

# Global Views

Weekly commentary on economic and financial market developments

March 11, 2011

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### ***Asian Aftermath, Event Risk and the FOMC Top Next Week's Focal Points***

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

Event risk and the FOMC will dominate market attention in the week ahead. Because Japan's magnitude 8.9 earthquake hit near the Nikkei and overall Asian close on Friday, the Monday morning open will be the first full effort at assessing the damage to Japanese equity markets, the economy and global insurers, and is therefore likely to start Asia off on a negative note. The Bank of Japan issues its latest rate announcement on Tuesday, and doves will no doubt be flapping all around it with the possibility of additional or extended stimulus measures being weighed. That might be oriented toward countering the effect that capital repatriation has had on the yen immediately following the earthquakes. In other Asian markets, China's new yuan loans should soften up on tightening efforts, but will take a back-seat to concerns about Asian growth and stability as well as regional trade flows following the earthquake and tsunami. RBA minutes on Monday will also stray toward the dovish angle as the economy shakes off the effects of flooding and a cyclone that shut down its key coal industry. The Reserve Bank of India is expected to pause next Thursday, and such expectations will only be reinforced by the shock just imposed upon Asia.

Headline risk will also be focused on Saudi Arabia given an uncertain outcome to Friday's planned protests, and a planned repeat in a week's time. If the protests fizzle, Middle East worries should ease, but we'd be inclined to have risk off the table on Middle Eastern concerns for the week ahead.

Euro-area Finance Ministers also meet again early next week, with a focus on the March 24-25 EU Summit. German Chancellor Angela Merkel has recently commented that appeasing desires across peripheral economies such as Ireland for a lower interest rate on emergency loans is possible, but only in a quid pro quo sense with more European intrusion into domestic fiscal policies including corporate tax policy. We doubt this will be agreed to, and retain low expectations going into the Summit that is likely to disappoint peripheral spreads into month end, thus keeping European risks front and centre. Indicator risk is focused upon euro zone CPI, Germany's ZEW investor confidence survey, and UK jobs. The Norges Bank is expected to pause at 2%.

For US markets, Tuesday's FOMC carries the most risk. There has been some speculation of softening 'extended period' and/or 'exceptionally low' language, but we think such talk is arriving far too early. Removing or softening such references would be akin to a rate hike in terms of the market reaction as it would clearly be interpreted hawkishly. We don't think the tone of geopolitical risks and the outlook for the US and global economies justify such a shift as yet, nor has there been anywhere close to enough progress in striving toward achieving the Fed's dual mandate of price stability when inflation is so low, and full employment that requires a long string of solid nonfarm prints. Beyond the FOMC, US indicator risk is relatively low and focused on an expected slip in the Philly Fed manufacturing gauge, weak housing starts, and CPI that will reflect headline pressures but likely still very muted core pressures. There are no Treasury auctions.

If Canada steals any of the spotlight for itself, then Wednesday and Friday are the most likely days for that to occur. Be careful with the Friday CPI expectations as the numbers submitted by consensus are not seasonally adjusted, so part of the sizeable m/m jump that is expected reflects a transition away from post-holiday discounting toward relatively normalized pricing in February. Thus, the seasonally adjusted print released by StatsCan should not be as strong on a m/m basis. But another part of the picture could well be the creeping impact of rising commodity prices into some core components as raw material price increases get partially passed on. Against such forces, however, is our view that a spike in some prices is likely to be met by crowding out pricing power on discretionary spending items in a bid to trade off forces at work on trend core inflation. Wednesday's manufacturing shipments could also garner some attention as a fairly solid print is expected on the heels of a rise in exports, higher prices, mild domestic strengths, and especially via a stronger resumption of auto production after abnormally timed re-tooling and strong blizzard effects late last year.

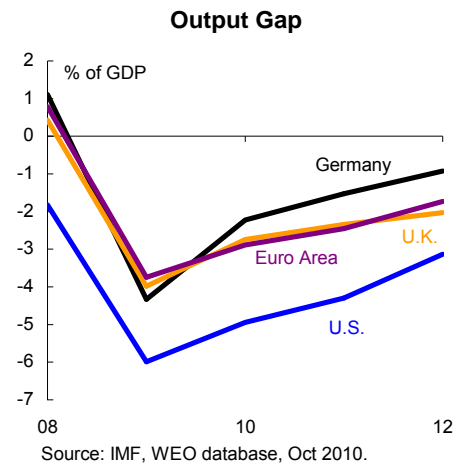
Latin American markets will be focused upon rate statements in Colombia and Chile that are both expected to hike, Argentina's latest inflation 10-handled inflation print that unfortunately only outsiders can comment upon for fear of being fined, and Brazilian retail sales.

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### **Narrowing Euro Zone Output Gap May Justify Earlier Monetary Tightening**

- **With inflationary pressures increasing and the regional output gap narrowing, euro zone policymakers may consider monetary tightening to be appropriate despite persistent financial instability stemming from ongoing sovereign credit turmoil.**

The euro zone's monetary authorities are becoming increasingly hawkish regarding the beginning of a monetary tightening cycle as regional inflationary pressures continue to pick up, with consumer price inflation hovering above the European Central Bank's (ECB) annual inflation target of "below, but close to, 2%". In fact, futures markets are pricing in a hike in the ECB's refinancing rate as early as in the second quarter of this year. As output gap estimations are an integral part of monetary policymaking in an inflation targeting framework, it is worthwhile assessing whether the ECB might use them to justify an early rate hike. Simple monetary policy rules, such as the Taylor rule and its variants, include an output gap — together with a deviation of inflation from its target — as key factors for revealing underlying inflationary pressures and determining an appropriate interest rate level for the corresponding phase of the economic cycle.

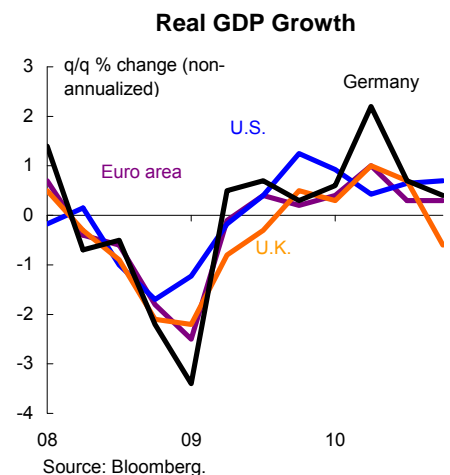


An output gap is defined as the difference between a country's actual and potential GDP; potential output is what the economy can produce sustainably at full capacity without creating inflationary pressures. The output gap is therefore an indicator of over or under-utilization of the economy's productive capacity in different stages of the business cycle. A negative output gap refers to a situation where actual production is lower than the economy's potential production capability, indicating that its resources are not optimally utilized. Meanwhile, a positive output gap implies that the economy's GDP is higher than what could sustainably be produced by its resources. A positive output gap is a leading indicator of increasing inflationary pressures.

While measuring actual output and its growth is fairly straightforward, estimating potential output expansion is more complicated. In the short-term, potential output growth can reflect changes in production inputs, i.e. capital and labour, and their productivity, adjustments in investment, as well as labour market inflexibilities. In the longer-term, potential output growth is primarily driven by population growth and productivity increases stemming from technological improvements.

The International Monetary Fund (IMF), the European Commission and the Organization for Economic Co-operation and Development (OECD) assess that potential growth in the euro zone fell significantly during the recession. The average annual rate of potential real GDP growth was estimated to be 1.9% in 2000-07, while in 2008-10 it had fallen to 0.9%.

The decline in the euro zone's potential output growth reflects smaller contributions from the labour and capital inputs. The recession increased the structural rate of unemployment — the NAIRU unemployment — and led to lower labour participation rates and to a decline in total hours worked (the euro zone jobless rate continues to hover around 10%). Meanwhile, the financial crisis caused a significant decrease in investment; in fact, tighter bank lending standards as a result of cyclical adjustments and regulatory reform may continue to slow investment growth over



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the next couple of years. These two deviations will likely recover in the medium-term; however, any adjustment to production capacity during a recession is likely to last for an extended period of time. The financial crisis triggered a considerable downsizing of some industries, particularly the financial and construction sectors that had been booming disproportionately during the prior up-turn. Moreover, a lasting impact on potential output can be caused by a depreciation of labour skills stemming from long-term unemployment. Another major factor affecting long-term potential output growth in the euro zone is its aging population, and consequently its lower overall contribution to output.

Despite the fact that the euro zone's GDP loss was larger than in the US during the recession and its pace of recovery has recently been slower, the IMF estimates that the current negative output gap in the euro zone is smaller than that of the US. This mainly reflects the fact that the euro zone's potential output is significantly lower. The ECB monetary policymakers may assess that the smaller output gap would justify an earlier process of interest rate normalization. Moreover, inflation in the euro zone will likely continue to exceed the ECB's inflation target in the coming months; we expect regional inflation to close the year at 2.4% y/y.

The table below shows the Taylor rule's suggestion for an approximation of the appropriate benchmark interest rate in the euro zone and Germany in order to bring annual inflation back to 2% in the medium term. The rule suggests that monetary tightening is indeed in order for the euro zone in 2011; nevertheless, it is worth noting that the Taylor rule is a very simplistic representation of the monetary policymaker's dilemma, and that its parameters remain under continuous debate among academia and monetary authorities worldwide.

