

# Global Views

Weekly commentary on economic and financial market developments

September 30, 2011

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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)

### **Possible European Central Bank Easing And High US Data/Event Risk On Tap**

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

We're back to that point in the cycle when US data risk will be very elevated. On the heels of the ECRI's call that the US is either in or about to enter a recession, markets are on tenterhooks. Other gauges are divided — the Conference Board's leading US indicator says no recession, the OECD's less timely gauge has begun to roll over, the slope of the yield curve is of limited use in this cycle, and a member of the NBER recession dating committee basically says it's too early to tell but that the US probably isn't in a recession just yet. Thus, primary gauges like ISM manufacturing (Monday) and nonfarm payrolls (Friday) will help set the global tone. They will be released against the backdrop of renewed risk of a US government shutdown stemming from GOP-Democrat disagreements over a longer-term funding bill. In between will be a smattering of second-tier reports including the ADP teaser (Wednesday) for nonfarm payrolls. Factory orders (Tuesday) will likely follow durable goods orders lower. Jobless claims (Thursday) will take on elevated importance given the recent downward surprise (see our article on page 4). Third-tier data includes vehicle sales (Monday) that are expected to be slightly higher. Speech risk will also be material. On tap are each of Fed Chairman Bernanke (Tuesday), Richmond Fed President Lacker ("Economics after the crisis") on Monday, and Atlanta Fed President Lockhart ("US economy and financial capability") on Friday. Fed bashing headlines might be disturbing through Ron Paul's subcommittee hearings on "Auditing the Fed" on Tuesday.

Central banks will dominate the **European** news flow next week. Of 51 forecasters, a minority of eleven expect a 25-50bps rate cut by the ECB on Thursday as Trichet's final act perhaps to allay criticism that a possible cut by his Italian successor would be a sign of a central bank going soft. Also, of 30 forecasters, a minority of nine are expecting the BoE to embrace QE2 through a £50-100 billion enlargement of the asset purchase target. Event risk will be focused upon yet another euro-area finance ministers meeting in Luxembourg on Monday and Tuesday, and EFSF votes by the Dutch and Maltese parliaments before the last vote in Slovakia before October 17th. The German opposition CSU party holds its annual congress which may carry debate on the future of the euro zone in the context of the CSU's opposition to any further aid to Greece. Speech risk will be focused upon appearances by German Chancellor Angela Merkel and ECB President Jean-Claude Trichet. Peripheral auction risk will be focused upon a Spanish 3 year auction on Thursday morning. Most of the data risk will emanate from the UK economy as its manufacturing PMI is expected to decline for a third straight month in the September reading (Monday), its services PMI is expected to hover just above contraction in Wednesday's September report, and final revisions to paltry Q2 GDP growth are expected to come in at 0.2% on Wednesday. EC retail sales will likely fall in Wednesday's August reading. German factory orders are expected to be flat after a large prior month decline, and industrial production is expected to decline after a large prior gain.

**Canada** will be in the spotlight on Friday. That's when the September jobs report will be released, and it could well be a positive upside surprise. This is the last chance for our story on education sector distortions carrying the headline higher to come true. Recall that because Statistics Canada is having ongoing problems with seasonal adjustment factors owing to several shifts in the nature of education sector contracts, the artificial job losses posted earlier this summer when the post-secondary and public school years let out lead to artificial job gains in either August or September. The effect can be in the tens of thousands of job "gains" in either month, and the exact month has varied over recent years. Well it didn't really happen in August when only 9,500 education jobs were gained and the headline count fell by 5,500 total jobs, so the last hope for this effect to occur is for September. Other complicating factors are highlighted in our jobs preview on page A1. Regardless, what matters the most isn't job count volatility or even job growth over recent years: it is the fact that average Canadian wage growth is not keeping up with inflation and that explains part of why the consumer has generally disappointed over the summer. Also note that Ontario, Manitoba, and PEI hold provincial elections next week. Third-tier data like permits and the Ivey PMI both land on Thursday.

**Asian** markets will generally follow the global tone with few exceptions. Japan's Tankan survey of manufacturing conditions lands Sunday evening ET for Q3 and will be closely watched for signs that manufacturers remain hopeful toward a continued expansion. The BoJ isn't likely to do much of anything new out of its end-of-week meeting, nor is the RBA on Monday. Lastly, Australian retail sales could be a post-RBA A\$ risk.

Oscar Sánchez (416) 862-3174  
[oscar\\_sanchez@scotiacapital.com](mailto:oscar_sanchez@scotiacapital.com)

### The Outlook For Chinese Growth Under Persistent Euro Zone Jitters

- **Chinese GDP growth for 2011-12 is revised down to an average of 9% as a result of weak demand from Europe and the US.**

China will not remain immune to slow developed country growth. However, given that the country's expansion since the second half of 2008 has been mainly inwardly generated, the slowdown will not be severe. In the midst of recent events, statistical evidence fails to portray a large fall in Chinese exports to the epicenter of the current bout of global uncertainty, the Euro zone. Based on this fact we have revised the outlook for China's growth under a scenario of persistent global volatility, but where international trade transactions remain far from mid-recession lows caused by the worldwide credit crunch experienced 3 years ago.

So far in 2011, the advance in domestic demand within China has been range-bound with up-trending investment outlays and down-trending household and government consumption. Retail sales have slowed on the back of high inflation, with an expectation of lower price hikes in coming quarters implying household purchasing power gains that will translate into revived consumer spending. Public sector outlays will support this trend as broader health care and pensions schemes are pursued, but the thrust of the fiscal impulse is mainly infrastructure expenditures on the back of this year's lift-off of an ambitious national social housing project.

Investment outlays have been accelerating — similar to what was observed in 2009 — as credit tightening has yet to show a dent in overall capital spending, with 80% of investment outlays represented by construction projects. Machinery and equipment additions have expanded less, but spending on infrastructure and housing has more than compensated. While so-called “commodity” (marketable) housing developments have slowed on the back of authorities' efforts to prevent inflating a property bubble, social housing projects have picked up. Latest official data point to 8.6 million units under construction, just shy of a 10 million target for 2011. The impulse propelled by these projects is expected to persist through 2012, a key political year as a new generation of Chinese leaders is installed.

On the external trade side, export and import values have been expanding at double-digit rates (23% and 28%, respectively). While sales to the US have slowed somewhat, shipments to the Euro-zone have yet to display a large retrenchment. In order to gauge what's coming up ahead, we look more carefully at the evolution of this trade relationship.

When looking at annual export growth, shipments to Europe seem to have expanded at an average 12% y/y rate during 2011, far lower than last year's 42% advance (table). However, given that base effects tend to distort this measure, quarter-over-quarter growth is a preferred gauge. In order to sidestep the obvious seasonal effects, we average out through the year to obtain a picture that points to a small fall, from 9% to 6%.

The Euro zone together with the US account for about 45% of China's foreign shipments. Stagnant exports to these regions from this point through 2012 is assumed, with shipments from other Asian countries also

failing to expand significantly compounding the effect. Accordingly, we have revised down our forecast for 2011 growth to 9.1% from the original 9.3%. For 2012, we now forecast the Chinese economy to expand at an 8.9% annual rate, a downgrade from our previous 9.5% expectation.

	Chinese Exports to Eurozone				
	q Average*	y/y	Ave. y/y	q/q	Ave. q/q
1Q09	14,251	-13		-32	
2Q09	14,570	-20		2	
3Q09	16,832	-21		16	
4Q09	17,625	-16	-17	5	-2
1Q10	17,761	25		1	
2Q10	22,390	54		26	
3Q10	25,713	53		15	
4Q10	24,223	37	42	-6	9
1Q11	21,448	21		-11	
2Q11	23,629	6		10	
3Q11**	28,154	10	12	19	6

\* in billion euros. \*\* Data through August.  
 Source: Customs General Administration PRC & Scotia Economics.

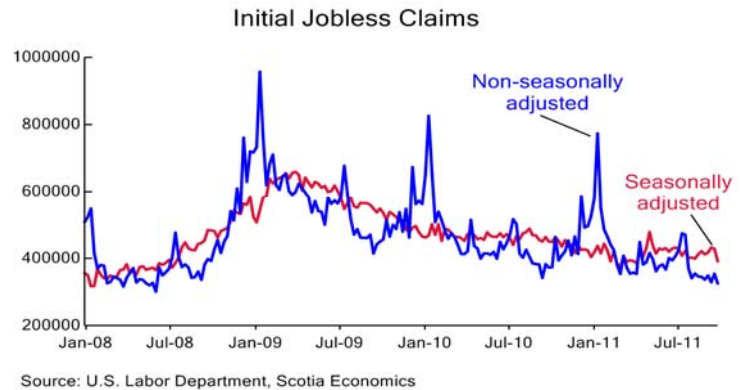
Karen Cordes Woods (416) 862-3080  
[karen\\_woods@scotiacapital.com](mailto:karen_woods@scotiacapital.com)

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

**Whether Or Not U.S. Jobless Claims Genuinely Improved, A Weaker Trend Is Likely**

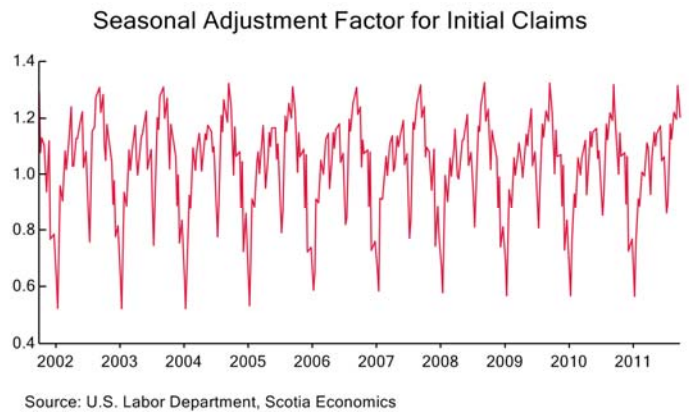
- **Did seasonal distortions really foul-up the latest print?**

Although equities were mostly influenced by European developments this week, an unexpected 32,000 drop in weekly initial jobless claims buoyed hopes that the U.S. job market isn't as bad as feared. The U.S. Labor Department nevertheless dismissed the improvement as being due to seasonal distortions. We present two perspectives on this issue, and conclude that one week's claims do not yet sway us away from our view that U.S. labor markets face the risk of further deterioration in the weeks and months ahead.



