

Global Views

Weekly commentary on economic and financial market developments

March 18, 2011

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Black Swans To Continue Trumping Data Flow In Shaping Market Direction

- **Focus will be on Japan's crisis, Middle East tensions, EU Summit, German elections, key weeks for the UK and Canada. Full calendars follow on pp. A3-A9.**

Forget the data flow next week, as black swans will continue to dictate market direction. Event risk is in the driver's seat. While black swans used to be simply called tail events and can be readily absorbed in good times, they are far more disruptive during periods of major upheaval in the global economy like today. Beyond the guess work surrounding the measurable economic impact of unique events like Japan's disasters and ongoing tensions in the Middle East, lies the immeasurable effects of the uncertainty premium. Buffeted by one disruptive shock after another, perhaps only imprudence would have global households and companies putting liquidity aggressively to work in driving growth, and this cautions against premature policy tightening.

In this issue, various authors examine aspects of the impact of Japan's natural disasters. The greatest unknown, however, traces itself to Fukushima which continues to hold the potential to swing markets abruptly. What I thought interesting about G7 yen intervention to stem its post-disaster slide was how modestly the yen moved in response. Either that's because it was a dose of intervention-lite, as other countries trade off controlling FX volatility against beggar thy neighbour currency policies. Or speculation on the expected volume of capital repatriation needed to cover future rebuilding overwhelms modest intervention. Regardless, next week's Asian data — particularly Japanese CPI and trade — will only chart the path already followed prior to the severe disruptions.

European markets could arguably have at least as significant a market impact as developments in Japan and the MENA states (Middle East, North Africa) next week. It's a key week for the UK. BoE minutes on Wednesday will disclose the current tally of dissenting votes — although for a decision made prior to many of the shocks currently being evaluated. The UK budget also lands on Wednesday, and will form the basis for updated assessments of its drag effects on UK growth.

The much heralded European Union summit on March 24th-25th could well disappoint peripheral spreads. The pre-announced recent agreement to expand the effective size of the stabilization apparatus by enhancing guarantees is helpful, but not a game changer. Now in further question is the ratings status of some of the guarantors — upon which the rating of the entire apparatus rests — as they take on much larger contingent liabilities. Further, the agreement only addressed the potential supply of aid, not the willingness to accept it, and countries like Ireland are a long way from accepting further EU intrusion into domestic policies. After being trounced in Hamburg's election, German Chancellor Angela Merkel and her coalition partner must also sell the expanded arrangements in another state election in Saxony-Anhalt on Sunday, followed by two more in Baden-Württemberg and Rhineland-Palatinate the following Sunday. There are three more state elections in September. Next week's focus has to be upon impressing markets and voters that a more permanent solution to fiscal and credit market woes lies in waiting, but it's doubtful this will happen.

Canadian markets will follow the global tone, as Tuesday's Federal budget is unlikely to represent any major shift in course. The focus will be upon achieving a low budgetary deficit-to-gdp ratio within two fiscal years, and balance or nearly so not long after that. Fiscal drag will remain in place for this year as key stimulus spending drops off the books, but how the opposition can or will react is what raises the risk of a Spring election. BoC Governor Mark Carney also participates in a panel on March 26th, and a positive retail sales report is scheduled for release on Tuesday.

US markets are unlikely to hold much sway over global markets next week, as they follow the tone set elsewhere. Data flow will be modest, but should on balance have a positive tone particularly later in the week through expected gains in big ticket durables spending, and slightly higher final Q4 GDP revisions. There is significant speech risk with six Fed speeches on tap.

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Fallout

- **The global economy's resilience is being tested, with the fallout from Japan's crisis compounding the impact of escalating geopolitical tensions, the run-up in oil and food costs, and renewed sovereign debt concerns in the euro zone.**

Financial Market Volatility — Uncertainty has increased and confidence has declined in the face of new challenges to global growth. Risky business has morphed into acute risk aversion. The sharp retrenchment in equity markets around the world, the major reversal in longer-term government bond yields, a slump in most economic-sensitive commodity prices, and the renewed safe-haven bid to the U.S. dollar, are reflections of a key difference that stands the current situation apart — not one, but multiple challenges to the expectation that global growth was on an improving trend.