**Benchmark Interest Rate for the Euro zone and Germany as Suggested by the Taylor Rule**

	2008	2009	2010	2011	2012
<b>Germany</b>	4.9	-1.8	0.8	2.9	2.8
<b>Euro zone</b>	5.4	-1.3	1.1	2.7	2.8

$$i_t = r^* + \pi_t + 0.5(\pi_t - \pi^*) + 0.5 x_t$$

where

$i_t$  is the interest rate in period  $t$

$r^*$  is an equilibrium real interest rate, estimated at 1.1% by Scotia Economics

$\pi_t - \pi^*$  is the inflation gap, where

$\pi_t$  is the rate of inflation and

$\pi^* \geq 0$  is a given inflation target of 2% and

$x_t$  is the output gap

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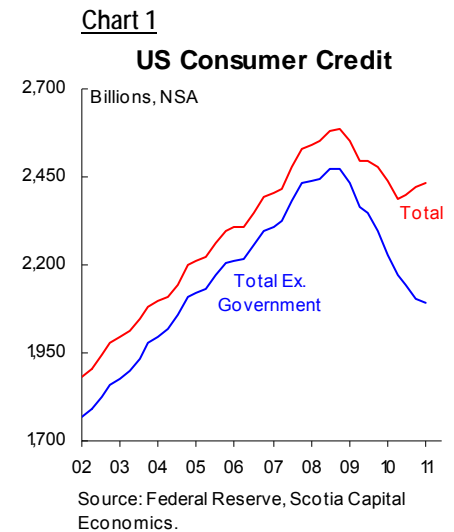
### US Consumers Continue To Deleverage

- **After controlling for two distortions that carry opposite influences, US households are still paying down debt. Ahead of the FOMC, this dovishly argues against viewing monetary policy as having done its job.**

Four consecutive months of growth in US consumer credit — excluding mortgages but including all other consumer loan products — may motivate one to declare that household deleveraging is over and done with, and in a manner that generates more optimism toward consumer spending. Not so fast. In fact, the pace of consumer credit reduction after controlling for two distortions is showing no improvement. We consider the impact of growth in federal government student loans, and the impact of charge-offs on outstanding debt balances.

#### Effects of Federal Government Student Loans

First, the reported recovery in consumer lending isn't occurring at private lenders. Indeed, where it is occurring doesn't necessarily signal positive developments in the economy. It is the federal government's education loans that are pushing consumer credit tallies higher. As chart 1 depicts, however, the drop in consumer credit would have been far more serious if not for the strong growth in this one category. Indeed, consumer credit would have tanked by an additional US\$232 billion and hence fallen by a cumulative US\$384 billion since the crisis unfolded had it not been for growth in student loans. As a consequence, the federal government's share of total consumer credit has risen from 3.9% at the end of 2007 to 14.1% currently — an all-time high. Note that there has been no recent improvement in ex-government loans.



On balance, this is not encouraging from the narrow standpoint of near-term growth. Consumers are borrowing to go back to school in slack labour markets, not to feed consumption through a private lending recovery. While that may be positive for long-run investment in skills, it is not positive for near-term consumption growth. Further, whether growth in education lending is positive depends in part upon whether the loans are being priced and collected more appropriately than in the past, and whether they are addressing areas of skill shortages versus compounding skill surpluses. That we'll leave to others to research.

#### Effects of Charge-offs

Second, a red herring in the debate is the sometimes noted hypothesis that if only one ignored the debts that lenders have charged off, then apart from individuals who have declared bankruptcy, the evidence would say that Main Street America is not paying down debt. This is simply not true. A paper by economists at the NY Federal Reserve argued against this hypothesis some time ago ([http://www.newyorkfed.org/newsevents/news/regional\\_outreach/2010/Q3\\_Supp\\_Report\\_2010.pdf](http://www.newyorkfed.org/newsevents/news/regional_outreach/2010/Q3_Supp_Report_2010.pdf)), but here we take a different approach and use loan and charge-off figures for all insured banks and thrifts from the Federal Deposit Insurance Corporation to demonstrate our point over the period since the summer of 2008 when loan balances peaked.

First, consider the mortgage book. Since 2008Q3 up to 2010Q4, cumulative mortgage and HELOC (personal credit lines secured against real estate) gross charge-offs have totalled \$132 billion. Over this same time period, outstanding mortgage and HELOC balances fell by \$264 billion. Ex-charge-offs, balances shrank by about \$132 billion. Therefore, over this period, 50% of the reduction in debt secured against real estate was not due to just charge-offs. That immediately dismisses the notion.

For consumer loans ex-cards and mortgages, gross charge-offs over this same period came to about \$50 billion and outstanding balances fell by just over \$47 billion. Ex-charge-offs, outstanding balances would

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have risen by only about \$2 billion. In other words, all of the reduction in consumer loans ex-cards and mortgages occurred through charge-offs, but there was no growth beyond that.

Evaluating credit cards is tricky because of accounting rule changes and the way some monolines were brought into the numbers including when they became banks to get the deposit insurance. This led to a large break in series in 2010Q1, and other data distortions since. We therefore pose as a risk that we are not capturing accurate statistics on the card segment, but card balances at FDIC-insured institutions only account for about 18% of total household debt.

Combining real estate linked debt products and consumer loans excluding credit cards, the cumulative write-offs come to \$181 billion, debt balances fell by \$312 billion, and hence the decline in balances excluding the charge-off effect came to \$130 billion.

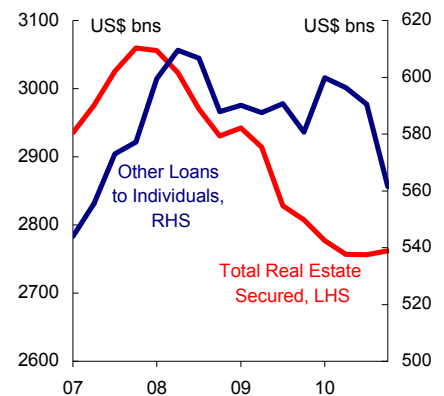
Chart 2 demonstrates the annual trend in balances on real estate linked debt and consumer loans excluding credit cards after adding back charge-offs to focus on what has happened to debt balances excluding bankruptcy effects. Both loan categories continue to decline, rejecting as a myth that the only reason why household debt has declined is due to write-offs.

Ahead of next week's meeting of the Federal Reserve and the ensuing statement, the implications for monetary policy are far different through our interpretation, than if a broadly based credit recovery were really underway. The evidence of a private sector led credit recovery is scant, and thus with it goes a need for caution over whether monetary policy is effectively addressing household credit destruction.

It is partly for this reason that we view loose talk of deleting "extended period" language in next week's FOMC statement as grossly premature. While there is a chance that Dallas Fed President Richard Fisher replaces Kansas City Federal Reserve President Thomas Hoenig as a dissenter on the FOMC, we expect little else by way of policy alterations next week as the Fed remains committed to completing its planned Treasury purchases.

**Chart 2**

**U.S. Household Deleveraging -  
After Controlling For Charge-offs**



Source: FDIC, Scotia Capital Economics.

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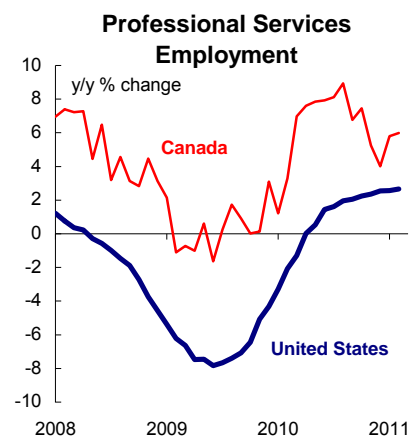
### North American Commercial Real Estate Gaining Traction

- **Commercial real estate in both Canada and the United States is gaining traction as expanding office-based employment lifts leasing demand and stabilizes rents, and strengthening consumer spending bolsters the retail market.**

Canadian office market activity has recovered faster than expected, with leasing demand underpinned by strengthening business confidence, strong corporate balance sheets, improved access to capital and rising office-based employment. Among the primary users of office space are finance & insurance, professional, scientific & technical services (a broad category that includes lawyers, accountants, engineers, consultants and software developers), and public administration. All three industries have been big generators of new jobs over the past year.

Despite substantial new supply in 2009-10, positive net absorption has helped stabilize vacancy rates in most major centres since mid-2010, supporting steady rents. The national central office vacancy rate, at 7.3% in 2010Q4, is at its tightest point in 25 years for the early stage of an expansionary cycle. Suburban office demand and rents have been slower to recover, with tenants opting for premium downtown space.

Vacancy rates and rents are expected to be fairly steady in 2011, with continued healthy leasing demand tempered by additional new supply, primarily in Calgary, Edmonton and Toronto. We anticipate continued strong employment growth in professional, scientific & technical services, particularly those geared toward the resurgent resource-based industries across the country. At the same time, the steady expansion in financial services payrolls over the past year and a half is showing signs of moderating, while further public sector hiring will be limited as fiscal repair gets underway.



Source: Statistics Canada, BLS.

Canadian retail market activity has also picked up, piggybacking on improving consumer confidence and strong household spending. Despite some expected cooling in consumer and housing activity this year, the industry's consistently strong performance is attracting considerable foreign expansion interest, both from the United States and abroad. Given relatively tight vacancy rates, significant new retail development is anticipated for 2011-12 following a brief decline in 2010.

The U.S. office recovery has lagged its major global counterparts, weighed down by weak job markets (so far only 15% of recessionary job losses have been recovered) and ongoing credit constraints, particularly for smaller firms. The national average vacancy rate appears to have peaked alongside a pickup in leasing demand among well-capitalized firms. However, it remains elevated at 14.4% in 2010Q4 (though well below the peaks of the early 1990s), keeping downward pressure on rents.

More promising is the notable acceleration in hiring in professional & business services. Of the 670,000 net new jobs created over the past five months, almost 40% have been in professional & business services (in contrast to Canada, employment conditions in financial services and among government agencies remain weak). This points to a further firming in leasing demand in 2011 and, combined with limited new construction beyond current projects, a stabilization in rents. Meanwhile, the outlook for the U.S. retail market is improving alongside strengthening consumer spending, with lower vacancy rates anticipated for 2011.

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### **Asian Central Banks Effectively Preempted Wage Inflation in 2010**

- **Real labour costs stabilized through end-2010, as rising inflationary pressures prompted early monetary normalization.**
- **Recently resumed credit tightening measures are likely to be as effective.**

Asia will remain global growth leader in 2011-12. This represents both an advantage and, within the current global setup, a disadvantage. As economies climb closer to full capacity utilization levels, home grown inflationary pressures are likely to collide with the recent global commodity uplift. Therefore, a quick rebound in economic activity has turned Asian countries into natural breeding grounds for inflation contamination.

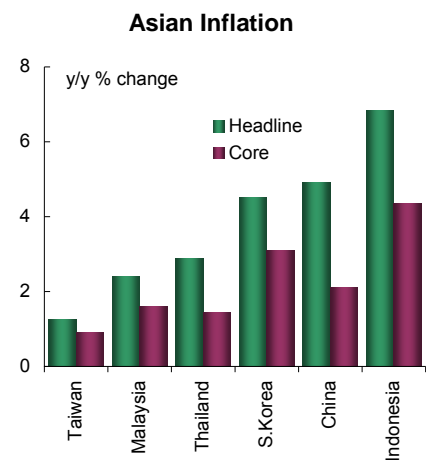
While the possibility of the emergence of a wage-price spiral in some countries within Asia remains latent, we find that amongst the countries with readily available data there is no straightforward evidence of such a threat given falling real wage gains through end-2010. Although the peak in real labour compensation is quite recent, we find this observation both consistent with the overall macroeconomic setup, and contrasting with the situation of alternative global growth leaders.