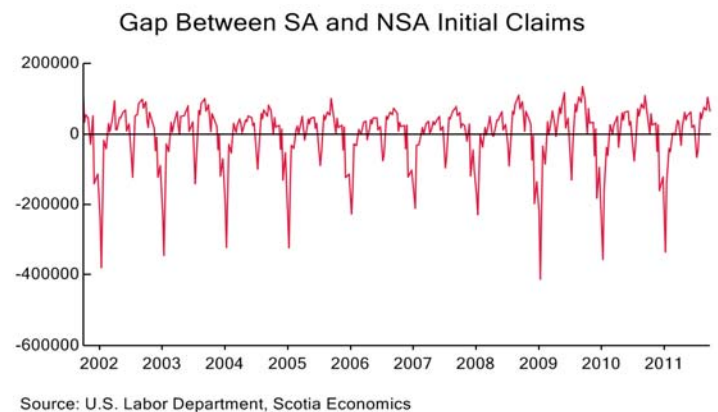
**The Labor Department's Argument...**

The U.S. Labor Department (which releases the data) dismissed the drop as possibly the result of distortions to seasonal adjustment factors. A spokesperson stated that a 53-week calendar, a late Easter, and the end of the quarter may be causing trouble with seasonal adjustments this year. The Labor Department reasoned that seasonal adjustment factors should have motivated a rise in unadjusted claims toward quarter-end that instead fell sharply by 8% and hence motivated a big decline in the seasonally adjusted print.



**...And The Uncertainty**

How true is this? One approach is to just let the data speak for itself in three charts. The first chart plots the straight up seasonally adjusted and non-seasonally adjusted initial claims series. The second plots the seasonal adjustment factor itself over time. The third chart plots the gap between the seasonally adjusted and non-seasonally adjusted initial claims data.



The point here is that nothing jumps out as being obviously supportive of the Labor Department's contention that the recent improvement in claims should be dismissed as being due to sudden distortions in the data. In other words, the improvement may have been more genuine than at first blush.

Thus, we're left with at best an uncertain case as to what motivated the sharply lower claims figure. Our bias is that trend claims will disappoint in the weeks and months ahead, but we can't ignore the possibility that this one print may have been more genuine than the Labor Department has let on. Only time and possible revisions will tell.

Adrienne Warren (416) 866-4315  
[adrienne\\_warren@scotiacapital.com](mailto:adrienne_warren@scotiacapital.com)

### Global Real Estate Markets Stumble

- **The renewed slowdown in global economic activity is putting further downward pressure on already-weak residential property markets across much of the developed world.**

Historically low borrowing costs combined with sharply lower home prices in many markets have restored considerable housing affordability to real estate property markets globally. In more typical times, this would be a sufficient catalyst for a strong revival in housing demand. Indeed, residential investment traditionally has played a leading role in economic recoveries.

But these are not normal times. Consumer confidence has been dented by persistently high unemployment, intensifying European sovereign debt concerns, and signs that the global economic recovery is rapidly losing momentum. Renewed financial market volatility is adding to the general sense of unease. Many households are choosing to prioritize savings and debt repayment over major new purchases.

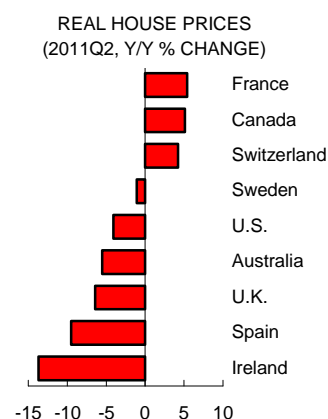
Of the nine major developed markets we track with available data, only three — Canada, France and Switzerland — registered positive year-over-year real price growth in Q2 (see chart). For the most part, these outperformers share relatively firm domestic demand conditions. They also lack some of the housing imbalances — notably, significant oversupply — that characterize many of the hardest-hit housing markets globally. Nonetheless, they too are showing some signs of cooling. In Canada, data for July and August point to continued firm but stable sales through the late summer, alongside a levelling out in average prices.

In contrast, in the United States, the United Kingdom, Spain and Ireland, prices declined on a year-over-year basis in Q2, and at an accelerating rate. While these markets had shown varying degrees of stabilization and/or recovery in 2010, demand is once again being hamstrung by high unemployment and weak job creation. The cumulative decline in real home prices in each of these markets relative to their cycle peaks ranges from 20-40%.

Inflation-adjusted average prices also dipped below a year earlier in Sweden and Australia. In both nations, housing activity remains reasonably buoyant, and prices are still near recent highs. Nevertheless, earlier interest rate increases to cool inflationary pressures have had some dampening effect on demand.

We expect global housing demand to remain moribund until the economic recovery gets back on a firmer footing and some financial market stability returns. An oversupply of owner-occupied housing, due to overbuilding and rising foreclosures, remains problematic in many markets, adding to the downward pressure on prices. A generally more cautious lending environment also will hold back the pace of recovery.

For a more detailed overview of residential property markets, please refer to the *Global Real Estate Trends* report, published on September 27, 2011, at [www.scotiabank.com/economics](http://www.scotiabank.com/economics).



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

### **The Student Movement In Chile & Its Impact On The Piñera Administration**

- **Recent social protests have emphasized weakened confidence in politicians.**

The administration of president Sebastian Piñera remains in negotiations with students, but the conflict is yet to be resolved. Since June, students have gone to the streets to protest about the poor quality and high costs of profit-seeking schools and universities. This conflict has grabbed national and international headlines as it has been the biggest country's demonstration (around 36 marches and half a million people mobilized in different cities) in the last 20 years.

Students' demands include a deep reform of the educational system, lower costs on loans, better quality and the end of profit-based operations in private colleges and schools. The educational reform was also an unresolved matter during the Bachelet administration; however, the government's reaction and the strength of the movement have been different this time around. The lack of resolutions under previous governments has allowed the issue to re-emerged with higher popularity and strength.

Currently, the government maintains an open dialogue with students and several solutions have been proposed; however, students have dismissed them as been vague and conditional to resume classes. These proposals include: i) a decrease in interest rates on student loans (from 6% to 2%), ii) scholarships to the top 40% students from low-income families, iii) the creation of the superintendency of higher education in charge of the maintenance of the non-profit-making law for universities, iv) the proposal for changing the Constitution to guarantee access to high quality public education.

Based on the OECD PISA exam, Chile currently stands above its Latin American peers in terms of student performance in reading, mathematics and science; however, compared to all OECD countries, Chile is significantly below average. Nonetheless, the statistics reflect a significant improvement in performance between 2000 and 2009.

*Political situation:* the students' conflict has raised concerns regarding the low popularity of the current political class. Both the president's party and the opposition have an approval rate close to 20%, in both cases at record lows. The president's party (Coalición) has lost almost 20 points from its approval rating in six months, while the president's rate has fallen almost 50 points since the 2009 elections. This is a clear sign that Chileans have lost confidence in their politicians and that they disagree with the way the authorities have reacted to social conflicts. This lack of support has helped the students' leader, Camila Vallejo, to garner popularity. Students are seen as potential voters, which, under certain circumstances could define the 2013 election.

The next municipal elections will take place in late 2012, and will likely reflect voters' indifference. This opens a window for new candidates to come to enter the scene in the near future. Therefore, the resolutions that the government offers to the students could significantly impact the approval rating and set the tone for the next elections. Also, many protesting students are realizing that they could lose the academic year, which could push for a quicker resolution and provide more leverage to the government in negotiations. Going forward, we do not expect the social disruptions to negatively impact the country's solid economic performance or any of the macro stability policies.

Nathan Joshua (416) 866-5338  
nathan\_joshua@scotiacapital.com

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

### Analyzing Canada's Longer-Term Fiscal Sustainability

- The Parliamentary Budget Officer's report offers some alternate scenarios that could lead to a more sustainable long-term fiscal path for Canadian governments.

In the long-term fiscal projections for the federal, provincial and territorial governments released this week by the Office of the Parliamentary Budget Officer (PBO), the central conclusion that current policy settings will result in escalating deficits and net debt over the next seventy-five years is not surprising. The PBO's baseline scenario estimates that the combined budget deficit of these governments will widen from 2.0% of GDP<sup>1</sup> in fiscal 2015-16 (FY16) to more than 25% by FY86, and their net debt will soar from 58% of GDP in FY11 to more than 400% by FY86. Demographics — a steady slowing in Canada's annual population growth to just over 0.5% by 2086 and a doubling of the old age dependency ratio<sup>2</sup> to 44% — are expected to slow Canada's average annual real GDP growth to 1.8% over the forecast period, even with the upbeat assumption of 1.2% annual labour productivity gains. As government revenue growth is dampened, expenditure demands will escalate for the programs heavily accessed by seniors, notably health care and elderly benefits.

By FY16, when the PBO expects the current output gap for the Canadian economy to close, government revenues are forecast to climb from 30.7% of GDP in FY11 to 32.7%, the approximate average over the prior fifty years. Thereafter, the PBO assumes that government revenues will pace nominal GDP growth. This results in federal receipts stabilizing at 15% of GDP, two percentage points below their fifty-year average, and provincial/territorial revenues averaging 17.8% of GDP, close to their average over the past two decades. For program spending, health outlays, driven by age composition, nominal GDP, and an annual enrichment factor estimated at the 1976-2010 average of 0.4%, are projected to rise from 7.8% of GDP in FY11 to 15.2% by FY86. The PBO's other spending assumptions are relatively conservative, with zero enrichment for social and children's benefits and education and elderly inflation-adjusted benefits increasing at half the rate of real GDP per capita. Importantly, as nominal GDP growth drops below the estimated long-term effective interest rates of 4.9% and 5.8% for the federal and provincial debt, respectively, constraining governments' net debt relative to GDP requires operating surpluses. Instead, the projected operating deficits will feed the deficit and debt each year.

The PBO then calculates the fiscal gap — defined as the required permanent increase in the governments' operating balance to keep their net debt, after seventy-five years, at the FY11 level of 57.9% of GDP (comprising federal and provincial-territorial obligations equal to 37.6% and 20.3%, respectively). The PBO's baseline scenario

<sup>1</sup> Based on Statistics Canada's preliminary *Government Finance Statistics*, not *Public Accounts* data.

<sup>2</sup> Seniors 65+ as a share of the 15-64 age group.

<b>Canada's Fiscal Gap* Estimates</b>				
% of GDP				
<b>Implementation Date for Policy Adjustments</b>				
	<b>FY12</b>	<b>FY17</b>	<b>FY22</b>	<b>FY32</b>
Consolidated	2.7	3.0	3.4	4.4
Federal	1.2	1.3	1.4	1.8
Prov.-Terr.	1.5	1.7	2.0	2.6
<b>Net Debt-to-GDP Targets for FY86</b>				
	<b>0%</b>	<b>25%</b>	<b>FY11: 57.9%</b>	<b>100%</b>
Consolidated	3.1	2.9	2.7	2.3
Federal	1.5	1.4	1.2	0.9
Prov.-Terr.	1.6	1.6	1.5	1.4
<b>Projection Horizon</b>				
	<b>25 years</b>	<b>50 years</b>	<b>75 years</b>	
Consolidated	0.9	2.0	2.7	
Federal	0.0	0.6	1.2	
Prov.-Terr.	0.9	1.4	1.5	
<b>Prov./Terr. Annual Health Spending Enrichment</b>				
	0 1976-10 avg: <b>0.4%</b> 2001-10 avg: <b>1.7%</b>			
Consolidated	0.9	2.7	9.4	
Federal	0.8	1.2	1.6	
Prov.-Terr.	0.1	1.5	7.8	
<b>Old Age Dependency Ratio by 2061</b>				
	<b>37.2%</b>	<b>43.2%</b>	<b>50.7%</b>	
Consolidated	2.1	2.7	3.3	
Federal	1.0	1.2	1.4	
Prov.-Terr.	1.1	1.5	1.9	
<b>Annual Real GDP Growth</b>				
	<b>1.3%</b>	<b>1.8%</b>	<b>2.3%</b>	
Consolidated	3.0	2.7	2.4	
Federal	1.4	1.2	0.9	
Prov.-Terr.	1.6	1.5	1.5	
<b>Fed./Prov./Terr. FY16 Budget Position</b>				
	<b>Balanced</b>		<b>Baseline Deficit:</b>	
			<b>2% of GDP</b>	
Consolidated	1.0		2.7	
Federal	0.7		1.2	
Prov.-Terr.	0.4		1.5	

\* Fiscal gap defined as the revenue hikes and spending cuts needed to leave net debt/GDP at the end of the forecast period at the FY11 level of 57.9%.  
Source: Office of the Parliamentary Budget Officer, September 2011.