These hurdles, besides stretched valuations after an unprecedented two-year bull-like run, are significant. They include rising oil prices triggered by renewed geopolitical tensions at the centre of the oil-producing world, renewed sovereign debt concerns in the peripheral European countries, the potential for slower growth in China, and more recently, the catastrophic earthquake/tsunami combination that has essentially stopped the world's third-largest economy in its tracks. Resolving the country's nuclear nightmare would help provide relief, though investors are likely to remain somewhat cautious until the other hurdles are crossed. *Longer-term fundamentals still point to a reversal of the risk trades and a weaker U.S. dollar, renewed but more moderate gains in equity markets, and an upward bias in bond yields. Massive monetary and fiscal pump-priming by the Japanese alongside G7 intervention favours a weaker yen.*

Global Growth — The immediate economic fallout from Japan's nuclear meltdown is to delay the recovery efforts, thereby extending and exacerbating the sharp contraction in output. Restoring a reliable electricity grid is critical to reviving production in the roughly 90% of the economy not directly impacted by the shock, as is ensuring that the transportation network — ports, rail, roads and airports — can accommodate the resumption in activity. The reconstruction effort should gather momentum in the second half of the year, and persist well into 2012, though the extent of the radioactive fallout will determine the pace of recovery. In addition to the massive liquidity that will continue to be made available by the Bank of Japan, expect the government to ramp up expenditures significantly, notwithstanding the highest national debt levels among the G7. The current Sendai destruction is far greater than that sustained in the Hanshin quake of 1995, with early estimates of the damage around US\$200 billion, or about 4% of Japan's GDP.

At about 6% of global GDP (using purchasing power parity weights), any reduction in Japanese growth this year should send only a relatively minor shudder through the global economy. But because Japan is a significant producer of key inputs into the global supply chain — the auto, technology, commercial airline, and machinery & equipment sectors, for example — global growth will be somewhat weaker the longer the supply chains are stretched or interrupted, even though firms are already attempting to conserve inventories of critical parts and are looking to diversify their supplier base. Although confidence in the economic outlook has been shaken again, the global economy has proved remarkably resilient in recent years despite the deleveraging underway in a number of high profile sectors — housing and finance, for example — in much of the developed world. Time and paying down debt helps to heal, but so does the support provided in some countries by the massive expansion of central bank balance sheets, the resulting low and pro-growth levels of short-term interest rates, and repeated doses of fiscal stimulus. Two additional factors are also at play. The business cycle has become self-sustaining, with the dynamics of growth reinforced by the enhanced profit-generating capabilities of corporations, as well as the continuing strong growth performances being experienced throughout the developing world. *Longer-term fundamentals still point to reasonably good output gains this year and next, though the compounding effects on confidence and spending of the repeated shocks of recent months increase the downside risks to growth. Although equity markets are expected to normalize somewhat as the fallout fears dissipate, the loss of wealth internationally associated with this stock market correction, increases in the price of food and energy, and higher borrowing costs in the faster growing regions of the world, should take a bite out of discretionary purchases.*

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Commodities & Inflation — Inflationary pressures had been slowly but surely re-emerging against the backdrop of improving global growth, but much more in the developing nations where the stronger pace of activity had already begun to push wage trends higher. More recently, increasing geopolitical tensions in North Africa and the Middle East had stoked fires under the price of oil and foodstuffs, with concerns that they could jump even higher if the established upward trend in demand bumps up against supply disruptions caused by confrontations, hoarding, and weather-related growing problems. In addition, the upward trend in prices could be exacerbated, albeit temporarily, by the shortages created in Japan for food, milk and other foodstuffs, as well as for industrial parts and products, if production fails to rebound in relatively short order.