For the second time in less than four years, the world economy is being shocked by spiking commodity prices. After the late 2007- early 2008 jolt of rising corn prices, that led to historic gains in the value of pork meat in China, and culminated with peaking oil prices in mid-2008, global food and fuel costs are spiking up again. This time, supply constraints associated with weather abnormalities have combined with increased demand resulting from improving global economic conditions, with political turmoil in North Africa adding lately to the picture.

The present global cost scare could be more threatening in terms of its inflationary consequences, as the current commodity shock is striking as momentum in global economic activity is building, with demand in most regions growing on a sequential basis. This contrasts with the situation back in 2008, when the commodity price shock hit the world economy during its transition towards recession, with global economic momentum faltering. Therefore, this time around, countries operating closer to full capacity utilization levels are clearly more at risk of an inflationary spiral.

Evidence of mounting price pressures within Asia (we exclude India and Japan from the subsequent analysis) was apparent since the second half of 2009, with core inflation (excluding most volatile items and/or fuel and fuel costs) on an uptrend and reaching 2% in mid-2010. From then on, underlying inflationary pressures moved sideways to regain an uptrend only towards the end of last year. Therefore, evidence of pass-through from external price shocks into the core rate is undeniable. However, a casual look across a sub-set of countries still portrays headline inflation well ahead of measures of prices that exclude fuel and food costs. This implies that while there remains ground to be covered in the monetary re-normalization process, overall financial conditions have yet to become clearly misaligned with inflation containment.

Nevertheless, inflation expectations are likely to pickup as a result of the recent commodity spike, if they have not done so already. This leaves central banks ready to react to any evidence of transmission to expectations or core inflation in order to prevent a labour cost inflationary spiral. Central banks across Asia moved



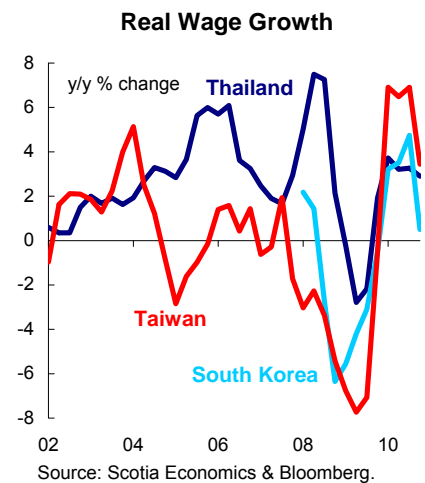
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preemptively in 2010, with Malaysia embarking in monetary tightening as early as March. Taiwan followed suit in June; South Korea and Thailand in July. All of these countries increased benchmark interest rates three times or more during last year. Given the rebound in core inflation, we expect them to remain active through the first-half of 2011.

Within the described context is there evidence of excessive nominal wage growth, or have policies effectively preempted an inordinate rise in inflation expectations? Labour cost data for South Korea, Taiwan and Thailand (the only countries where data is readily available) through December 2010 (latest observation) is presented in the adjacent chart. The labour cost compilation includes quarterly averages of nominal wages of regular employees in South Korea; manufacturing wages in Thailand, and average manufacturing sector earnings for Taiwan. All are deflated by the country's average quarterly CPI.

As can be observed real wages within Asia recovered solidly during 2009-10 as a result of the economic rebound. This is consistent with falling rates of unemployment for all of these countries through end-2010. Interestingly, however, real wage gains stabilized prior to the end of last year, with the peak in real compensation gains in South Korea and Taiwan brought about both by a fall in nominal labour costs as well as headline price increases. This was not the case in Thailand, where falling real wages resulted from nominal pay increasing less than the pickup in prices.



It is clear that the recent retrenchment in real wages is due in part to base effects, given we are focusing on yearly advances and labour compensation fell abruptly during the global recession. However, there seems to be little doubt, at least within these countries, that nominal wage gains were not running way ahead of headline inflation at least up to the end of last year. Monitoring these developments in coming months will be crucial given the pickup in core inflation due to the recent rebound in global food and fuel costs.

A final exercise contrasts this evidence with that of other latitudes. We attempt to do so by comparing with a country where the underlying fiscal and monetary setup differs. Given data availability we focused on Brazil where credit growth was higher at over 20% y/y, and the fiscal purse was less constrained in 2010.

Monetary conditions within the three Asian countries analyzed here are currently far from lax, with yearly overall credit growth up-trending but below 15% in Thailand and under 10% in South Korea and Taiwan (this implies lower average growth throughout 2010). Private demand for loans gathered pace only recently, as public sector impulses were still preeminent in the first half of 2010. Indeed, apart from monetary tightening these economies geared back towards fiscal austerity, with public balances as a share of GDP estimated to have fallen last year, and the fiscal austerity drive is expected to continue through 2012.



As can be observed from the adjacent chart real wage growth did not budge in Brazil through the fourth quarter of 2010, contrasting starkly with what was observed in the Asian economies.

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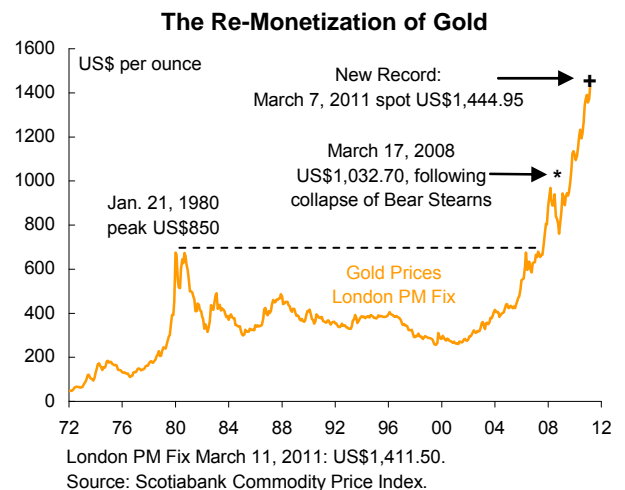
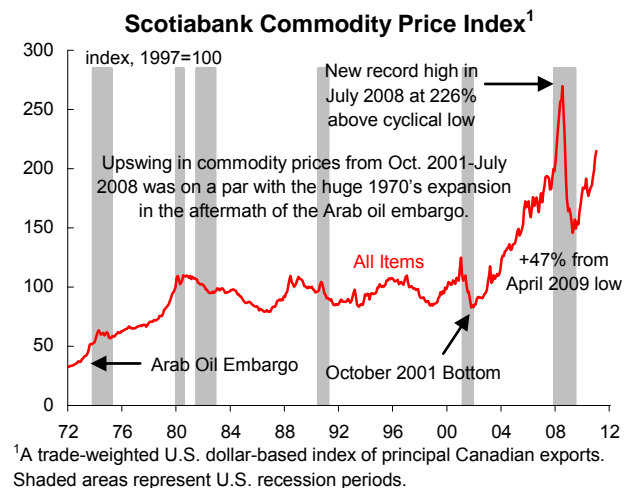
### **Palladium Likely To Outperform Gold In The Medium Term**

- **Strong auto sales in China and other 'emerging markets' will drive palladium prices higher.**

Spot gold prices hit a new record high of US\$1,444.95 per ounce in intraday trading on March 7, 2011, as investors rushed to 'safe-haven' assets. After retreating in January to a low of US\$1,331, gold prices have rebounded alongside unrest in Libya and concern that political upheaval could spread to other areas of North Africa and parts of the Middle East, disrupting oil supplies. However, the reaction in gold markets to these developments has been modest. The 'risk premium' on the debt of Greece, Spain and Portugal has also increased, after Moody's cut the debt ratings of Greece and Spain. While gold prices have eased back in recent days, the earthquake in Japan and concern over Euro-zone debt will likely underpin prices near-term and could send prices still higher.

Gold prices have been re-monetized in recent years by a loss of faith in paper currencies, linked to high government debt and deficits relative to GDP in the world's two reserve currencies (the U.S. dollar and the Euro). However, there is a risk that investor interest in gold could wane over the medium-term, once the Federal Reserve Board starts to lift the Fed funds rate (in early 2012 in Scotia Economics' forecast). Notwithstanding the decline in equity markets in recent days, the opportunity cost of holding gold has been rising, given the advance in U.S. equity markets and the prospect for higher bond yields ahead.

Palladium (a Platinum Group Precious Metal) may well outperform gold in the next two-to-three years, as occurred in 2010. Palladium demand is driven by auto catalytic converters for small, gasoline-fueled cars and light trucks. The 'emerging markets' of China and India will be auto growth markets, given vehicle penetration of only 45 per 1,000 people in China and a mere 14 in India compared with 782 in the United States. Though new car registrations will be cut in Beijing in 2011 to curb traffic congestion and China's vehicle sales tax will return to normal (after a period of lower rates to re-invigorate the economy), China's car sales will still advance by 10-15% in 2011, after a sizzling 33% in 2010. Emissions controls will also be tightened further in China in coming years, propelling demand for palladium. A Russian government stockpile will continue to close the gap between higher world consumption and lower mine supply in 2011, but this stockpile is dwindling.



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### Ottawa's Fiscal Restraint — How Tight Will It Seem?

- The federal government's measured restraint, largely delivered in fiscal 2011-12 (FY12) through unwinding the two-year stimulus, will affect most regions.

Ottawa's 2011-12 Main Estimates tabled in early March indicate a \$10.4 billion (-4.0%) reduction from last year's Estimates (see table and chart) that is primarily the result of the economic recovery and the end of the hefty two-year stimulus program as of March 2011. Major transfers are projected to be slightly lower in FY12 because a significant rise in transfers to other levels of government and the elderly will be matched by a decline in Employment Insurance benefits, given the phasing out of benefit enhancements and the cyclical decline in unemployment. Regional and industrial support programs to help limit the downturn have largely run their course, alongside some environmental initiatives.