Nathan Joshua (416) 866-5338  
[nathan\\_joshua@scotiacapital.com](mailto:nathan_joshua@scotiacapital.com)

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

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indicates that some combination of revenue hikes and spending cuts totalling 1.2% of GDP for Ottawa and 1.5% for the Provinces and Territories would be necessary in FY11 to leave the government's net debt at 58% of GDP by FY86. To put this into context, these governments improved their structural operating balance by 6.2 percentage points of GDP from FY95 to FY98. The required fiscal restructuring suggested by the PBO's baseline scenario is considerably less, but the subsequent challenge is to prevent this repair from being reversed.

The PBO tests a number of alternative assumptions (*see table, page 1*). Interestingly, a younger population, achieved through higher immigration and fertility, compares favourably with stronger real GDP growth in narrowing the fiscal gap. Underlining the importance of curtailing health care expenditures is the dramatic widening of fiscal gap if the enrichment factor for health spending is raised to 1.7%, the average over the past ten years. Similar to the required overall fiscal repair, curtailing health expenditures increases for an extended period has proven inordinately difficult for developed nations. The PBO's baseline assumption that the federal government will maintain annual increases in the Canada Health Transfer at the current 6% pace also represents a critical factor in the Provinces' and Territories' decisions.

The PBO acknowledges the considerable uncertainties inherent in such extended projections, and the additional factors that could be considered, such as including municipal governments. A key assumption of the PBO is that the steep rise in the government's net debt will have no impact on the economy. In fact, increasing government obligations typically dampen private-sector savings and potential output growth and place upward pressure on interest rates. A conclusion that stands out from the various projections is the long-term advantages of the governments balancing their books by mid-decade and subsequently extending the spending restraint. Similarly, the required adjustments to close the fiscal gap are significantly smaller the earlier they are initiated.

Gorica Djerić (416) 866-4214  
gorica\_djerić@scotiacapital.com

**What's Moving The U.S. Savings Rate?**

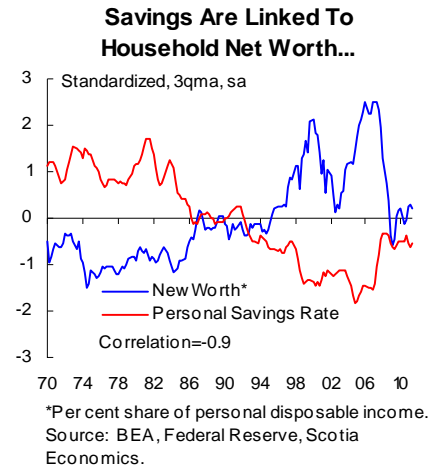
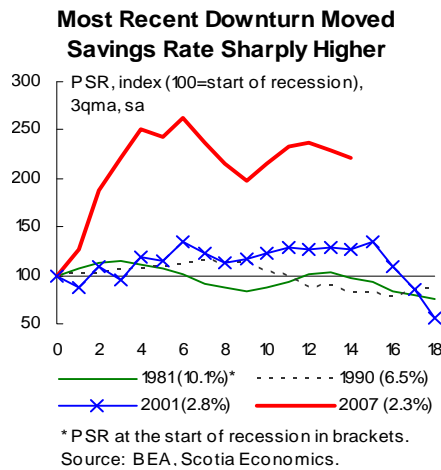
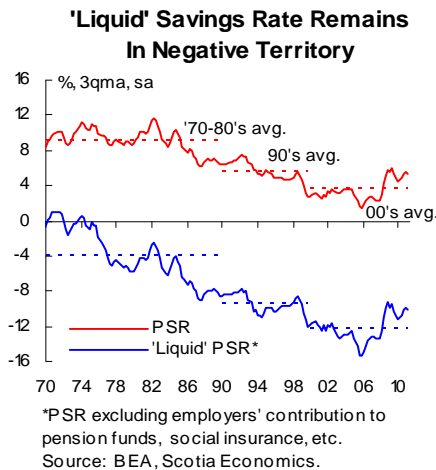
- **Broad-based payroll tax cuts generally increase savings, helping rebuild household finances, but not necessarily near-term aggregate demand.**

The U.S. personal savings rate (PSR) has been trending downward since the 1980s — especially the ‘liquid’ savings rate (chart 1) — bottoming at 1.0% in April 2005. Since then, the PSR has rebounded sharply (chart 2), averaging 5.3% since mid-2008, just below its 1990s average of 5.6% (chart 1). The support is coming from balance sheet repair, debt refinancing and an uncertain hiring outlook (charts 3, 4).

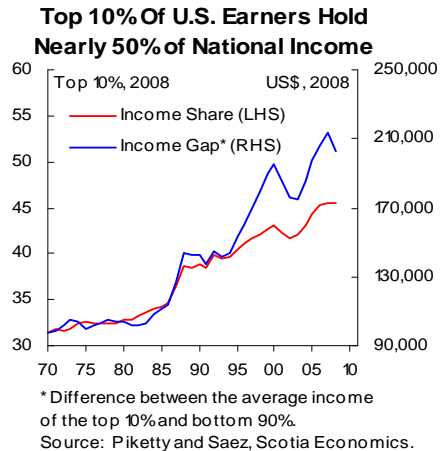
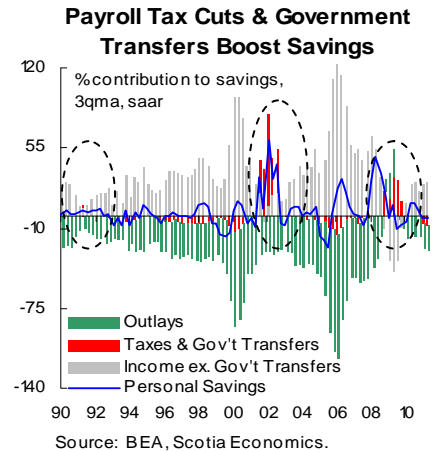
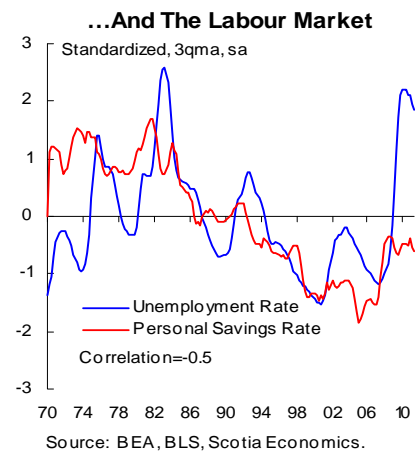
The PSR is a direct function of income, taxes and consumption. During the latest downturn, wages and investments — which make up two-thirds of overall household income — subtracted from household savings, with most of income growth coming from payroll tax cuts and government transfers (chart 5), aimed at restarting the economy. Tax cuts have an advantage over some of the other stimulus measures, because of their quick execution. However, historically, if tax rebates are viewed as temporary, they largely turn into savings, the latest downturn being no different (chart 5). Subsequently, as the recovery phase took hold in mid-2009, wages & salaries and investments gradually began to contribute positively to household savings, but their contribution still remains below their long-run average.

Payroll tax cuts and government transfers account for roughly half of President Obama’s proposed US\$447 billion stimulus plan presented in early September. While these measure might not boost aggregate demand in the near term, they are likely to help rebuild household finances, a precondition for future growth. It is worth noting that the top 10% of U.S. wage earners account for roughly half of overall income. The gap between the average income of the top 10% and the bottom 90% sits at around US\$200,000 (chart 6). This suggests that most of the recent savings gains have come from top income earners. As such, stimulus measures targeting the bottom 90% may be more effective, if the intent of the plan is to act as further near-term stimulus.

Charts 1, 2, 3



Charts 4, 5, 6



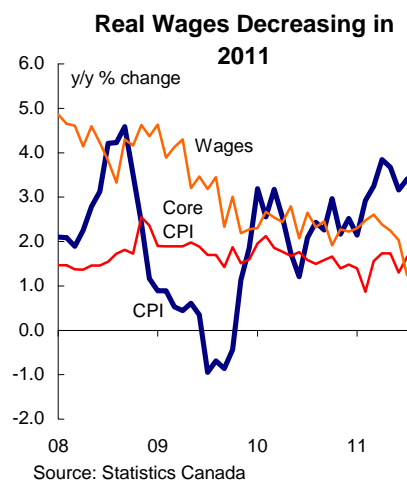
Alex Koustas (416) 866-4212  
[alex\\_koustas@scotiacapital.com](mailto:alex_koustas@scotiacapital.com)

### Canadian Consumers Pressured By Weak Real Wage Performance

- **Despite easing inflation pressures, real wages are unlikely to show much of an improvement, as the slowdown in global growth limits wage increases.**

Strong inflation in August, primarily fuelled by a further rise in transportation costs, marked the continuation of an accelerated pace of price increases dating back to October of last year. Conversely, the pace of wage growth has decelerated considerably in recent months, resulting in a steady decline of real wages across most regions in Canada, pressuring consumer spending.

Since 2010, inflation has primarily been driven by a rapid rise in energy and food prices, as can be seen by the decoupling of core and headline inflation on chart 1. Such swings are largely seen as temporary, and wages are unlikely to immediately adjust given the rigidity of contracts and settlements. In most cases wages will track the core measure of inflation, with headline inflation converging with core levels after the initial shock. With energy costs easing and the base effects of previous periods' higher energy costs set to pass through in the coming months, this pattern will likely play out.



However, slack in the labour market has seen wage growth deteriorate to the extent that it now tracks around core inflation. This means that households are not only feeling the pinch of high energy and food costs, but are also seeing their incomes at best match price increases in even the most stable pricing segments of the market. This squeeze on spending power is likely contributing to the recent slowdown in consumer expenditures.

Ontario, B.C., New Brunswick and Saskatchewan have seen the largest decreases in real wages over the past year. For Ontario and B.C., a contributing factor was the implementation of the HST in July 2010, which pushed inflation up roughly 1% in both provinces. Although these base effects will wear out over the next year, one cannot ignore the fact that tepid wage growth in both provinces contributed to weak spending power. Energy price swings typically have a more pronounced effect on the Atlantic provinces, as is evidenced by their higher inflation numbers. New Brunswick has experienced an uneven labour market recovery, limiting wage growth, while Nova Scotia saw contracts pre-empt price increases resulting from sales tax increases and rising power rates. Both provinces are expected to follow a similar track in the coming year.