But for the time being, however, the developments in Japan have triggered a reassessment of the economic outlook. Expectations of higher inflation do not go hand-in-hand with lower oil prices, lower bond yields, and a renewed shift into the greenback. Just a short while ago, virtually all commodity prices were trending higher. That's not the case now, with uranium, and other precious metals for example, under downward pressure. If the outlook for global growth has become somewhat less optimistic, then the risks begin to shift away from the inflationary side of the ledger sheet. *Longer-term fundamentals still point to an upswing in price pressures — the global economy is still in expansionary mode, and the developing world is running in the relative fast lane of growth. But the upward trend in prices may be more gradual.*

Currencies & Interest Rates — Yen strength supposedly reflects the repatriation of Japanese assets to pay for the massive dislocations, though sharply lower government bond yields throughout the developed nations send a contrary signal. But with the economy slumping, and the Bank of Japan already stepping hard on the liquidity accelerator, a weaker yen would seem more appropriate under the circumstances, especially if it adds rather than subtracts from export earnings. The fear factor has benefitted the U.S. dollar, in addition to more signs of self-sustaining economic momentum.

However, the greenback is likely to resume its weakening trend, with the Fed on hold for the foreseeable future in this uncertain environment, and America's blockbuster federal budget deficits and accumulated debt going from bad to worse before it inevitably gets better. Sentiment towards the euro has become slightly more positive, with the ECB threatening to raise interest rates to prevent rising food & energy costs from spilling over into wage demands that would put additional strains on the weakened budgets of the peripheral countries already rocked by recession and retrenchment. While Germany continues to be a comparative outperformer, and will benefit from the increased reconstruction demands from Japan, the prevailing uncertainty in the marketplace could still delay or temper the number of prospective rate increases. Ditto for the U.K.

The Canadian dollar continues to trade at a premium over the greenback, though the high-flying loonie has lost some air under its wings with the reversal in commodity prices. While Canada's commodity producers should also benefit from Japan's rebuilding, the Bank of Canada is expected to remain on hold until later this year at the earliest with the strong currency taking some of the steam out of imported inflation.

The upward trend in government bond yields has been interrupted by the renewed fears of slower growth and reduced inflation. However, as the problems confronting investors are resolved, the underlying trends that have been pushing yields higher should reassert themselves. Chronic borrowers with weaker currencies and eroding creditworthiness should witness higher, not lower longer-term rates.

Developing nations are expected to remain at the high end of international growth trends. With inflationary pressures emerging, policymakers can be expected to become less accommodative. Rising short-term interest rates will help moderate growth, and reinforce generally stronger currencies in the large surplus-rich countries.

Longer-term fundamentals still point to weaker currencies in those developed economies beset by recurring large deficits, growing debt burdens, very accommodative monetary policy, and increasing inflation potential. And once the deflationary fallout dissipates, government bond yields can be expected to move higher (e.g. the United States), especially if these countries are not creditor nations.

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Domestic Economic Impact of Japan's Natural Disaster

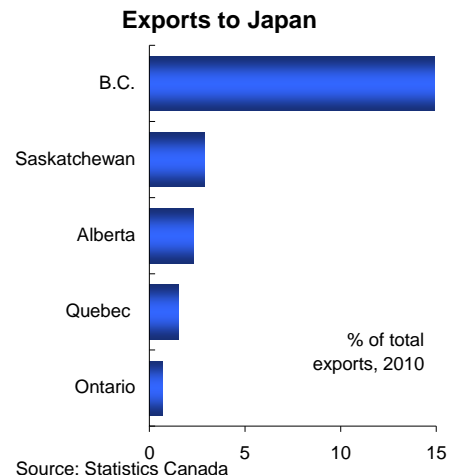
- **Last week's devastating earthquake and tsunami in Japan, although a tragic human loss, should have only limited economic repercussions for Canada.**

Japan is Canada's fourth-largest export market (after the U.S., the U.K. and China), with shipments totalling over \$9 billion last year. The lion's share are resource-based products, including coal, copper, lumber and agricultural goods. Yet, this represents only 2.3% of Canada's total merchandise exports, suggesting any temporary trade impediments should have a limited negative impact on domestic growth. Meanwhile, reconstruction efforts may well lift Canadian exports of building materials such as lumber and metals in the coming months, while demand for food products will remain strong.