Ottawa does reiterate its pledge to freeze for fiscal 2011-12 (FY12) and FY13 departmental Budgets at FY11 levels, requiring each Department to offset slated wage increases. Results of the review of its Internal Services Program Activity (the business services to support government operations) are expected in the upcoming Budget, as are the cost-savings from the latest year of strategic reviews, just completed. The government has ruled out reckless new spending, but this does not preclude modest new measures and reallocations.

The Provinces in FY12 will benefit from the 4.7% rise announced for their Major Transfers. Nevertheless, virtually all of Ottawa's one-time trust funds, such as the Police Officers Recruitment Fund, that together totaled \$1½ billion in FY10, have expired and few new trust funds are anticipated. From Budget 2007, that laid out a long-term infrastructure plan for FY08 to FY14 totalling \$37 billion, supplemented by several subsequent initiatives, considerable federal infrastructure money remains available to the Provinces over the next three years. This funding will be several times greater than the FY00-FY05 average of less than \$1 billion per annum, but a fraction of the \$7 billion and \$11 billion available to Provinces, Territories and municipalities in FY10 and FY11. The FY11 federal infrastructure funding was, in part, swollen by unspent resources in FY10, and FY12 will now receive some of this fiscal year's monies with permitted extensions to October 31, 2011, for projects well-started by March 2011 under the Infrastructure Stimulus Fund, the Building Canada Fund Communities Component Top-Up, the Knowledge Infrastructure Program and the Recreational Infrastructure Canada program. All Provinces met the conditions of the bonus top-up under the Communities Component of the Building Canada Fund, fully committing their initial funding and then submitting additional projects that could be completed by March 2011. A majority of Provinces did pull forward for FY10 and FY11 at least a portion of their FY12-FY14 Base Funding allocation.

Provinces also will notice diminishing social housing and federal asset investments over the next year, that Ottawa estimates totaled \$4.1 billion and \$1.7 billion, respectively during FY10 and FY11. In response, provincial governments and municipalities are reassessing their infrastructure plans in a post-stimulus world. For the latter, Public Sector Accounting Board standards now require tangible capital asset inventory reports and a voluntary infrastructure report card is proposed. The emphasis, previously on closing the infrastructure gap, is evolving to a focus on future priorities, reflecting the prospect of federal and provincial governments downsizing after unwinding their stimulus.

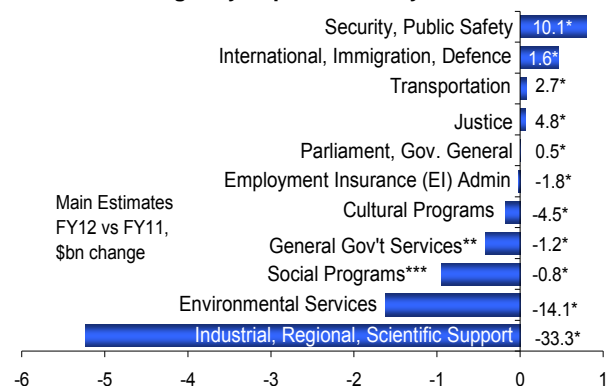
#### Main Estimates — Net Budgetary Expenditures

	FY11			FY12		Change	
	Main	Supplementary	Total	Main		Main FY11 vs	
			\$ bns			\$bns	%
Voted	96.2	8.6	104.8	91.8		-4.4	-4.6
Statutory Forecasts	165.0	-2.9	162.1	159.0		-6.0	-3.6
<b>Total</b>	<b>261.2</b>	<b>5.7</b>	<b>267.3 *</b>	<b>250.8</b>		<b>-10.4</b>	<b>-4.0</b>

\* Includes multi-year appropriation of \$0.4 billion.

Source: Federal Treasury Board, 2011-12 Main Estimates.

#### Net Budgetary Expenditures By Sector



\* FY12 vs FY11 % change. \*\* Includes transfers to Territories & Equalization. \*\*\* Includes EI and elderly benefits & Canada Health and Social Transfers. Source: Federal Treasury Board, 2011-12 Main Estimates.

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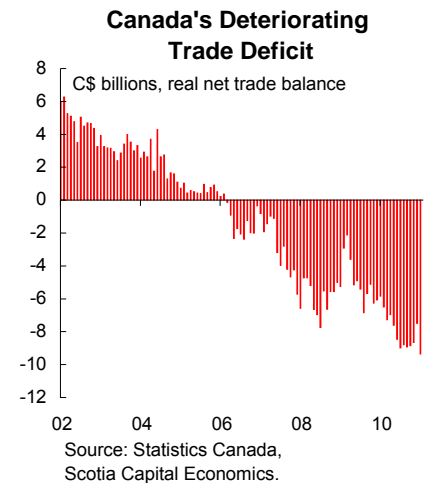
### Canada's Record Trade Deficit Lends Credence To BoC Concerns

- **Trade weighed heavily against January GDP growth, and the latest jobs report is a sour start for February GDP indicators.**

The Bank of Canada has attached significant importance to the risks facing the country's trade account. It flags much slower Canadian productivity growth relative to the US as one factor that has led to a deterioration in export competitiveness vis-à-vis the country's number one export market. It is also concerned about the impact of CAD appreciation upon export competitiveness.

Those concerns were vindicated in the January trade numbers. We normally don't focus on backward-looking indicators in our forward-looking weekly, leaving that instead to the day's hits. But it bears reinforcing that in price-adjusted terms that hone in upon the net volume of goods crossing the border in both directions, Canada just recorded the largest monthly trade deficit since at least the accounts were redefined in 2002 (see chart). This reversed much of the optimism that crept into the market after the December trade numbers showed a sizeable improvement in the net trade deficit.

In January, real imports grew 5.5% m/m, while real exports climbed a milder 1% m/m. That means the real trade deficit grew by 25% from a deficit of C\$7.5 billion in December to \$9.4 billion in January. Export growth was encouraging, but import leakages more than offset the effects.



Further, December GDP will be revised lower as the net trade figures for that month have been taken significantly lower. From an initially reported real gain of 6.6% m/m, December exports are now reported to have risen by 5.5%. Still solid, but lower than previously thought, and real imports for December were revised higher from an initially reported rise of 0.3% to 1.4% m/m now. Combined, the real trade balance posted a smaller than initially reported improvement in December. On top of a smart step backward in January, real net trade is not quite the positive driver of Canadian GDP growth that sparked excitement in the last report.

Should the net trade deterioration in January stick for the quarter with February and March posting similar real net trade balances, and based upon what we know happened to trade revisions in Q4, the very early read on real net trade sees it as a drag into Q1 with the real trade deficit rising 12% q/q non-annualized.

A positive partial offset is that a strong import gain in January suggests strength in the domestic economy. That's a bit exaggerated, however, in that much of the real import gain in January was distorted by a 16% m/m rise in auto imports that was entirely driven by higher volumes as prices fell a touch. This perhaps reflected catch-up following the impact of snowstorms that disrupted supply chains across the US north east. Other import evidence, however, did suggest a decent performance in the domestic economy, as energy import volumes picked up and so did machinery and equipment imports that suggest strength in business investment.

Bottom line? Trade account volatility leaves one of the BoC's key concerns intact, further reinforcing our view that the BoC is on hold until October of this year with a policy shift unlikely to be signaled in the April Monetary Policy Report in order to justify a Spring rate call. What added to this sentiment is that the February jobs report came in soft. A headline gain of 15,000 jobs only occurred because of a rise in part-time jobs while full-time jobs fell by 23,800. That translated into a quarter-point drop in hours worked in the month. Given that GDP equals hours worked times labour productivity, the country would need a strong gain in labour productivity and output measures in February to avoid a negative print for GDP.

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## Key Data Preview

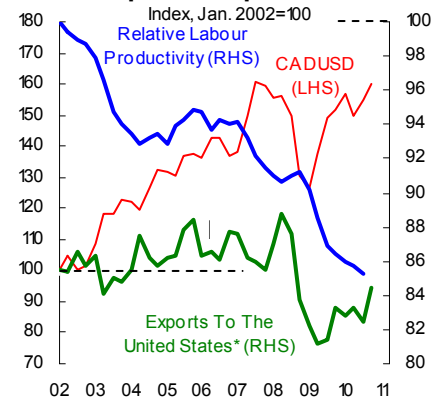
### CANADA

January's report showed a still-soft reading on CPI. The core inflation sits at 1.4% y/y (SA), well below the BoC's target rate of 2.0%. The headline index has been moving higher since late 2009, but the second derivative has been moderating since October, despite the ongoing boost by higher food and energy prices, which account for 26% of the consumer basket. Going forward, it will be tough for commodities to repeat the year-over-year gains made, creating a high base effect for the year-ahead readings into 2012. For February, we expect headline and core CPI (Friday) to post gains of 0.4% m/m each, on a pick up in gasoline and utility prices. New incentives may lowered vehicle prices marginally.

While the January GDP report is not up for release until March 31st, leading indicators are gradually trickling in, revealing a mixed bag of result. So far we know that housing starts contributed to growth, while hours worked remained flat and net trade acted as a strong drag.

Although our forecasting capability is limited by the lack of data available on domestic demand and inventories, we expect **manufacturing sales** (Wednesday) to have posted a gain of 1.0% m/m in January. Slower growth in export volumes was likely offset by ramped up auto production, following unseasonable plant shutdowns in December. For **wholesale trade** (Thursday), we are forecasting another month of decelerating growth. For both reports, however, the key readings will be the inflation-adjusted numbers that flow through to GDP.

### Cdn Export Competitiveness



\* Account for 70% of all exports. Source: Statistics Canada, Scotia Capital Economics.

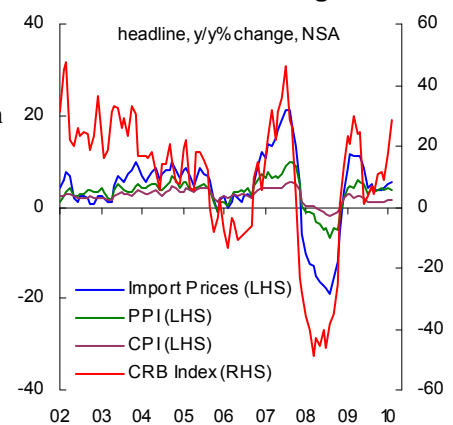
While the BoC continues to argue that “there is early evidence of a recovery in net exports” — supported by higher commodity prices and signs of recovery in the US economy — a strong Canadian dollar and poor relative labour productivity vis-à-vis our biggest trading partner, the United States, pose downside risks to growth (see chart 1). The fourth-quarter updates on **labour productivity** and **capacity utilization** are due out on Tuesday and Monday, respectively. We expect labour productivity to post a gain of 0.2% q/q — a pick-up over the prior quarter, as GDP increased by more than aggregate hours worked — but still below its US counterpart (+0.6%). We are looking for the capacity utilization rate to edge up to 79% from 78.1% in the prior quarter.