Regional Inflation and Wages			
July 2010 - July 2011	Inflation	Wage Growth	Real Wage Growth
NF	3.4	1.2	-2.2
PEI	3.2	1.8	-1.3
NS	3.5	4.2	0.7
NB	3.8	0.5	-3.3
PQ	3.3	2.6	-0.7
ON	3.0	0.6	-2.3
MB	3.1	2.1	-0.9
SK	2.8	0.0	-2.8
AB	1.9	1.9	-0.1
BC	1.7	-0.7	-2.4
<b>Canada</b>	<b>2.7</b>	<b>1.4</b>	<b>-1.3</b>

Source: Statistics Canada, Scotia Economics

Saskatchewan remains an outlier. Wage growth trailed the pace set in most regions, despite a tight labour market.

However this comes on the back of very notable wage increases in 2009 and 2010. On the other hand Alberta is on the rebound, with wage growth accelerating after a slump over the same period. Quebec has been a surprise thus far. In spite of a 1% hike of its sales tax in 2011, wages have kept pace well, though they will be pressured by another 1% sales tax increase in 2012.

Inflation is expected to ebb downwards in the coming months, with the aforementioned effects from the energy component as a principal factor. However, slowing global growth will weigh on hiring in Canada, which will likely keep wage growth muted. Assuming wage growth continues in the range of 1.5 - 2% and Scotia Economics' inflation estimate of just under 2%, real wages would remain relatively flat at best. While this is a moderate improvement over the notable deterioration seen over the past few quarters, it is unlikely to inspire much consumer confidence, particularly in Central and Atlantic Canada.

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 Allocations Suggest Important Trend Away From USD Continues**

- **Reserves allocated to USD have fallen to just 60%; while allocations to ‘other’ currencies, including CAD, increase; shifting the flow behind reserve management.**

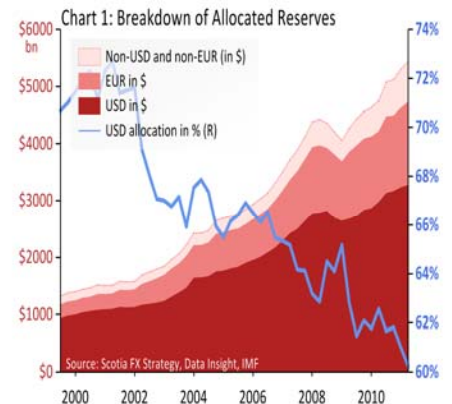
Global FX reserves have seen dramatic growth over the last decade and now stand at \$10.1trn (allocated reserves stand at \$5.4trn). Central banks look for two key characteristics in FX reserves: liquidity and capital preservation. The USD, due in part to the depth of its capital markets, has long been the FX reserve currency of choice and will likely remain so for many years to come; however trends in reserve management are a weight against the USD.

#### **The diversification trend continues, but at a fairly moderate pace.**

As the top chart highlights, just over 60% of reserves are held in USD, but the percentage allocation has been consistently declining, a trend we expect to continue. However, because reserves continue to grow (up 4% m/m and 20% y/y), the dollars allocated to the USD have actually been increasing and now stand at \$3.3trn.

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

EUR is 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, dropped to a low of 25.9% in Q4 2010 and just recently began to rise again, standing today at 26.7%. Accordingly, the European sovereign crisis has likely had an effect, but not to the extent that some had feared (in addition, there is a difference between being long EUR and being long EUR backed by German bunds).



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

For CAD, near-term risk aversion is negative however the more medium term shifting trends in FX reserve management are positive. There is increasing evidence that as the appetite for the USD fades, there is 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. Other trends, like the SNB's new EURCHF floor, are also positive for CAD, as it is well known that the SNB does allocated a portion of reserves to CAD. These long-term and stable flows form part of our base case that once risk aversion fades, CAD will retrace some of its recent losses.

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

Emerging market reserves now stand at \$6.8trn, accounting for 68% of total reserves and are growing at a faster rate than advanced economies — in part due to FX intervention policies. In addition, EM reserve managers also allocated fewer reserves to the USD (56.5% versus the advanced economies who allocated 63.6%) and a larger percentage to EUR, ‘others’, JPY and GBP — see chart 3. Suggesting the weight on the USD is larger than the combined numbers imply.

Joe Kogan (212) 225-6541  
[joe\\_kogan@scotiacapital.com](mailto:joe_kogan@scotiacapital.com)

### **Cemex Day Notes**

Cemex, a Mexico-based global cement manufacturer, held its investor conference yesterday in New York City with an audience of more than 100 people, the largest turnout that they had ever seen according to the CEO. With both Cemex bonds and Cemex equity having been hit particularly hard by negative economic news over the past few months, investors of course see potential opportunities but also tremendous risks. We will provide an analysis of Cemex bonds in a future article, but in the meantime we wanted to review the key messages we heard at yesterday's conference.

The biggest concern for Cemex's short-term outlook is its ability to meet end-of-year covenants that require Debt to Ebitda to fall to 7.0 whereas that metric was 7.16 at the end of June. Management repeatedly assured investors that they would meet this ratio through performance, rather than through asset sales, renegotiations, or new capital. Recent macroeconomic news would suggest that this ratio should worsen rather than improve, but of course it could be that not-yet released third-quarter results were good enough to reassure managers. In particular, management made the following comments with regards to factors that could influence their ability to meet covenants. First, CEO Lorenzo Zambrano insisted that the company is not engaged in any talks with the banks to renegotiate covenants because such discussions are unnecessary. Second, the company was not planning any significant asset sales—\$180mn of real estate was the number mentioned for this year. Third, the company was not preparing any new issuance in the capital markets, remarking that they would not get very much considering how low equity prices are. Finally, the company was not hedging again foreign exchange movements, believing that the Mexican peso had overreacted to recent news and would appreciate by year-end. That last effect can be significant in our opinion. Half of 1H11 Ebitda was generated in Mexico whereas Cemex debt is almost entirely in foreign currency, with 75% in dollars and 21% in Euros. The currency has already depreciated 15%, and a further deterioration in the global outlook holds the prospect of not only lower volumes and prices, but also of further short-term depreciation of the peso.

Management addressed most of their presentation to the medium-term strategy for the company rather than these short terms issues. A common theme was how to make the firm profitable and how to deleverage even if the world economic outlook does not improve, obviously a rather difficult challenge for a company operating in the construction industry. They spoke of a transformation that included a significant reduction in overhead expenses, a shift towards cheaper alternative fuels, decentralization in decision-making, and the sale of non-core assets. On the latter point, there is \$1bn of asset sales planned through 2012, of which \$500mn will be real estate and \$500mn will be plants that have been shut down. Management would not comment on how much success it has had so far in soliciting bidders. For example, the company is selling its headquarters in Madrid for \$30mn Euros in order to relocate to less luxurious offices; we wonder how much demand there could be for luxurious office suites in Spain considering that country's economic problems.

For the long-term, the company estimated a mid-cycle Ebitda of 4.5bn to 5.0bn, or about twice current levels. The company did not explain all the volume and margin assumptions behind this figure, but did mention that they rely for the US on PCA forecasts from the summer which have cement consumption as flat for 2012 and then growing at double digit rates afterwards. We imagine continued problems in Europe could lead to even lower forecasts, however. Overall, management of course presented an optimistic tone for the long-term despite the obvious difficulties. Extremely high rates of employee satisfaction mentioned by management were surprising in light of the situation.

The company will report third-quarter earnings on October 26<sup>th</sup>, and it will be interesting to see if the transformation emphasized by management during the conference has had any effect on the bottom line.

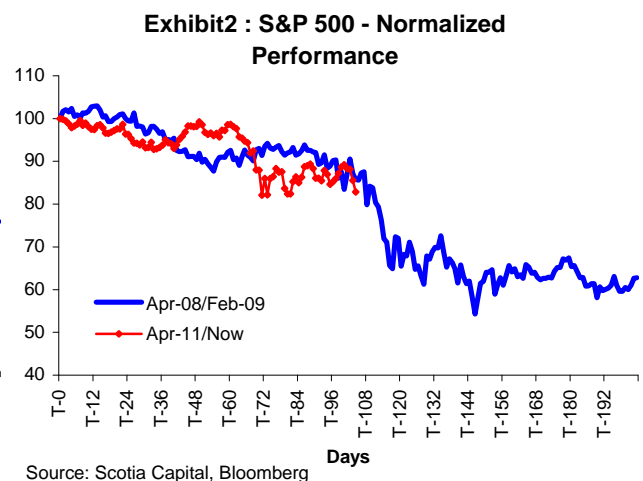
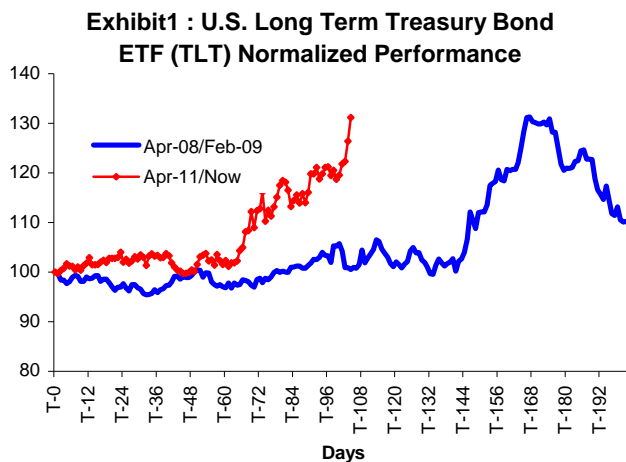
Vincent Delisle (514) 287-3628  
[vincent\\_delisle@scotiacapital.com](mailto:vincent_delisle@scotiacapital.com)

### Revisiting Sequences From The 2008 Sell-off

Fundamentals have taken a backseat to U.S. and European political posturing since July and our view is that gloomy headlines do not correlate with actual economic/earnings damage. Admittedly, the precipitous fall in August/September consumer confidence surveys raises the odds of another U.S. recession, but jobless claims, LEI, and durable goods orders are not pointing to an alarming scenario yet. Indeed, recession risks have increased, but markets may be overpricing this outcome. This week's ISM and payrolls reports should help map out how Q3 economic activity is truly unfolding and may surprise on the upside.

When comparing the 2008 meltdown to the 2011 sell-off, it looks like markets are "shooting first" and will "ask questions later". Exhibits 1 and 2 compare the normalized performance in bonds (TLT index) and equities (S&P 500) for the 2008 period (April 2008-February 2009) and since the May 2011 S&P 500 peak. Exhibits 3 and 4 on the following page look at corporate profits and jobless claims patterns. Bonds appear to be already pricing a hard recession, not the S&P500. Credit spreads (investment grade) have been widening in a similar pattern to 2008.