Among Canada's regions, British Columbia will be most affected by any temporary export bottlenecks or shifts in Japanese import demand. Japan comprises 15% of the province's exports, including over 30% its coal shipments, 18% of its sawmill shipments and nearly 50% of copper, nickel, zinc and lead shipments. Given the majority of exported coal is coking coal — used for steel production as opposed to thermal energy — exports may temporarily dip until Japanese industries fully regain their footing. Shipments of mineral inputs such as copper and nickel will likely be affected as well. At the same time, we expect Japan's rebuilding efforts will provide a major boost to the province's sawmill exports, offsetting any short-term disruptions in coal and mineral product markets.

Japan is likewise Canada's fourth-largest source of imports (after the U.S., China and Mexico). These imports, largely motor vehicles, machinery and electronic products, totalled just over \$13 billion last year, or 3.3% of the total import bill. The temporary shuttering of some plants in Japan will likely lead to short-term production and price distortions in certain tradeable goods given the nation's key role in the highly integrated global production chain.

Sectors most affected include autos and electronics. In particular, Japan's Canadian motor vehicle facilities (Toyota's Cambridge and Woodstock plants and Honda's Alliston plants) could face temporary slowdowns or closures given lean inventories of key parts and components. Ontario will be most affected by these supply disruptions. Although Japanese motor vehicle transmission and power train components have only a 14% share in this segment, many of these parts are highly specialized and not readily substitutable. At the same time, however, reduced North American imports of certain popular Japanese-made models could benefit other Canadian automakers. Similar ripple effects are likely in consumer electronics, with potential component shortages resulting in higher prices for some products.



Lower tourism demand is another avenue through which recent events could impact the Canadian economy. Japan is the sixth-largest source of international tourists to Canada (after the U.S., the U.K., France, Germany and Australia). Japanese tourist visits to Canada totalled 243,000 last year, an 18% jump from the prior year. However, this represents only 5% of international arrivals from countries other than the United States.

While many commodity prices have fallen back on global growth concerns and risk aversion, this will not derail longer-term investment plans in Canada. Meanwhile, the wealth-dampening effect of the subsequent setback in equity markets on domestic consumer confidence and spending is being tempered by moderately lower gasoline prices and borrowing costs. With a flight-to-safety pushing down bond yields, Canada's major financial institutions lowered mortgage rates this week. Alongside continuing unrest in the Middle East, heightened economic uncertainty and financial market volatility will reinforce the Bank of Canada's cautious monetary policy stance.

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Earthquake Adds To Investor Nervousness

- Japan's earthquake roils financial markets, producing mixed historical comparisons.

Disasters, like the earthquake tsunami that hit Japan on March 11th and the ensuing nuclear crisis, have the potential to send financial markets reeling. The economic landscape and contemporaneous global event risk make it challenging to isolate investors' reaction to any single event. One thing is clear, fear and uncertainty tend to produce wild swings and bolster demand for safe-haven assets.

In times of uncertainty, volatility is generally a winner. In the aftermath of the earthquake, the CBOE Volatility Index (VIX) grew nearly 50% — albeit less of a shock in level terms — before retreating modestly on efforts to contain the nuclear crisis and coordinated G7 currency intervention. While milder than the spikes registered during the Gulf War and the Deepwater Horizon spill, this week's VIX reaction exceeded those following 9-11 and the Kobe earthquake of 1995. Not surprisingly, Japan's Nikkei 225 equity index sank 16% through Tuesday, before recouping about 7% by the end of the week. Generally, regional indices and — to a lesser extent — global measures are affected by unforeseen adverse events, but the magnitude of the decline differs depending on the overall global and domestic landscape and the potential for spillovers. Relative to the loss in the local index, this week's panic selloff had a milder effect on world markets, causing only a 4% decline in the MSCI World equity index. Given the much heavier weight of the US (42%) in the MSCI, the drops following the start of the Gulf War, 9/11 and the Deepwater Horizon oil spill — all US events — were more pronounced. Interestingly, the Kobe earthquake produced a correction equivalent to that of the most recent earthquake. Back in 1995, the Nikkei fell 24% over a five month period, and it was nearly a year before it broke even again.