### UNITED STATES

Strip out food and energy, and core inflation (1.0% y/y) remains subdued, well below the Fed's target rate. In the current environment, higher commodity prices could act in a disinflationary manner, raising risk of crowding out discretionary spending. From a monetary policy standpoint, greater evidence of the price pass-through effect down the distribution chain is needed to ramp up pressure on the Fed to start raising rates (see chart 2). For the month of February, we believe that a pick-up in food and gasoline prices will push headline CPI (Thursday) up by 0.4% m/m, with a more modest core gain of 0.1% m/m, dampened by flat new vehicle prices and marginally softer cost for their used counterparts.

Next week, we will also get the February update on **industrial production** (Thursday), and the first of the regional manufacturing surveys (New York, Philadelphia) for March. We expect industrial production to post a gain of 0.5% m/m, boosted by a weak base effect from the prior month. Leading indicators (auto production, hiring activity, hours worked, regional surveys, weather conditions) reaffirm the view of ongoing recovery in US factory activity.

### The Price Pass-Through Effect



Source: BEA, BLS, Scotia Capital Economics.

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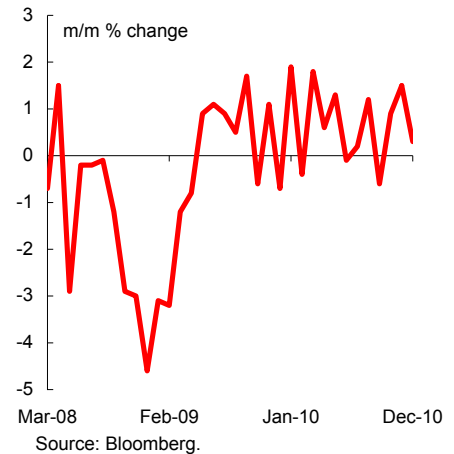
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## EUROPE

Euro zone industrial production data for January will be released on March 14th; we expect an advance of 0.6% m/m following a 0.3% gain in December. Germany and France have already reported favourable production activity, recording monthly gains of 1.8% and 1.0%, respectively, in January. However, major differences in economic performances remain in place between the euro zone core countries and the periphery.

Inflationary pressures continue to intensify in the euro zone. The final print of consumer price inflation in February will be released on March 16th. According to the “flash estimate”, headline inflation increased by 2.4% y/y last month, continuing to exceed the European Central Bank’s inflation target of “below, but close to, 2%”. We do not expect any major revisions to the preliminary data.

### Euro Zone Industrial Production



## ASIA

We expect wholesale price inflation in India to come down below 8% y/y in February. Primary goods prices fell in three out of four weeks during the month making it likely that overall price gains trended down. This would be the second month of down-trending inflation after the January pickup. While some of the downward correction is due to base effects, supply conditions within the country have also improved leading to less product scarcity. The Reserve Bank of India is likely to pause this month on the back of the favourable development in the inflationary outlook.

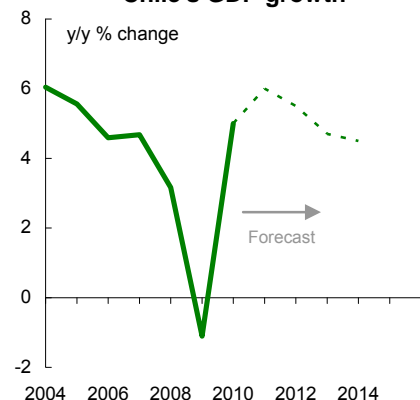
### India's Wholesale Price Inflation



## LATIN AMERICA

Chile will release its GDP numbers for the last quarter of 2010 on March 18<sup>th</sup>. We expect the Chilean economy to have grown by 5.0% in 2010 as a whole and 4.8% y/y in Q4. Growth expectations for next year remain around 6.0%, supported by high copper prices and increasing international demand for commodities. However, for the next couple of years, we anticipate Chilean growth to slow to around 5.0% on average. Also, other indicators such as retail sales in Brazil and Colombia, industrial production in Mexico and monetary policy announcements in Chile and Colombia will be relevant for the region next week.

### Chile's GDP growth



Source: Banco Central de Chile, Scotia Economics

## Key Indicators for the week of March 14 - 18

North America								
Country	Date	Time	Event	Period	BNS	Consensus	Latest	
CA	03/14	08:30	Capacity Utilization Rate	4Q	79.0	79.0	78.1	
MX	03/14	10:00	Industrial Production (MoM)	JAN	-	-	0.7	
CA	03/15	08:30	Labor Productivity (QoQ)	4Q	0.2	0.2	0.1	
US	03/15	08:30	Empire Manufacturing Index	MAR	17.0	16.0	15.4	
US	03/15	08:30	Import Price Index (MoM)	FEB	0.7	0.9	1.5	
US	03/15	09:00	Total Net TIC Flows (US\$ bn)	JAN	-	-	48.2	
US	03/15	10:00	NAHB Housing Market Index	MAR	16.0	17.0	16.0	
US	03/15	14:15	<b>FOMC Rate Decision</b>	15-Mar	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	
US	03/16	07:00	MBA Mortgage Applications (WoW)	11-Mar	-	-	15.5	
CA	03/16	08:30	Manufacturing Sales (MoM)	JAN	1.0	1.0	0.4	
US	03/16	08:30	Housing Starts (MoM)	FEB	-5.0	-3.5	14.6	
US	03/16	08:30	Building Permits (MoM)	FEB	1.0	1.2	-10.2	
US	03/16	08:30	Producer Price Index (MoM)	FEB	0.7	0.6	0.8	
US	03/16	08:30	PPI Ex Food & Energy (MoM)	FEB	0.2	0.2	0.5	
US	03/16	08:30	Current Account Balance (US\$ bn)	4Q	-110.3	-110.0	-127.2	
CA	03/17	08:30	Int'l Securities Transactions (C\$ bn)	JAN	-	-	9.6	
CA	03/17	08:30	Wholesale Sales (MoM)	JAN	0.5	-	0.8	
US	03/17	08:30	Consumer Price Index (MoM)	FEB	0.4	0.4	0.4	
US	03/17	08:30	CPI Ex Food & Energy (MoM)	FEB	0.1	0.1	0.2	
US	03/17	08:30	Consumer Price Index (YoY)	FEB	2.0	2.0	1.6	
US	03/17	08:30	CPI Ex Food & Energy (YoY)	FEB	1.1	1.0	1.0	
US	03/17	08:30	Initial Jobless Claims (000s)	12-Mar	389	385	397	
US	03/17	08:30	Continuing Claims (000s)	5-Mar	3780	3750	3771	
US	03/17	09:15	Industrial Production (MoM)	FEB	0.5	0.6	-0.1	
US	03/17	09:15	Capacity Utilization Rate	FEB	76.5	76.5	76.1	
US	03/17	10:00	Leading Indicators (MoM)	FEB	-	0.9	0.1	
US	03/17	10:00	Philadelphia Fed. Index	MAR	33.0	30.0	35.9	
CA	03/18	07:00	Consumer Price Index (MoM)	FEB	0.4	0.4	0.3	
CA	03/18	07:00	Consumer Price Index (YoY)	FEB	2.3	2.3	2.3	
CA	03/18	07:00	Bank Canada CPI Core (MoM)	FEB	0.4	0.5	0.0	
CA	03/18	07:00	Bank Canada CPI Core (YoY)	FEB	1.3	1.2	1.4	
MX	03/18	14:00	<b>Central Bank Monetary Policy Minutes</b>					

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

## Key Indicators for the week of March 14 - 18

Europe								
Country	Date	Time	Event	Period	BNS	Consensus	Latest	
SP	03/14	04:00	House transactions (YoY)	JAN	--	--	-1.7	
EC	03/14	06:00	Euro-Zone Ind. Prod. sa (MoM)	JAN	0.6	0.3	0.2	
FR	03/15	02:30	CPI - EU Harmonised (MoM)	FEB	-0.3	0.6	-0.3	
FR	03/15	02:30	CPI - EU Harmonised (YoY)	FEB	1.9	1.9	1.9	
SP	03/15	04:00	House Prices ToT Homes (QoQ)	4Q	--	--	-2.2	
UK	03/15	05:30	DCLG UK House Prices (YoY)	JAN	--	2.3	3.8	
EC	03/15	06:00	Eurozone Employment (QoQ)	4Q	--	--	0.0	
EC	03/15	06:00	ZEW Survey (Econ. Sentiment)	MAR	--	--	29.5	
GE	03/15	06:00	ZEW Survey (Econ. Sentiment)	MAR	--	15.8	15.7	
EC	03/16	03:00	EU 25 New Car Registrations (YoY)	FEB	--	--	-1.4	
SP	03/16	04:00	Labour Costs (YoY)	4Q	--	--	-0.3	
UK	03/16	05:30	ILO Unemployment Rate (3mths)	JAN	7.9	7.9	7.9	
UK	03/16	05:30	Jobless Claims Change (000s)	FEB	--	1.3	2.4	
EC	03/16	06:00	Euro-Zone CPI (MoM)	FEB	0.4	0.4	-0.7	
EC	03/16	06:00	Euro-Zone CPI (YoY)	FEB	2.4	2.4	2.3	
EC	03/16	06:00	Euro-Zone CPI - Core (YoY)	FEB	1.1	1.1	1.1	
EC	03/16	06:00	Euro-Zone Labour Costs (YoY)	4Q	--	1.0	0.8	
RU	MAR 16-17		Industrial Production (YoY)	FEB	--	7.5	6.7	
RU	MAR 16-17		Producer Prices (MoM)	FEB	--	1.0	2.1	
EC	03/17	06:00	Construction Output SA (MoM)	JAN	--	--	-1.8	
IT	03/17	06:00	Current Account (€ mn)	JAN	--	--	-5382.0	
RU	03/17		Gold & Forex Reserve (US\$ bn)	11-Mar	--	--	497.2	
GE	03/18	03:00	Producer Prices (MoM)	FEB	--	0.7	1.2	
FR	03/18	03:45	Wages (QoQ)	4Q F	--	--	0.2	
EC	03/18	05:00	ECB Euro-Zone Current Account SA (€ bn)	JAN	--	--	-13.3	
IT	03/18	05:00	Trade Balance (€ mn)	JAN	--	--	-2722.7	
EC	03/18	06:00	Euro-Zone Trade Balance SA (€ mn)	JAN	--	--	-2318.1	
IT	03/18	06:00	Industrial Orders SA (MoM)	JAN	--	--	5.4	