In our opinion, the S&P500 has proven more resilient throughout this bond rally for two reasons. First, data has not deteriorated as fast as in 2008. Jobless claims and the LEI were decisively deteriorating in 2008 and profits were already contracting. Secondly, prospects of "operation twist" have flooded the long end of the curve. In Canada, the TSX index has suffered more than the S&P500, especially in September, as China's tight monetary policy has added an element of risk to commodity-sensitive benchmarks and currencies.



Notwithstanding near term headline risk and the temptation to dwell on the negatives, asset mix opportunities must be considered. Equities could decline further as data deteriorates in Q4, but focus should be on quantifying how much of the bad news is priced in. Moreover, investors should revisit Q1/09 catalysts which preceded the March '09 rebound in risk-appetite. Raising cyclical exposure when confidence surveys (consumer and manufacturing) stopped deteriorating was a key element in catching the "risk-on" rebound in 2009.

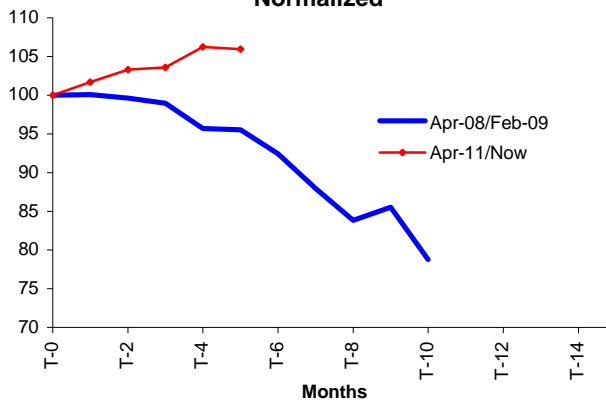
Tactical opportunities have upstaged longer term/buy-and-hold strategies since 2007 and we believe this environment of extreme volatility, marked by sporadic and sizeable equity-to-bond leadership, will continue.

Vincent Delisle (514) 287-3628  
[vincent\\_delisle@scotiacapital.com](mailto:vincent_delisle@scotiacapital.com)

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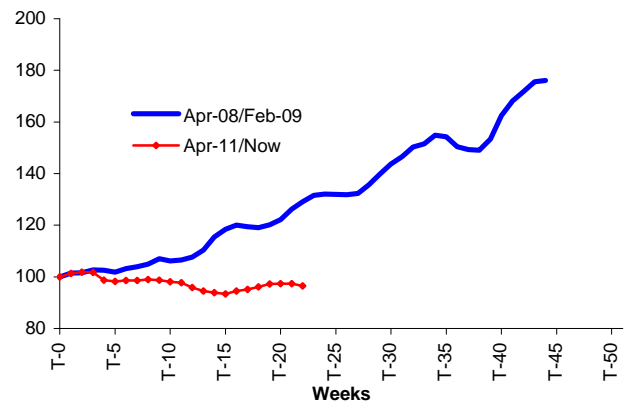
On a 12- to 18-month time horizon, bond performance looks vulnerable and we would redirect money into Cash and Equities. We are not advocating the end of lower-than-average yields, but simply pointing to a highly unattractive risk-reward profile for bonds. Cash and Equities should be preferred to government bonds. We plan to lower cash (add equities) when key U.S. data stabilizes (jobless claims, ISM stop deteriorating) and China monetary policy transitions to a more dovish stance.

**Exhibit3 : S&P 500 Trailing EPS - Normalized**



Source: Scotia Capital, Bloomberg

**Exhibit4 : Jobless Claims - Normalized**



Source: Scotia Capital, Bloomberg

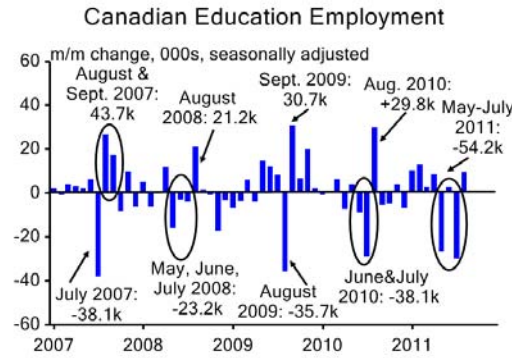
Karen Cordes Woods (416) 862-3080  
[karen\\_woods@scotiacapital.com](mailto:karen_woods@scotiacapital.com)

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

## Key Data Preview

### CANADA

While we will likely witness a rebound in jobs in September, much of the growth will likely be narrowly based and temporary. Indeed, the education component should do most of the heavy lifting after the gains in August were mild compared to the over 50k drop in education jobs from May to July. As we have written about extensively, over the past 5 years, there has been a shift in the way teachers' contracts have been written, shortening the contracts from one year to between nine and ten months which puts thousands of teachers out of work through the summer months (and technically unemployed) but their contracts generally get renewed come the late Summer or early Fall. As a result, this component tends to show distortions through these months as the seasonal adjustment has been difficult to perform. While we could also witness a rebound in some of the other industries in September after many of them registered job losses in August, weaker consumer and business confidence will likely keep private job intentions sidelined for at least the time being alongside the public sector where fiscal drag has led to a decline of 290k jobs since January alone. This view, together with the fact that the 50k gain in health care jobs in August will not likely be repeated, suggests that there is a risk of a weaker-than-expected print as the expected gain in education jobs is cancelled out by the decline in health care jobs. Aggregate hours worked and average hourly wages will also remain extremely important given their influence upon inflation and consumer spending. Indeed, while aggregate hours worked rose in August, average hourly wages remained at the June 2003 low of 1.4% y/y, suggesting that cost-push inflation remains subdued alongside consumer spending as disposable income continues to shrink.



Source: Statistics Canada, Scotia Capital Economics

### UNITED STATES

**US employment** will likely rebound in September with our estimate at about 30k. However, there are two tailed risks connected with this report. On the upside, we could witness a full reversal in the 45,000 decline in the communications component in August due to the Verizon strike, along with a rebound in many of the components that turned down in August. On the downside, however, a further equity sell-off in September, increased economic uncertainty around the world as European lawmakers remain unable to find a resolution to the current debt situation, weaker home construction and production and further job shedding in the public sector could all weigh on even a modest gain in jobs during the month. And, what matters perhaps even more than the number of jobs gained or lost in the month is how aggregate hours worked and average hourly wages have shifted during the month given their influence on real GDP and inflation. Indeed, both measures declined in August, suggesting we could witness a rebound in September as was the case the last time both measures dipped on the month. Nonetheless, the gain would likely be modest, keeping nominal incomes around roughly the same levels as they are right now and thereby suggesting that real incomes would still be negative. In addition, there is a risk that aggregate hours worked could post another decline given the timing of Hurricane Irene which hit the Eastern Seaboard at the end of August.

Both the **September ISM manufacturing and non-manufacturing** reports will be released next week with an expected decline in both indices as economic activity deteriorates further in the U.S. While four of the five major regional manufacturing reports improved in September, including the Richmond, Philly, Kansas City and Chicago Fed, both the Richmond and the Philly Fed indices still remained in negative territory, suggesting that manufacturing activity in both those regions continued to contract in September. In addition, the Empire State manufacturing report unexpectedly deteriorated further in September. While the ISM manufacturing index has thus far been very resilient against weak regional manufacturing reports, there is a risk that we could witness a sub-50 print for September, marking the first print below 50 since July 2009 and suggesting that the U.S. manufacturing industry contracted during the month, weighing heavily on Q3 real GDP growth. Having said that, the ISM non-manufacturing report was quite encouraging in August, witnessing a stronger-than-expected print with an improvement in the new orders component. With services spending still up in August according to the August Personal income and spending report, this suggests we could witness a further 50+ print for this index in September which will offset some of the manufacturing weakness.

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

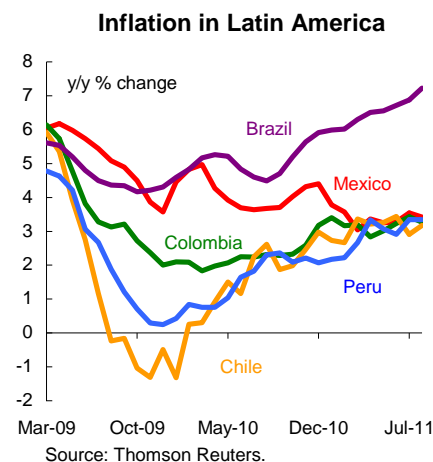
Sarah Howcroft (416) 863-2859  
[sarah\\_howcroft@scotiacapital.com](mailto:sarah_howcroft@scotiacapital.com)

Oscar Sánchez (416) 862-3174  
[oscar\\_sanchez@scotiacapital.com](mailto:oscar_sanchez@scotiacapital.com)

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## LATIN AMERICA

Inflation data will attract investors' attention next week as the major economies in Latin America will be releasing data for September. With the exception of Brazil, the rates of inflation in the rest of the region have converged slightly above the 3.0% mark. At the beginning of the year the monetary authorities in almost all countries (excluding Mexico) hiked rates to anchor inflation; however, in recent months monetary policy has shifted to a more neutral stance. Inflationary pressures in Brazil remain high, and the outlook has worsened since the central bank surprised with an interest rate cut. In Peru, consumer prices remain slightly above the central bank's target range (1.0%-3.0%) at 3.35% y/y in August, caused by oil and food prices; nonetheless inflation is expected to return to the expected target by 2012. On the back of economic deceleration, the latest surveys have pointed to a more dovish monetary policy stance across the region; however, the inflation outlook will remain a key factor for any changes in the central banks' tone.

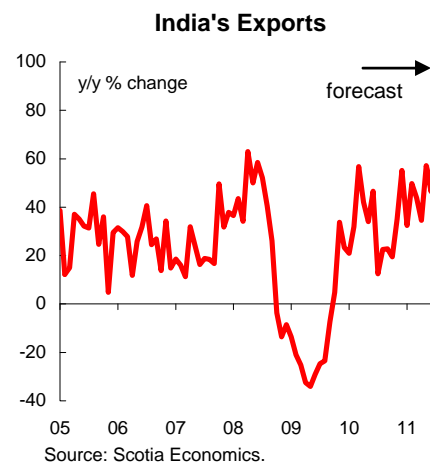


## EUROPE

Next Wednesday the United Kingdom's Office for National Statistics (ONS) will release the final print for second quarter GDP and the preliminary estimates of the various output components. We expect the previously reported overall growth rate of 0.2% q/q (non-annualized) to be confirmed. The consumer likely retreated further in the second quarter, marking the fourth straight quarter-on-quarter contraction in household spending, with additional declines probable. The drag from consumption — which accounts for roughly two-thirds of economic activity — will be offset by a positive contribution from business investment, a modest boost from government spending, and a gain in net trade. Although imports likely rebounded somewhat from a sizeable drop in the first quarter, demand for foreign goods remained relatively weak in line with domestic demand, while exports benefitted from some mid-year weakening in the currency versus the euro. The outlook for the second half of the year entails continued softening in the context of the broader global deceleration, more sluggish domestic investment and the onset of fiscal consolidation. We expect the economy to post growth of around 1% for the year as a whole. Also on Wednesday, the ONS will release new historical GDP data (including 2010) revised as a result of a methodological change, which will likely imply an upward adjustment to the year-over-year growth rates for the first and second quarters of 2011.