When such events ignite threatening swings in equities, investors looking to protect their portfolios usually seek out safe havens. US treasury yields have often been a favourite in times of heightened uncertainty. The 10-year bond yield has slipped 0.16pp this week on events in Japan and elsewhere. Similar responses followed the Exxon Valdez oil spill, the Kobe earthquake and the Gulf oil leak of 2010. The yen and the USD — considered defensive currencies — have also been quite reactive to destabilizing global events. Following the Kobe disaster, the yen appreciated by more than 18% to reach a record high against the greenback in April 1995. However, this was the result of major capital repatriation ahead of reconstruction spending, not safe haven seeking. The currency finally weakened on the coordinated intervention of the Bank of Japan and the US Fed. This week saw a similar 3.5% spike in JPYUSD, to a new record high, driven largely by the anticipation of repatriated funds. This time the BoJ, in concert with G7 authorities, reacted more swiftly, and seems to have succeeded — at least in the short term — in putting the brakes on the yen and a floor underneath financial markets. Moreover, the BoJ's massive liquidity injection ahead of this week's 20-year bond auction may have encouraged decent demand, at a slightly higher cost. Next week's auctions will shed more light on investor sentiment and the effectiveness of recent responses.

As in the past, we think that the bearish sentiment will dominate in the short-term, but — assuming that the nuclear situation will be contained — the upcoming rebuilding activity should boost demand for commodities and have a stimulatory effect on economic growth at home and abroad.

Disasters Produce Varying Market Reactions							
Event	Date	VIX (% change)	MSCI World (% change)	Domestic Equity Index			Local Currency (% change)
				% change	Days to Trough	Days to Break-even	
Three Mile Island	28-Mar-1979	N/A	N/A	-1	3	1	-
Chernobyl	26-Apr-1986	N/A	N/A	-4	14	6	2
Exxon Valdez Oil Spill	24-Mar-1989	N/A	N/A	-	-	-	-
Gulf War	2-Aug-1990	78	-21	-16	49	10 months	14**
Kobe Earthquake	17-Jan-1995	15	-4	-24	6 months	4 months	18
9/11	11-Sep-2001	37	-12	-7	4*	7	-2
Indonesia Tsunami	26-Dec-2004	30	-	-	-	-	-0.8
Chile Earthquake	27-Feb-2010	-	-	-3	2*	1 month	2.8
Deepwater Horizon Spill	20-Apr-2010	160	-15	-15	52	3 months	-
Sendai Earthquake	11-Mar-2011	50	-4	-16	2	ongoing	3.5

* After markets reopened. ** After end of war. Source: Bloomberg, Scotia Capital Economics.

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The Fiscal Parameters of Japan's Earthquake Disaster

- The extent of government's eventual emergency and reconstruction expenditures remains uncertain, but Japan's recent *Budget* underscores fundamental fiscal issues.

It is still too early to accurately assess the impact of the recent earthquake on Japan's government deficits. Near-term, government revenues will be eroded by the losses in output and wealth. As reconstruction expenditures gain momentum, Japan's GDP growth will be bolstered but government debt will be pushed higher. Prime Minister Kan's government will be shifted away from the fiscal management targets presented in its *Budget* for fiscal 2011 beginning this April 1st — namely holding new government bond issuance to the estimated FY10 level of ¥44 trillion and restraining through FY13 General Account expenditures less the debt service to FY10 levels. On a general government basis, Japan's deficit, estimated by the IMF to have improved to 9.4% of GDP in 2010, will likely retest the 10% threshold in 2011 (Chart 1).