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

## Key Indicators for the week of March 14 - 18

## Asia Pacific

Country	Date	Time	Event	Period	BNS	Consensus	Latest
CH	MAR 13-15		New Yuan Loans (CNY bn)	FEB	--	600.0	1042.4
CH	MAR 13-18		Actual FDI (YoY)	FEB	--	--	23.4
TH	MAR 13-18		Total Car Sales (units)	FEB	--	--	68398.0
JN	03/14	00:30	Industrial Production (MoM)	JAN F	--	--	2.4
JN	03/14	01:00	Consumer Confidence Index	FEB	--	--	41.1
AU	03/14	20:30	<b>Reserve Bank's Board March Minutes</b>				
AU	03/14	20:30	New Motor Vehicle Sales (MoM)	FEB	--	--	-1.9
JN	MAR 14-15		<b>BOJ Target Rate</b>	15-Mar	<b>0.10</b>	<b>0.10</b>	<b>0.10</b>
NZ	MAR 14-16		REINZ Housing Price Index (MoM)	FEB	--	--	-2.6
SI	03/15	01:00	Retail Sales SA (MoM)	JAN	--	7.0	2.7
SK	03/15	19:00	Unemployment Rate SA	FEB	--	3.5	3.6
CH	03/15	22:00	Conference Board Leading Economic Index	JAN			
IN	03/17	02:30	<b>India REPO Cutoff Yld</b>	17-Mar	<b>6.50</b>	<b>6.75</b>	<b>6.50</b>
IN	03/17	02:30	Cash Reserve Ratio	17-Mar	--	6.00	6.00
IN	03/17	02:30	Reverse Repo Rate	17-Mar	--	5.75	5.50

## Latin America

Country	Date	Time	Event	Period	BNS	Consensus	Latest
BZ	03/14	07:30	Central Bank Weekly Economists Survey				
BZ	03/14	09:00	CNI Capacity Utilization Rate	JAN	--	--	82.8
BZ	03/14	10:00	Trade Balance (FOB) - Weekly (US\$ mn)	13-Mar	--	--	577.0
BZ	03/15	08:00	Broad Retail Sales (YoY)	JAN	--	--	14.8
BZ	03/15	08:00	Retail Sales (MoM)	JAN	--	0.8	0.0
BZ	03/15	08:00	Retail Sales (YoY)	JAN	--	8.4	10.1
PE	03/15		GDP NSA (YoY)	JAN	--	9.0	8.9
PE	03/15		Unemployment Rate	FEB	--	--	7.7
BZ	03/16	07:00	FGV CPI IPC-S (WoW)	15-Mar	--	--	0.6
BZ	03/16	07:00	FGV Inflation IGP-10 (MoM)	MAR	--	0.9	1.0
CO	03/16	17:00	Trade Balance (US\$ mn)	JAN	--	--	81.4
CO	03/17	17:00	Industrial Production (YoY)	JAN	--	5.2	4.0
CO	03/17	17:00	Retail Sales (YoY)	JAN	--	12.8	12.4
CL	03/17	18:00	<b>Nominal Overnight Target Rate</b>	17-Mar	<b>3.75</b>	<b>3.75</b>	<b>3.50</b>
CL	03/18	08:30	Current Account (US\$ mn)	4Q	--	945.0	-416.4
CL	03/18	08:30	Gross Domestic Product YoY	4Q	4.8	5.6	7.0
CL	03/18	08:30	GDP (Annual Growth Rate)	2010	5.0	5.6	-1.5
CO	03/18		<b>Overnight Lending Rate</b>	18-Mar	<b>3.50</b>	<b>3.50</b>	<b>3.25</b>

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

## Global Auctions for the week of March 14 - 18

## North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	03/14	11:30	U.S. to Sell USD62 Bln 3-Month Bills
US	03/14	11:30	U.S. to Sell USD30 Bln 6-Month Bills
CA	03/15	10:30	Canada to Sell CAD6.8 Bln 98-Day Bills
CA	03/15	10:30	Canada to Sell CAD2.6 Bln 182-Day Bills
CA	03/15	10:30	Canada to Sell CAD2.6 Bln 364-Day Bills
US	03/15	11:30	U.S. to Sell 4-Week Bills

## Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
NO	03/14	06:00	Norway to Sell NOK5 Bln 371-Day Bills
GE	03/14	06:15	Germany to Sell EU5 Bln 6-Mth Bills
FR	03/14	10:00	France to Sell EUR4 Bln 84-Day Bills
FR	03/14	10:00	France to Sell EUR1.5 Bln 175-Day Bills
FR	03/14	10:00	France to Sell EUR2 Bln 357-Day Bills
UK	MAR 14-18		U.K. Mini Tender Gilt Cancelled
SZ	03/15	06:30	Switzerland to Sell 3-Month Bills
BE	03/15	07:00	Belgium to Sell Bills
SW	03/16	06:10	Sweden to Sell SEK5 Bln 89-Day Bills
SW	03/16	06:10	Sweden to Sell SEK5 Bln 187-Day Bills
GE	03/16	06:15	Germany to Sell Add'l EU6 Bln 2-Year Notes
HU	03/16	06:30	Hungary to Sell 3-Month Bills
PO	03/16	06:30	Portugal's IGCP Holds Auction of Bills Due March 2012
PO	03/16	06:30	Portugal to Sell Up to EUR1 Bln 371-Day Bills
RU	03/16	07:00	Russia to Sell Up to RUB30 Bln OFZ Bonds
SP	03/17	05:30	Spain to Sell 5.5% 2021 Bonds
FR	03/17	06:00	France to Sell Bonds/Notes
SW	03/17	06:10	Sweden to Sell SEK750 Mln 0.5% I/L 2017 Bonds
HU	03/17	06:30	Hungary to Sell 12-Month Bills
UK	03/17	06:30	U.K. to Sell GBP2.75 Bln 3.75% 2021 Bonds
UK	03/18	07:10	U.K. to Sell Bills

Source: Bloomberg, Scotia Economics.

## Global Auctions for the week of March 14 - 18

## Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
SK	03/13	22:30	Korea to Sell KRW2.2 Tln 5-Year Bonds
JN	03/13	23:35	Japan to Sell 1-Year Bills
MA	03/14	00:00	Malaysia to Sell MYR4 Bln 5.5-Year Bonds
SI	03/14	00:00	Singapore To Sell S\$3.9 billion 91-Day T-Bills
TA	03/14	00:30	Taiwan to Sell TWD40 Bln 10-Year Bonds
TH	03/14	23:00	Bank of Thailand to Sell THB25 Bln 32D Bills
TH	03/14	23:00	Bank of Thailand to Sell THB20 Bln 91D Bills
TH	03/14	23:00	Bank of Thailand to Sell THB12 Bln 182D Bills
HK	03/14	23:30	Hong Kong to Sell HK\$27.565 Bln 91-Day Bills
HK	03/14	23:30	Hong Kong to Sell HKD9 Bln 182-Day Bills
PH	03/15	01:00	Philippines to Sell PHP 9 Bln 10-Yr Govt Bonds
TH	03/15	23:00	Thailand to Sell THB6 Bln Bonds due 2031
TH	03/15	23:00	Thailand to Sell THB8 Bln FRN due 2014
CH	03/15	23:00	China Government to Sell CNY30 Bln 10-Year Bonds
JN	03/15	23:35	Japan to Sell 3-Month Bills
JN	03/15	23:45	Japan to Sell 20-Year Bond
MA	03/16	00:00	Bank Negara to Sell MYR1.5 Bln Islamic Notes
MA	03/16	00:00	Bank Negara to Sell MYR1.5 Bln 210-Day Notes
MA	03/16	00:00	Bank Negara to Sell MYR2 Bln 210-Day Notes
IN	03/16	07:30	India to Sell INR 50Bln 91-Day Bills
IN	03/16	07:30	India to Sell INR 20Bln 182-Day Bills
NZ	03/16	21:30	New Zealand Plans to Sell Government Bonds
MA	03/17	00:00	Malaysia to Sell MYR100 Mln 181-Day Bills
TH	03/17	23:00	Bank of Thailand to Sell THB15 Bln 2-Year FRN
HK	03/17	23:30	Hong Kong to Sell HKD1.2 Bln 1.67% 3-Year Notes
HK	03/17	23:30	Hong Kong to Sell HKD1 Bln 1.91% 5-Year Notes

Source: Bloomberg, Scotia Economics.