## ASIA

India's export growth has been just short of spectacular in recent quarters. Growth in foreign sales reached 81% y/y in July, implying a 7.7% quarterly expansion that mimics the country's advance in overall GDP. While the rise in shipments benefitted from a relatively low base given that the Indian economy remains relatively closed to international commercial transactions, closer links to the rest of Asia and with China in particular have fueled the upward trend. We expect exports to have remained range-bound in August, advancing at a 64% y/y rate consistent with a so far uninterrupted quarterly rhythm. Imports will also continue to rise at a double-digit rate (45% expected for August), implying a persistent widening of the country's trade balance. Looking ahead, the depreciation of the Indian rupee in September (-10%) will propel exports further as long as economic activity conditions in Asia also remain range-bound.



## Key Indicators for the week of October 3 - 7

North America								
Country	Date	Time	Event	Period	BNS	Consensus	Latest	
MX	10/03	10:00	Central Bank Economists Survey					
US	10/03	10:00	Construction Spending (MoM)	AUG	--	-0.2		-1.3
MX	10/03	10:00	Remittances (US\$ mns)	AUG	--	--		1897.6
US	10/03	10:00	ISM Manufacturing	SEP	50.1	50.5		50.6
US	10/03	10:00	ISM Prices Paid	SEP	--	53.8		55.5
MX	10/03	13:00	IMEF Manufacturing Index	SEP	--	--		51.5
MX	10/03	13:00	IMEF Non-Manufacturing Index	SEP	--	--		52.0
US	10/03	17:00	Total Vehicle Sales (mns)	SEP	12.3	12.6		12.1
US	10/03	17:00	Domestic Vehicle Sales (mns)	SEP	--	9.6		9.5
MX	10/04	09:00	Consumer Confidence	SEP	--	--		93.4
MX	10/04	10:00	Central Bank Announces International Reserves for Prev. Week					
US	10/04	10:00	Factory Orders (MoM)	AUG	-0.3	-0.1		2.4
US	10/05	07:00	MBA Mortgage Applications (WoW)	30-Sep	--	--		9.3
US	10/05	07:30	Challenger Job Cuts (YoY)	SEP	--	--		47.0
US	10/05	08:15	ADP Employment Change (000s)	SEP	50.0	70.0		91.0
US	10/05	10:00	ISM Non-Manf. Composite	SEP	52.5	53.0		53.3
CA	10/06	08:30	Building Permits (MoM)	AUG	0.5	--		-0.6
US	10/06	08:30	Initial Jobless Claims (000s)	30-Sep	420.0	410.5		391.0
US	10/06	08:30	Continuing Claims (000s)	24-Sep	3715.0	3725.0		3729.0
CA	10/06	10:00	Ivey Purchasing Managers Index SA	SEP	--	58.0		56.4
US	10/06		ICSC Chain Store Sales (YoY)	SEP	--	--		4.6
CA	10/07	07:00	Unemployment Rate	SEP	7.3	7.3		7.3
CA	10/07	07:00	Net Change in Employment (000s)	SEP	25	12.5		-5.5
CA	10/07	07:00	Full Time Employment Change (000s)	SEP	--	--		25.7
CA	10/07	07:00	Part Time Employment Change (000s)	SEP	--	--		-31.2
CA	10/07	07:00	Participation Rate	SEP	--	--		66.7
US	10/07	08:30	Change in Nonfarm Payrolls (000s)	SEP	30	53.0		0.0
US	10/07	08:30	Change in Private Payrolls (000s)	SEP	--	90.0		17.0
US	10/07	08:30	Change in Manufact. Payrolls (000s)	SEP	--	-5.0		-3.0
US	10/07	08:30	Unemployment Rate	SEP	9.1	9.1		9.1
US	10/07	08:30	Avg Hourly Earning (MoM) All Emp	SEP	--	0.2		-0.1
US	10/07	08:30	Avg Hourly Earning (YoY) All Emp	SEP	--	1.9		1.9
US	10/07	08:30	Avg Weekly Hours All Employees	SEP	--	34.2		34.2
US	10/07	08:30	Chg in Household Survey Empl (000s)	SEP	--	--		331.0
MX	10/07	09:00	Consumer Prices (MoM)	SEP	0.62	0.4		0.2
MX	10/07	09:00	Consumer Prices (YoY)	SEP	3.53	3.2		3.4
MX	10/07	09:00	Consumer Prices Core (MoM)	SEP	0.38	0.3		0.1
US	10/07	10:00	Wholesale Inventories (MoM)	AUG	--	0.6		0.8
US	10/07	15:00	Consumer Credit (US\$ bns)	AUG	--	8.0		12.0

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

## Key Indicators for the week of October 3 - 7

Europe								
Country	Date	Time	Event	Period	BNS	Consensus	Latest	
UK	10/02	19:01	Hometrack Housing Survey (MoM)	SEP	--	--	-0.1	
SW	10/03	02:30	Swedbank PMI Survey	SEP	--	47.5	48.7	
NO	10/03	03:00	Norway PMI SA	SEP	--	54.0	55.5	
SP	10/03	03:15	Spain September Manufacturing PMI					
IT	10/03	03:45	PMI Manufacturing	SEP	45.0	--	47.0	
FR	10/03	03:50	PMI Manufacturing	SEP F	47.3	47.3	47.3	
GE	10/03	03:55	PMI Manufacturing	SEP F	50.0	50.0	50.0	
EC	10/03	04:00	PMI Manufacturing	SEP F	48.4	48.4	48.4	
UK	10/03	04:30	PMI Manufacturing	SEP	49.0	48.5	49.0	
IT	10/03	12:00	New Car Registrations (YoY)	SEP	--	--	1.5	
IT	10/03	13:00	Budget Balance (€ bns)	SEP	--	--	-6.9	
IR	10/03	00:00	Consumer Confidence	SEP	--	--	53.3	
IR	OCT 3-7		Unemployment Rate	SEP	--	--	14.4	
UK	OCT 3-7		Halifax House Prices SA (MoM)	SEP	0.5	0.2	-1.2	
UK	OCT 3-7		Halifax House Price 3Mths/Year	SEP	-1.9	-2.1	-2.6	
SP	10/04	03:00	Unemployment MoM Net (000s)	SEP	--	42.1	51.2	
UK	10/04	04:30	PMI Construction	SEP	--	51.6	52.6	
EC	10/04	05:00	Euro-Zone PPI (MoM)	AUG	--	-0.2	0.5	
EC	10/04	05:00	Euro-Zone PPI (YoY)	AUG	--	5.8	6.1	
UK	10/04	19:01	BRC Shop Price Index (YoY)	SEP	--	--	2.7	
SP	10/05	03:15	Spain September Services PMI					
IT	10/05	03:45	PMI Services	SEP	--	--	48.4	
FR	10/05	03:50	PMI Services	SEP F	52.5	52.5	52.5	
GE	10/05	03:55	PMI Services	SEP F	50.3	50.3	50.3	
EC	10/05	04:00	PMI Composite	SEP F	49.2	49.2	49.2	
EC	10/05	04:00	PMI Services	SEP F	49.1	49.1	49.1	
UK	10/05	04:30	PMI Services	SEP	50.0	50.5	51.1	
UK	10/05	04:30	Official Reserves (Changes) (US\$ mns)	SEP	--	--	2237.0	
UK	10/05	04:30	GDP (QoQ)	2Q F	0.2	0.2	0.2	
UK	10/05	04:30	GDP (YoY)	2Q F	1.2	0.7	0.7	
UK	10/05	04:30	Private Consumption (QoQ)	2Q P	--	-0.3	-0.6	
UK	10/05	04:30	Government Spending (QoQ)	2Q P	--	-0.1	0.5	
UK	10/05	04:30	Gross Fixed Capital Formation (QoQ)	2Q P	--	0.7	-2.0	
UK	10/05	04:30	Exports (QoQ)	2Q P	--	-0.1	2.4	
UK	10/05	04:30	Imports (QoQ)	2Q P	--	-1.0	-2.4	
UK	10/05	04:30	Current Account (£ bns)	2Q	--	-11.0	-9.4	
UK	10/05	04:30	Total Business Investment (QoQ)	2Q F	--	--	-3.2	
EC	10/05	05:00	Euro-Zone Retail Sales (MoM)	AUG	-0.4	-0.3	0.3	
SP	10/06	03:00	Industrial Output NSA (YoY)	AUG	--	--	-5.7	
SW	10/06	03:30	Service Production (MoM) SA	AUG	--	-0.1	-0.1	
UK	10/06	04:30	BoE Housing Equity Withdrawal (£ bns)	2Q	--	-6.0	-5.8	
UK	10/06	04:30	Index of Services (MoM)	JUL	-0.2	-0.1	-0.1	
GE	10/06	06:00	Factory Orders SA (MoM)	AUG	--	0.0	-2.8	
UK	10/06	07:00	BOE Asset Purchase Target (£ bns)	OCT	--	200.0	200.0	
UK	10/06	07:00	<b>BOE Announces Rates</b>	6-Oct	<b>0.50</b>	<b>0.5</b>	<b>0.5</b>	
EC	10/06	07:45	<b>ECB Announces Interest Rates</b>	6-Oct	<b>1.50</b>	<b>1.5</b>	<b>1.5</b>	
PO	10/06		Industrial Sales (MoM)	AUG	--	--	2.1	
UK	10/06		New Car Registrations (YoY)	SEP	--	--	7.3	
FR	10/07	02:45	Central Govt. Balance (€ bns)	AUG	--	-105.0	-86.6	
FR	10/07	02:45	Trade Balance (€ mns)	AUG	--	-5950.0	-6460.0	
SW	10/07	03:30	Budget Balance (SEK bns)	SEP	--	--	8.8	
NO	10/07	04:00	Industrial Production SA (MoM)	AUG	--	--	-1.5	
UK	10/07	04:30	PPI Input NSA (MoM)	SEP	1.0	1.2	-1.9	
UK	10/07	04:30	PPI Output n.s.a. (MoM)	SEP	0.2	0.2	0.1	
UK	10/07	04:30	PPI Output Core NSA (MoM)	SEP	0.1	0.1	0.2	
GE	10/07	06:00	Industrial Production SA (MoM)	AUG	--	-2.0	4.0	
IR	OCT 7-12		CPI (EU Harmonised) (MoM)	SEP	--	--	0.2	
IR	OCT 7-12		CPI (MoM)	SEP	--	--	0.2	

