)	106.72	95.42	87.96	80.16	Silver (US\$/oz)	37.87	35.02	39.97	32.90
Natural Gas (US\$/mmbtu)	4.39	4.37	3.81	3.73	CRB (index)	359.43	338.05	329.55	304.56

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

Emerging Markets Strategy

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