## Events for the week of March 14 - 18

## North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	03/15	14:15	FOMC Rate Decision
US	03/16	07:30	Fed's Parkinson Addresses American Bankers Association

## Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
GE	03/12	06:00	Merkel at Rhineland-Palatinate Election Rally: Frankenthal
GE	03/12	09:00	Merkel at Rhineland-Palatinate Election Rally: Bad Kreuznach
GE	03/12	11:00	Schaeuble At Baden-Wuerttemberg Election Rally: Loerrach
GE	03/12	13:30	Schaeuble At Baden-Wuerttemberg Election Rally: Freiburg
GE	03/14	08:00	Bundesbank Weber at Hearing on EU Econ, Budget Coordination
EC	03/14	12:00	Euro-Area Finance Ministers Meet in Brussels
IT	03/14	14:30	ECB's Executive Board Member Bini Smaghi Speaks in Florence
LV	03/14		Latvia Refinancing Rate
EC	03/15	04:00	EU Finance Ministers Meet in Brussels
EC	03/15	04:15	EU's Van Rompuy Takes Part in Debate on EC Governance
EC	03/15	04:30	EU's Barroso Speaks at Lisbon Council Conference
GE	03/15	13:00	ECB's Tumpel-Gugerell Speaks in Stuttgart, Germany
GE	03/16	04:30	German Cabinet Debates Outline of 2012 Federal Budget
IC	03/16	05:00	Sedlabanki Interest Rate
NO	03/16	09:00	Norwegian Deposit Rates
GE	03/16	12:00	Merkel At Baden-Wuerttemberg Election Rally: Waldshut
GE	03/16	14:00	Merkel At Baden-Wuerttemberg Election Rally: Offenburg
SZ	03/17	04:30	SNB 3-Month Libor Target Rate
GE	03/17	12:30	Germany's Schaeuble Speaks on Economic Governance, Berlin
EC	MAR 17-18		EU Agriculture Ministers Meet in Brussels
EC	03/18	05:00	EU's Van Rompuy Speaks on Lisbon Treaty
GE	03/18	10:00	Schaeuble At Baden-Wuerttemberg Election Rally: Lahr
GE	03/18	13:00	Schaeuble at Baden-Wuerttemberg Election Rally: Offenburg
GE	03/18	14:30	Schaeuble At Baden-Wuerttemberg Election Rally: Ettenheim

## Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
AU	03/14	18:00	RBA's Debelle Speaks at the Australian DCM Summit in Sydney
AU	03/14	20:30	Reserve Bank's Board March Minutes
JN	MAR 14-15		BOJ Target Rate
JN	03/17	19:50	BOJ to Release Feb. 16-17 Board Meeting Minutes

## Latin America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
CL	03/17	18:00	Nominal Overnight Lending Target Rate
CO	03/18		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	April 12, 2011	1.00	--
Federal Reserve – Federal Funds Target Rate	0.25	March 15, 2011	0.25	--
Banco de México – Overnight Rate	4.50	April 15, 2011	4.50	--

We expect for the Fed to remain on hold until at least 2012Q1, finding speculations that it may drop the 'extended period' phrase premature. The accompanying statement may reveal any new dissenters and any changes to the pace of Treasury purchases. Disappointing trade data vindicate BoC concerns - and ours - over the uncertainty facing the direction of Canadian trade through a loss of export competitiveness.

## 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	1.00	April 7, 2011	1.00	1.25
Bank of England – Bank Rate	0.50	April 7, 2011	0.50	0.50
Swiss National Bank – Libor Target Rate	0.25	March 17, 2011	0.25	0.25
Central Bank of Russia – Refinancing Rate	8.00	March 25, 2011	8.25	--
Hungarian National Bank – Base Rate	6.00	March 28, 2011	6.00	6.00
Central Bank of the Republic of Turkey – 1 Week Repo Rate	6.25	March 23, 2011	6.25	--

In the context of elevated volatility and substantial uncertainty surrounding euro zone sovereign debt, as well as the ongoing turmoil in the Middle East, we do not think that the ECB can justify raising the benchmark interest rate in April.

## 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	March 15, 2011	0.10	0.10
Reserve Bank of Australia – Cash Target Rate	4.75	April 4, 2011	4.75	4.75
Reserve Bank of New Zealand – Cash Rate	2.50	April 27, 2011	3.00	--
People's Bank of China – Lending Rate	6.06	TBA	6.06	--
Reserve Bank of India – Repo Rate	6.50	March 17, 2011	6.50	6.75
Hong Kong Monetary Authority – Base Rate	0.50	TBA	0.50	--
Bank Negara Malaysia – Overnight Policy Rate	2.75	May 5, 2011	2.75	--
Bank of Korea – Bank Rate	3.00	April 11, 2011	3.00	--
Bank of Thailand – Repo Rate	2.50	April 20, 2011	2.50	--
Bank Indonesia – Reference Interest Rate	6.75	April 12, 2011	6.75	--

The Reserve Bank of India will leave the benchmark repo rate stable after its next monetary policy meeting. Wholesale price inflation has been on a downward trend, with weekly observations for February depicting falling prices during three of the four weeks of the month. After the earthquake and tsunami, the Bank of Japan is likely to broaden its credit injections to support a speedy recovery.

## 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	11.75	April 20, 2011	12.25	11.75
Banco Central de Chile – Overnight Rate	3.50	March 17, 2011	3.75	3.75
Banco de la República de Colombia – Lending Rate	3.25	March 18, 2011	3.50	3.50
Banco Central de Reserva del Perú – Reference Rate	3.75	April 7, 2011	3.75	--

On the back of rising inflationary expectations, which increased from 4.00% to 4.40% for the end of the year according to February's survey, we expect the Chilean central bank to maintain its monetary policy stance and hike rates by 25 basis points to 3.75%. Colombia, in a surprising move started its monetary policy tightening by making its first rate increase in February, as a result of rising food and oil prices; thus we expect another hike of 25 basis points to 3.50% in March.

## 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	March 24, 2011	5.50	--

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

	2000-09	2010e	2011f	2012f	2000-09	2010e	2011f	2012f
<b>Output and Inflation (annual % change)</b>	<b>Real GDP</b>				<b>Consumer Prices<sup>2</sup></b>			
World <sup>1</sup>	3.6	4.9	4.4	4.4				
Canada	2.1	3.1	3.1	2.6	2.1	1.8	2.4	2.2
United States	1.8	2.8	3.0	2.7	2.6	1.6	1.9	1.8
Mexico	1.9	5.5	4.3	3.8	4.9	4.4	4.1	4.0
United Kingdom	2.7	1.3	1.4	1.7	2.2	3.7	3.6	2.9
Euro zone	1.2	1.7	1.4	1.6	2.1	2.2	2.4	2.3
Japan	0.7	3.4	1.6	2.7	-0.3	-0.5	0.1	1.0
Australia	3.0	3.0	3.5	3.3	3.2	3.0	2.8	2.5
China	10.2	10.3	9.5	9.7	2.0	3.5	4.5	4.0
India	7.2	8.7	8.5	8.8	5.7	8.4	7.0	5.0
Korea	4.5	5.8	5.5	5.3	3.2	3.0	3.3	3.0
Brazil	2.9	7.6	5.5	5.0	6.6	5.9	5.2	5.0
Chile	3.7	5.0	6.0	5.5	3.4	3.7	3.5	3.0
Peru	5.1	8.5	6.8	7.2	2.5	2.4	3.0	3.0
<b>Central Bank Rates (% , end of period)</b>	<b>11Q1f</b>	<b>11Q2f</b>	<b>11Q3f</b>	<b>11Q4f</b>	<b>12Q1f</b>	<b>12Q2f</b>	<b>12Q3f</b>	<b>12Q4f</b>
Bank of Canada	1.00	1.00	1.00	1.50	2.00	2.25	2.25	2.25
Federal Reserve	0.25	0.25	0.25	0.25	0.75	1.25	1.75	2.00
European Central Bank	1.00	1.00	1.00	1.25	1.50	1.75	2.00	2.25
Bank of England	0.50	0.50	0.50	0.75	1.00	1.25	1.50	1.75
Swiss National Bank	0.25	0.25	0.25	0.50	0.50	0.75	0.75	1.00
Bank of Japan	0.10	0.10	0.10	0.10	0.10	0.25	0.25	0.50
Reserve Bank of Australia	5.00	5.00	5.25	5.50	5.75	6.00	6.25	6.50
<b>Exchange Rates (end of period)</b>								
Canadian Dollar (USDCAD)	0.98	0.97	0.96	0.95	0.95	0.94	0.93	0.92
Canadian Dollar (CADUSD)	1.02	1.03	1.04	1.05	1.05	1.06	1.08	1.09
Euro (EURUSD)	1.35	1.37	1.38	1.39	1.39	1.41	1.43	1.45
Sterling (GBPUSD)	1.58	1.60	1.61	1.63	1.65	1.67	1.69	1.70
Yen (USDJPY)	82	83	84	84	86	87	89	90
Australian Dollar (AUDUSD)	1.03	1.05	1.06	1.08	1.07	1.08	1.09	1.10
Chinese Yuan (USDCNY)	6.5	6.4	6.2	6.1	6.0	5.9	5.8	5.8
Mexican Peso (USDMXN)	12.2	12.2	12.2	12.5	12.6	12.5	12.6	12.8
Brazilian Real (USDBRL)	1.67	1.68	1.69	1.70	1.71	1.72	1.74	1.75
<b>Commodities (US\$, annual average)</b>	<b>2000-09</b>	<b>2010</b>	<b>2011f</b>	<b>2012f</b>				
WTI Oil (/bbl)	51	80	97	100				
Brent Oil (/bbl)	50	80	110	112				
Nymex Natural Gas (/mmbtu)	5.95	4.40	4.40	4.75				
Copper (/lb)	1.78	3.42	4.30	4.00				
Zinc (/lb)	0.73	0.98	1.09	1.09				
Nickel (/lb)	7.11	9.89	10.90	8.75				
Gold, London PM Fix (/oz)	522	1,225	1,425	1,350				
Pulp (/tonne)	668	960	945	935				
Newsprint (/tonne)	572	607	675	710				
Lumber (/mfbm)	275	254	265	300				