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

## Key Indicators for the week of October 3 - 7

Asia Pacific								
Country	Date	Time	Event	Period	BNS	Consensus	Latest	
JN	09/30	00:00	Official Reserve Assets (US\$ bns)	SEP	--	--	1218.5	
SK	09/30	00:00	South Korea FDI (YoY)	3Q	--	--	20.3	
IN	10/02	01:00	India September Markit Manufacturing PMI					
JN	10/02	19:50	Tankan Lge Manufacturers Index	3Q	--	2.0	-9.0	
JN	10/02	19:50	Tankan Non-Manufacturing	3Q	--	2.0	-5.0	
JN	10/02	19:50	Tankan Lge Mfg Outlook	3Q	--	3.0	2.0	
JN	10/02	19:50	Tankan Non-Mfg Outlook	3Q	--	2.0	-2.0	
JN	10/02	19:50	Tankan Large All Indust Capex	3Q	--	4.3	4.2	
NZ	10/02	20:00	ANZ Commodity Price	SEP	--	--	-1.2	
CH	10/02	21:00	China Non-manufacturing PMI	SEP	--	--	57.6	
TA	10/02	22:00	HSBC Taiwan Manufacturing PMI	SEP	--	--	45.2	
ID	OCT 2-11		Consumer Confidence Index	SEP	--	--	110.6	
ID	10/03	00:00	Inflation (YoY)	SEP	--	4.9	4.8	
ID	10/03	00:00	Core Inflation (YoY)	SEP	--	5.0	5.2	
ID	10/03	00:00	Exports (YoY)	AUG	--	28.4	39.5	
ID	10/03	00:00	Total Imports (YoY)	AUG	--	27.9	27.2	
ID	10/03	00:00	Total Trade Balance (US\$ mns)	AUG	--	1680.0	1362.5	
JN	10/03	01:00	Vehicle Sales (YoY)	SEP	--	--	-25.5	
IN	10/03	01:30	Exports (YoY)	AUG	64.0	--	81.8	
IN	10/03	01:30	Imports (YoY)	AUG	45.0	--	47.9	
TH	10/03	03:00	Consumer Price Index (YoY)	SEP	4.0	3.9	4.3	
TH	10/03	03:00	Core CPI (YoY)	SEP	2.8	2.9	2.9	
HK	10/03	04:30	Retail Sales - Value (YoY)	AUG	--	30.3	29.1	
HK	10/03	04:30	Retail Sales - Volume (YoY)	AUG	--	23.2	22.4	
SK	10/03	19:00	Consumer Price Index (YoY)	SEP	4.7	4.5	5.3	
SK	10/03	19:00	Core Consumer Price Index (YoY)	SEP	--	--	4.0	
JN	10/03	19:50	Monetary Base (YoY)	SEP	--	--	15.9	
SK	10/03	20:00	HSBC Manufacturing PMI	SEP	--	--	49.7	
AU	10/03	20:30	Trade Balance (AU\$ mns)	AUG	--	2000.0	1826.0	
AU	10/03	20:30	Building Approvals (MoM)	AUG	--	1.0	1.0	
AU	10/03	23:30	<b>RBA Cash Target</b>	4-Oct	<b>4.75</b>	<b>4.75</b>	<b>4.75</b>	
AU	10/04	01:30	RBA Commodity Index SDR (YoY)	SEP	--	--	25.2	
AU	10/04	20:30	Retail Sales s.a. (MoM)	AUG	--	0.2	0.5	
PH	10/04	21:00	Consumer Price Index (YoY)	SEP	--	4.9	4.7	
PH	10/04	21:00	Core CPI (YoY) 2000=100	SEP	--	--	3.4	
IN	10/05	01:00	India September Markit Services PMI					
TA	10/05	04:00	CPI (YoY)	SEP	--	1.4	1.3	
HK	10/05	22:30	Purchasing Managers Index	SEP	--	--	47.8	
MA	10/06	00:01	Exports (YoY)	AUG	--	7.7	7.1	
MA	10/06	00:01	Imports (YoY)	AUG	--	6.2	2.9	
MA	10/06	00:01	Trade Balance (MYR bns)	AUG	--	9.2	9.5	
JN	OCT 6-7		<b>BOJ Target Rate</b>	7-Oct	<b>0.10</b>	--	<b>0.10</b>	
JN	10/07	01:00	Coincident Index CI	AUG P	--	107.4	107.1	
JN	10/07	01:00	Leading Index CI	AUG P	--	103.5	104.6	
TA	10/07	04:00	Total Trade Balance (US\$ bns)	SEP	--	2.6	2.6	
TA	10/07	04:00	Total Exports (YoY)	SEP	--	10.3	7.2	
TA	10/07	04:00	Total Imports (YoY)	SEP	--	10.1	6.4	
CH	10/07	22:30	China HSBC Services PMI	SEP	--	--	50.6	

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

## Key Indicators for the week of October 3 - 7

## 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	10/03	07:30	Central Bank Weekly Economists Survey				
CL	10/03	07:30	Central Bank Meeting Minutes				
BZ	10/03	09:00	PMI Manufacturing	SEP	--	--	46.0
BZ	10/03	10:00	Exports (US\$ mns)	SEP	--	23850.0	26158.0
BZ	10/03	10:00	Imports (US\$ mns)	SEP	--	20325.0	22285.0
PE	10/03		Consumer Price Index (MoM)	SEP	--	0.3	0.3
PE	10/03		Consumer Price Index (YoY)	SEP	--	3.7	3.4
PE	10/03		Wholesale Prices (MoM)	SEP	--	--	0.4
BZ	10/04	08:00	Industrial Production sa (MoM)	AUG	--	-0.4	0.5
BZ	10/04	08:00	Industrial Production (YoY)	AUG	--	1.9	-0.3
CL	10/05	07:30	Economic Activity (YoY)	AUG	--	4.7	4.0
CO	10/05	17:00	Exports FOB (US\$ mns)	AUG	--	--	4890.4
CO	10/05	20:00	Consumer Price Index (MoM)	SEP	--	0.0	0.0
CO	10/05	20:00	Consumer Price Index (YoY)	SEP	--	3.4	3.3
BZ	10/06	09:30	Vehicle Production (Anfavea)	SEP	--	--	325326.0
BZ	10/06	09:30	Vehicle Exports (Anfavea)	SEP	--	--	44878.0
BZ	10/06	09:30	Vehicle Sales (Anfavea)	SEP	--	--	327355.0
PE	10/06	19:00	<b>Reference Rate</b>	OCT	<b>4.25</b>	<b>4.25</b>	<b>4.25</b>
CO	OCT 6-11		Vehicle Sales	SEP	--	--	28500.0
CL	10/07	07:00	CPI (MoM)	SEP	--	0.5	0.2
CL	10/07	07:00	CPI (YoY)	SEP	--	3.3	3.2
CL	10/07	07:00	CPI Ex Perishables & Fuel (MoM)	SEP	--	--	0.2
CL	10/07	07:30	Total Exports (US\$ mns)	SEP	--	--	6880.0
CL	10/07	07:30	Total Imports (US\$ mns)	SEP	--	--	6389.0
CL	10/07	07:30	Copper Exports (US\$ mns)	SEP	--	--	3609.0
BZ	10/07	08:00	IBGE Inflation IPCA (MoM)	SEP	--	0.5	0.4
BZ	10/07	08:00	IBGE Inflation IPCA (YoY)	SEP	--	7.3	7.2

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

## Global Auctions for the week of October 3 - 7

## North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	10/03	11:00	U.S. Fed to Purchase USD2.75-3.50 Bln Notes/Bonds
US	10/03	11:30	U.S. to Sell 3-Month Bills
US	10/03	11:30	U.S. to Sell 6-Month Bills
US	10/04	11:30	U.S. to Sell 4-Week Bills
US	10/05	11:00	U.S. Fed to Purchase USD3.25-4.00 Bln Notes/Bonds

## Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
HU	10/03	05:30	Hungary to Sell 6-Week Bills
PD	10/03	06:00	Poland to Sell 51-Week T-bills
NE	10/03	06:00	Netherlands to Sell Bills
EC	10/03	09:30	ECB Calls for Bids in 7-Day Main Refinancing Tender
DE	10/04	04:15	Denmark to Sell Bonds
AS	10/04	05:00	Austria to Sell 4.15% 2037 Bonds
AS	10/04	05:00	Austria to Sell 3.5% 2015 Bonds
EC	10/04	05:15	ECB Announces Allotment in 7-Day Main Refinancing Tender
SZ	10/04	05:30	Switzerland to Sell 3-Month Bills
UK	10/04	05:30	U.K. to Sell GBP3.25 Bln 3.75% 2021 Bonds
BE	10/04	05:30	Belgium to Sell Bills
HU	10/04	05:30	Hungary to Sell 3-Month Bills
EC	10/05	03:15	ECB Calls for Bids in 7-Day Dollar Tender
HU	10/05	04:30	Hungary's Central Bank to Sell 2-Week Bills
EC	10/05	05:00	ECB Announces Allotment in 7-Day Dollar Tender
SW	10/05	05:10	Sweden to Sell Bonds
GE	10/05	05:15	Germany to Sell Add'l EU5 Bln 2-Year Notes
CZ	10/05	06:00	Czech Rep. to Sell CZK7 Bln 3.85% 2021 Bonds
RU	10/05	06:00	Russia to Sell Up to RUB10 Bln OFZ Notes
SP	10/06	04:30	Spain to Sell 3.4% 2014 Bonds
FR	10/06	05:00	France to Sell Bonds
HU	10/06	05:30	Hungary to Sell Bonds
PD	10/06	06:30	Poland to Hold Exchange Offer Auctions

## Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
JN	10/03	23:35	Japan to Sell 6-Month Bills
JN	10/03	23:45	Japan to Sell 10-Year Bond
JN	10/04	23:35	Japan to Sell 3-Month Bills
JN	10/06	04:00	Japan Auction for Enhanced-Liquidity

Source: Bloomberg, Scotia Economics.

## Events for the week of October 3 - 7

## North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	10/03	07:00	Fed's Fisher Speaks to CNBC
US	10/03	18:00	Fed's Lacker Speaks in Madison, Wisconsin
US	10/04	09:00	Fed Governor Raskin Speaks on Foreclosures
US	10/04	10:00	Fed Chairman Bernanke to Testify Before JEC
CA	10/06	00:00	Ontario Provincial Election
US	10/07	10:45	Fed's Lockhart Speaks on economy in Atlanta

## Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
AS	10/03	03:30	BIS's Caruana Speaks at OeNB Conference
AS	10/03	04:00	ECB's Nowotny Speaks at OeNB Conference
UK	10/03	04:30	Bank of England Publishes Record of Interim FPC Meeting
EC	10/03	06:45	EU Finance Officials Meet Labor, Employer Leaders
EC	10/03	09:30	IASB's Hoogervorst Speaks to European Parliament Committee
EC	10/03	11:00	Euro-Area Finance Ministers Meet in Luxembourg
EC	10/03	13:30	EU's Van Rompuy, Barroso Meet Brazil's Rousseff
NL	OCT 03-07		Parliament to Review Proposed EFSF Changes
MB	OCT 03-07		Parliament to Vote on Proposed EFSF Changes
EC	10/04	03:00	EU Finance Ministers Meet in Luxembourg
EC	10/04	03:00	EU's Rompuy, Barroso Conclude Meeting With Brazil's Rousseff
EC	10/04	09:00	Trichet Speaks to European Parliament Economic Committee
EC	10/04	10:45	European Supervisory Authority Heads Speak at EU Parliament
GE	10/04	12:00	Merkel Speech at Regional CDU Conference in Magdeburg
EC	10/04	18:00	EU's Barnier Meets With U.K.'s Vince Cable
EC	10/05	07:30	Germany's Merkel Visits European Commission in Brussels
UK	10/05	09:30	Cameron Speaks at Conservative Conference
EC	10/05	10:00	IMF's Borges, EU's Buti Speak at Think Tank
EC	10/05	11:30	Germany's Merkel, EU Parliament's Buzek Brief Press
EC	10/05	18:00	EU's Barnier Visits European Patent Office in Munich
BE	10/05	18:00	EU's Almunia Brussels economic conference on growth
GE	10/06	05:30	CDU's Business Council Presents Proposals on Economic Policy
GE	10/06	06:00	Merkel Attends Meeting of Eastern German State Leaders
UK	10/06	07:00	BOE Asset Purchase Target
UK	10/06	07:00	<b>BOE ANNOUNCES RATES</b>
EC	10/06	07:45	<b>ECB Announces Interest Rates</b>
EC	10/06	08:30	Trichet Speaks at ECB Monthly News Conference
GE	10/06	11:00	Merkel, IMF's Lagarde, ECB's Trichet Hold Currency Talks
PO	10/06		Bank of Portugal Publishes Autumn Economic Bulletin
EC	10/06		Finland's Katainen Meets EU's Barroso in Brussels
GE	OCT 06-07		German Economy Minister Roesler Leads Trade Visit to Athens
FI	10/07	03:00	EU's Olli Rehn Speaks in Helsinki
PO	10/07	04:00	Portuguese Finance Minister Speaks in Oporto
EC	10/07	11:00	EU's Barroso Gives Speech in Lausanne

## Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
AU	10/03	23:30	<b>RBA Cash Target</b>
JN	OCT 6-7		<b>BoJ Target Rate</b>

## Latin America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
CL	10/03	07:30	Central Bank Meeting Minutes
PE	10/06	19:00	<b>Reference Rate</b>

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	--

Despite the positive July GDP print, there remain several questions as to whether this will be sustainable, keeping real GDP in positive territory in Q3. While our official forecast continues to call for a print just above 1% for Q3 real GDP, there is a risk of a weaker result which could keep the Bank of Canada on the sidelines for slightly longer than we are currently expecting. In the U.S., unless the FOMC acts between set announcement dates, we won't likely witness a shift in monetary policy until at least November 2 with several Fed Presidents currently on the road explaining their views on operation twist and its implications.

## 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	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	6.00
Central Bank of the Republic of Turkey – 1 Week Repo Rate	5.75	October 20, 2011	5.75	--

We do not anticipate any change in the monetary stance by the Bank of England next week. We note, however, that the likelihood of a resumption of QE before the end of the year has increased considerably in recent weeks and months, given the increased downside risks to growth and inflation highlighted in the minutes of the September Monetary Policy Committee meeting. Similarly, we do not foresee any immediate policy adjustment by the European Central Bank's Governing Council, despite still elevated inflation, while the possibility of a rate hike by the end of 2011 or in the first quarter of 2012 has also risen substantially.

## 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	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	December 30, 2011	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	--

In the midst of global volatility, central banks will remain in wait-and-see mode. While the Bank of Japan has stayed on the sidelines in recent months, there is a likelihood of further amplification of the central bank's balance sheet in order to support reconstruction. The Reserve Bank of Australia, however, will require further evidence showing that price pressures are no longer a concern before withdrawing its hawkish view on inflation.

## 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	--
Banco Central de Reserva del Perú – Reference Rate	4.25	October 6, 2011	4.25	4.25

We anticipate that the central bank of Peru will maintain its neutral monetary policy stance, leaving the reference interest rate unchanged at 4.25%. The country's inflation rate remains slightly above the central bank's tolerance range (1%-3%), at 3.35% y/y in August, while inflation expectations increased in the latest survey. Additionally, current volatility in financial markets and the nation's currency depreciation in recent weeks suggest a more cautious reaction from the authorities.

## 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.

<b>Forecasts as at September 1, 2011</b>	<b>2000-09</b>	<b>2010</b>	<b>2011f</b>	<b>2012f</b>	<b>2000-09</b>	<b>2010</b>	<b>2011f</b>	<b>2012f</b>
<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	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
<b>Central Bank Rates (% end of period)</b>	<b>11Q1</b>	<b>11Q2</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	1.00	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
<b>Exchange Rates (end of period)</b>								
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
<b>Commodities (annual average)</b>	<b>2000-09</b>	<b>2010</b>	<b>2011f</b>	<b>2012f</b>				
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				

<sup>1</sup> World GDP for 2000-09 are IMF estimates; 2010e-12f are Scotia Economics' estimates based on a 2010 PPP-weighted sample of 38 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>11Q1</b>	<b>11Q2</b>	<b>Latest</b>	<b>United States</b>	<b>2010</b>	<b>11Q1</b>	<b>11Q2</b>	<b>Latest</b>
Real GDP (annual rates)	3.2	3.6	-0.4		Real GDP (annual rates)	3.0	0.4	1.3	
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	4.9	5.7	2.3	1.5 (Jul)	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	-5.2 (Aug)	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	1.3	
<b>Mexico</b>					<b>Brazil</b>				
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	-9.7 (Aug)	Merch. Trade Bal. (US\$B, ar)	20.2	12.6	39.2	23.4 (Sep)
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)
<b>Chile</b>					<b>Italy</b>				
Real GDP	5.2	10.0	6.8		Real GDP	1.2	1.0	0.8	
Current Acc. Bal. (US\$B, ar)	3.0	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	1.7 (Aug)	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)
<b>Germany</b>					<b>France</b>				
Real GDP	3.6	4.6	2.8		Real GDP	1.4	2.2	1.7	
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	6.9 (Sep)	Unemployment Rate (%)	9.8	9.7	9.7	9.9 (Aug)
CPI	1.1	2.1	2.3	2.6 (Sep)	CPI	1.5	1.8	2.1	2.2 (Aug)
<b>Euro Zone</b>					<b>United Kingdom</b>				
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 (Aug)	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)
<b>Japan</b>					<b>Australia</b>				
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	-0.8 (Aug)	Industrial Production	4.5	-4.7	-3.3	
Unemployment Rate (%)	5.1	4.7	4.6	4.3 (Aug)	Unemployment Rate (%)	5.2	5.0	4.9	5.3 (Aug)
CPI	-0.7	-0.5	-0.4	0.2 (Aug)	CPI	2.8	3.3	3.6	
<b>China</b>					<b>South Korea</b>				
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	4.8 (Aug)
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	5.1 (Aug)
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/23	Sep/30*		11Q1	11Q2	Sep/23	Sep/30*
<b>Canada</b>					<b>United States</b>				
BoC Overnight Rate	1.00	1.00	1.00	1.00	Fed Funds Target Rate	0.25	0.25	0.25	0.25
3-mo. T-bill	0.83	0.90	0.85	0.75	3-mo. T-bill	0.09	0.01	-0.01	0.02
10-yr Gov't Bond	3.35	3.11	2.08	2.17	10-yr Gov't Bond	3.47	3.16	1.83	1.93
30-yr Gov't Bond	3.76	3.55	2.71	2.80	30-yr Gov't Bond	4.51	4.37	2.90	2.96
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	64.3	(Aug)	FX Reserves (US\$B)	128.3	136.6	138.7	(Jul)
<b>Germany</b>					<b>France</b>				
3-mo. Interbank	1.26	1.51	1.50	1.51	3-mo. T-bill	0.80	1.18	0.41	0.39
10-yr Gov't Bond	3.35	3.03	1.75	1.89	10-yr Gov't Bond	3.71	3.41	2.56	2.61
FX Reserves (US\$B)	64.8	66.0	67.2	(Aug)	FX Reserves (US\$B)	61.0	60.3	56.5	(Aug)
<b>Euro-Zone</b>					<b>United Kingdom</b>				
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	1.04	1.06	3-mo. T-bill	4.85	4.85	4.85	4.85
FX Reserves (US\$B)	319.9	317.2	319.3	(Aug)	10-yr Gov't Bond	3.69	3.38	2.37	2.43
<b>Japan</b>					FX Reserves (US\$B)	75.3	79.7	82.5	(Aug)
Discount Rate	0.30	0.30	0.30	0.30	<b>Australia</b>				
3-mo. Libor	0.14	0.13	0.13	0.13	Cash Rate	4.75	4.75	4.75	4.75
10-yr Gov't Bond	1.26	1.14	0.99	1.03	10-yr Gov't Bond	5.49	5.21	4.02	4.22
FX Reserves (US\$B)	1080.6	1100.8	1173.9	(Aug)	FX Reserves (US\$B)	33.3	40.3	42.1	(Aug)

## Exchange Rates (end of period)

USDCAD	0.97	0.96	1.03	1.04	¥/US\$	83.13	80.56	76.61	77.11
CADUSD	1.03	1.04	0.97	0.96	US¢/Australian\$	103.29	107.22	97.79	97.39
GBPUSD	1.603	1.605	1.545	1.560	Chinese Yuan/US\$	6.55	6.46	6.39	6.38
EURUSD	1.416	1.450	1.350	1.343	South Korean Won/US\$	1097	1068	1167	1178
JPYEUR	0.85	0.86	0.97	0.97	Mexican Peso/US\$	11.905	11.714	13.560	13.834
USDCHF	0.92	0.84	0.91	0.91	Brazilian Real/US\$	1.632	1.563	1.834	1.855

## Equity Markets (index, end of period)

United States (DJIA)	12320	12414	10771	11062	U.K. (FT100)	5909	5946	5067	5087
United States (S&P500)	1326	1321	1136	1147	Germany (Dax)	7041	7376	5197	5476
Canada (S&P/TSX)	14116	13301	11463	11617	France (CAC40)	3989	3982	2810	2968
Mexico (Bolsa)	37441	36558	32588	33248	Japan (Nikkei)	9755	9816	8560	8700
Brazil (Bovespa)	68587	62404	53230	52717	Hong Kong (Hang Seng)	23528	22398	17912	17592
Italy (BCI)	1120	1039	747	802	South Korea (Composite)	2107	2101	1697	1770

## Commodity Prices (end of period)

Pulp (US\$/tonne)	990	1035	990	990	Copper (US\$/lb)	4.26	4.22	3.31	3.23
Newsprint (US\$/tonne)	640	640	640	640	Zinc (US\$/lb)	1.05	1.05	0.88	0.86
Lumber (US\$/mfbm)	290	237	255	240	Gold (US\$/oz)	1439.00	1505.50	1689.00	1620.00
WTI Oil (US\$/bbl)	106.72	95.42	79.85	80.39	Silver (US\$/oz)	37.87	35.02	32.90	30.45
Natural Gas (US\$/mmbtu)	4.39	4.37	3.70	3.72	CRB (index)	359.43	338.05	301.87	300.22

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

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**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.*