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

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

Canada	2010	10Q3	10Q4	Latest	United States	2010	10Q3	10Q4	Latest
Real GDP (annual rates)	3.1	1.8	3.3		Real GDP (annual rates)	2.8	2.6	2.8	
Current Acc. Bal. (C\$B, ar)	-50.0	-67.9	-44.2		Current Acc. Bal. (US\$B, ar)		-509		
Merch. Trade Bal. (C\$B, ar)	-9.1	-26.1	0.1	1.4 (Jan)	Merch. Trade Bal. (US\$B, ar)	-647	-683	-625	-717 (Jan)
Industrial Production	4.7	7.9	5.9	6.3 (Dec)	Industrial Production	5.8	6.9	5.9	5.1 (Jan)
Housing Starts (000s)	192	192	179	182 (Feb)	Housing Starts (millions)	0.59	0.59	0.53	0.60 (Jan)
Employment	1.4	1.8	1.7	1.9 (Feb)	Employment	-0.8	-0.1	0.5	1.0 (Feb)
Unemployment Rate (%)	8.0	8.0	7.7	7.8 (Feb)	Unemployment Rate (%)	9.6	9.6	9.6	8.9 (Feb)
Retail Sales	5.1	3.7	4.7	4.9 (Dec)	Retail Sales	6.9	6.1	8.1	9.5 (Feb)
Auto Sales (000s)	1559	1609	1556	1513 (Dec)	Auto Sales (millions)	11.5	11.6	12.3	13.4 (Feb)
CPI	1.8	1.8	2.3	2.3 (Jan)	CPI	1.6	1.2	1.3	1.6 (Jan)
IPPI	1.0	1.0	2.6	-2.7 (Jan)	PPI	4.2	3.8	3.9	3.6 (Jan)
Pre-tax Corp. Profits	18.4	15.3	16.2		Pre-tax Corp. Profits		34.8		
<b>Mexico</b>					<b>Brazil</b>				
Real GDP	5.5	5.3	4.6		Real GDP	6.7	5.9	4.2	
Current Acc. Bal. (US\$B, ar)	-5.7	-7.7	-14.5		Current Acc. Bal. (US\$B, ar)	-47.5	-45.6	-47.9	
Merch. Trade Bal. (US\$B, ar)	-3.1	-9.2	-4.6	0.8 (Jan)	Merch. Trade Bal. (US\$B, ar)	20.3	19.6	30.1	14.4 (Feb)
Industrial Production	6.1	6.2	4.7	4.9 (Dec)	Industrial Production	10.5	8.1	3.5	1.9 (Jan)
CPI	4.2	3.7	4.2	3.6 (Feb)	CPI	5.1	5.0	6.1	6.9 (Feb)
<b>Argentina</b>					<b>Italy</b>				
Real GDP		8.6			Real GDP	1.2	1.4	1.5	
Current Acc. Bal. (US\$B, ar)		3.6			Current Acc. Bal. (US\$B, ar)	-0.07	-0.05	-0.07	-0.09 (Dec)
Merch. Trade Bal. (US\$B, ar)	12.1	12.0	6.2	6.2 (Jan)	Merch. Trade Bal. (US\$B, ar)	-36.5	-22.9	-44.1	-43.2 (Dec)
Industrial Production	9.7	9.3	10.6	10.3 (Jan)	Industrial Production	5.4	6.3	4.1	0.9 (Jan)
CPI	66.4	89.8	54.9	0.0 (Jun)	CPI	1.6	1.6	1.8	2.1 (Jan)
<b>Germany</b>					<b>France</b>				
Real GDP	3.5	3.9	4.0		Real GDP	1.7	2.0	1.7	
Current Acc. Bal. (US\$B, ar)	172.6	149.8	231.9	115.4 (Jan)	Current Acc. Bal. (US\$B, ar)	-52.7	-41.8	-88.6	-60.9 (Jan)
Merch. Trade Bal. (US\$B, ar)	201.5	207.6	219.8	189.3 (Jan)	Merch. Trade Bal. (US\$B, ar)	-38.7	-42.0	-38.3	-52.9 (Jan)
Industrial Production	10.0	10.2	11.5	12.4 (Jan)	Industrial Production	5.8	5.1	5.3	6.6 (Dec)
Unemployment Rate (%)	7.7	7.6	7.5	7.3 (Feb)	Unemployment Rate (%)	9.8	9.7	9.7	9.6 (Jan)
CPI	1.1	1.2	1.5	2.1 (Feb)	CPI	1.5	1.5	1.6	1.8 (Jan)
<b>Euro Zone</b>					<b>United Kingdom</b>				
Real GDP	1.7	1.9	2.0		Real GDP	1.3	2.5	1.5	
Current Acc. Bal. (US\$B, ar)	-77	-43	-41	-2 (Dec)	Current Acc. Bal. (US\$B, ar)		-63.9		
Merch. Trade Bal. (US\$B, ar)	0.0	43.0	53.2	43.8 (Dec)	Merch. Trade Bal. (US\$B, ar)	-151.4	-159.3	-169.6	-133.6 (Jan)
Industrial Production	7.2	7.1	8.0	8.8 (Dec)	Industrial Production	2.0	3.0	3.3	4.5 (Jan)
Unemployment Rate (%)	9.9	9.9	9.9	9.9 (Jan)	Unemployment Rate (%)		7.8		7.9 (Nov)
CPI	1.6	1.7	2.0	2.3 (Jan)	CPI	3.3	3.1	3.4	4.0 (Jan)
<b>Japan</b>					<b>Australia</b>				
Real GDP	4.0	4.7	2.5		Real GDP	2.7	2.7	2.7	
Current Acc. Bal. (US\$B, ar)	194.8	227.5	172.5	67.1 (Jan)	Current Acc. Bal. (US\$B, ar)	-31.8	-29.2	-34.4	
Merch. Trade Bal. (US\$B, ar)	77.7	90.7	80.9	27.9 (Jan)	Merch. Trade Bal. (US\$B, ar)	19.1	27.5	25.4	18.4 (Jan)
Industrial Production	16.0	12.9	5.0	3.0 (Jan)	Industrial Production	4.3	4.2	-0.3	
Unemployment Rate (%)	5.1	5.0	5.0	4.9 (Jan)	Unemployment Rate (%)	5.2	5.2	5.2	5.0 (Feb)
CPI	-0.7	-0.8	0.1	0.0 (Jan)	CPI	2.8	2.8	2.7	
<b>China</b>					<b>South Korea</b>				
Real GDP	10.3	9.6	9.8		Real GDP	6.1	4.4	4.8	
Current Acc. Bal. (US\$B, ar)	290.0				Current Acc. Bal. (US\$B, ar)	28.2	39.7	36.6	2.7 (Jan)
Merch. Trade Bal. (US\$B, ar)	182.7	260.6	250.4	-87.7 (Feb)	Merch. Trade Bal. (US\$B, ar)	42.1	45.7	52.7	34.2 (Feb)
Industrial Production	13.5	13.3	13.5	13.5 (Dec)	Industrial Production	16.6	12.9	9.9	15.1 (Jan)
CPI	4.6	3.6	4.6	4.9 (Jan)	CPI	3.0	2.9	3.6	4.5 (Feb)

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

Source: Bloomberg, Scotia Economics.

## Interest Rates (% , end of period)

Canada	10Q3	10Q4	Mar/04	Mar/11*	United States	10Q3	10Q4	Mar/04	Mar/11*
BoC Overnight Rate	1.00	1.00	1.00	1.00	Fed Funds Target Rate	0.25	0.25	0.25	0.25
3-mo. T-bill	1.01	1.05	1.02	1.01	3-mo. T-bill	0.15	0.12	0.11	0.07
10-yr Gov't Bond	2.76	3.12	3.33	3.26	10-yr Gov't Bond	2.51	3.29	3.49	3.39
30-yr Gov't Bond	3.36	3.53	3.77	3.74	30-yr Gov't Bond	3.68	4.33	4.60	4.54
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US\$B)	59.4	57.0	58.6	(Jan)	FX Reserves (US\$B)	122.1	121.4	122.9	(Jan)
<b>Germany</b>					<b>France</b>				
3-mo. Interbank	0.86	0.96	1.15	1.17	3-mo. T-bill	0.51	0.40	0.80	0.77
10-yr Gov't Bond	2.28	2.96	3.27	3.21	10-yr Gov't Bond	2.66	3.36	3.63	3.56
FX Reserves (US\$B)	62.4	62.3	62.9	(Jan)	FX Reserves (US\$B)	52.2	55.8	56.4	(Jan)
<b>Euro-Zone</b>					<b>United Kingdom</b>				
Refinancing Rate	1.00	1.00	1.00	1.00	Repo Rate	0.50	0.50	0.50	0.50
Overnight Rate	0.88	0.82	0.38	0.80	3-mo. T-bill	4.85	4.85	4.85	4.85
FX Reserves (US\$B)	300.1	300.3	309.7	(Jan)	10-yr Gov't Bond	2.95	3.40	3.63	3.54
<b>Japan</b>					FX Reserves (US\$B)	67.2	68.3	72.7	(Jan)
Discount Rate	0.30	0.30	0.30	0.30	<b>Australia</b>				
3-mo. Libor	0.15	0.13	0.13	0.13	Cash Rate	4.50	4.75	4.75	4.75
10-yr Gov't Bond	0.94	1.13	1.31	1.26	10-yr Gov't Bond	4.96	5.55	5.58	5.48
FX Reserves (US\$B)	1077.4	1061.5	1060.3	(Jan)	FX Reserves (US\$B)	38.1	38.7	37.0	(Jan)

## Exchange Rates (end of period)

USDCAD	1.03	1.00	0.97	0.98	¥/US\$	83.53	81.12	82.32	81.86
CADUSD	0.97	1.00	1.03	1.03	US\$/Australian\$	96.71	102.33	101.38	100.64
GBPUSD	1.572	1.561	1.627	1.603	Chinese Yuan/US\$	6.69	6.61	6.57	6.57
EURUSD	1.363	1.338	1.399	1.384	South Korean Won/US\$	1140	1126	1115	1124
JPYEUR	0.88	0.92	0.87	0.88	Mexican Peso/US\$	12.594	12.340	12.008	11.936
USDCHF	0.98	0.94	0.92	0.93	Brazilian Real/US\$	1.687	1.661	1.655	1.662

## Equity Markets (index, end of period)

United States (DJIA)	10788	11578	12170	11969	U.K. (FT100)	5549	5900	5990	5828
United States (S&P500)	1141	1258	1321	1297	Germany (Dax)	6229	6914	7179	6984
Canada (S&P/TSX)	12369	13443	14253	13679	France (CAC40)	3715	3805	4020	3934
Mexico (Bolsa)	33330	38551	36901	35831	Japan (Nikkei)	9369	10229	10694	10254
Brazil (Bovespa)	69430	69305	67282	66733	Hong Kong (Hang Seng)	22358	23035	23409	23250
Italy (BCI)	1033	1048	1131	1129	South Korea (Composite)	1873	2051	2005	1956

## Commodity Prices (end of period)

Pulp (US\$/tonne)	990	960	960	960	Copper (US\$/lb)	3.65	4.42	4.52	4.10
Newsprint (US\$/tonne)	638	640	640	640	Zinc (US\$/lb)	0.99	1.10	1.13	1.03
Lumber (US\$/mfbm)	236	308	294	299	Gold (US\$/oz)	1307.00	1405.50	1427.00	1411.50
WTI Oil (US\$/bbl)	79.97	91.38	104.42	100.59	Silver (US\$/oz)	22.07	30.63	34.43	34.10
Natural Gas (US\$/mmbtu)	3.87	4.41	3.81	3.93	CRB (index)	286.86	332.80	362.88	351.24

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

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