The magnitude of the eventual reconstruction expense and its split among governments, insurers and the private sector are still very uncertain. The central government will likely step up to assist regional and local jurisdictions with their share of the rebuilding burden. The aftermath of the 1995 Hanshin earthquake centred on Kobe suggests that government's outlays over the next four to five years related to this disaster could be at least ¥8 trillion, but this amounts to only 0.4% of GDP annually. Yet investors may be nervous about the additional borrowing when Japan's general government gross debt, according to the IMF in January, is now greater than 220% of GDP, more than twice the 92½% level in 1995. Japan's domestic saving pool, however, is broad and deep, the Japanese economy is advanced and its stock of net international assets is considerable.

It is the government's *Budget* that best highlights the longer-term issues coinciding with the reconstruction. For the third year in a row, government bond issuance will outstrip tax revenues in FY11 (Chart 2). The debt service has ballooned from less than 13% of General Account expenditures in FY80 to a projected 23% share in FY11 (Chart 3), even with extremely low interest rates. Interest charges plus Social Security-related expenses in FY11 are expected to absorb over half of government's outlays. To date, Prime Minister Kan's government has made little headway in negotiating fundamental reforms. Perhaps this emergency may spur some progress.

Chart 2

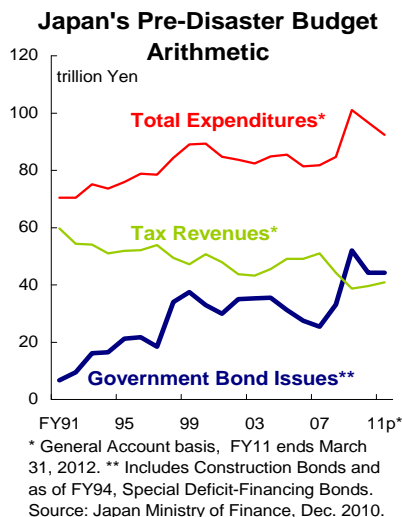
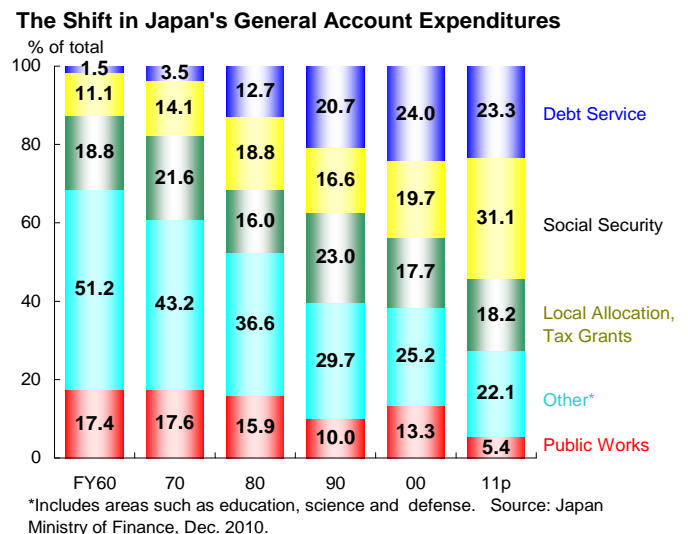


Chart 3



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Latin America in the Context of the Japan/Middle East/Africa Shocks

- **Better preparedness to weather global financial market volatility.**

Market metrics point to a renewed phase of global risk aversion. Global equity securities are under pressure, US equity market volatility increased, emerging-market sovereign debt (yield) spreads widened and commodity prices adopted a defensive tone. Moreover, the Japan nuclear crisis, the waves of political insurgency in Northern Africa and the Middle East, the non-fly zone resolution by the UN Security Council in Libya, joint G7 intervention to stem yen appreciation and growing expectations of monetary policy tightening in Europe, hint at the beginning of a period of asset price adjustments within the emerging-market asset class. On a positive note, short-term funding metrics do not highlight deterioration in financial sector systemic risk in advanced economies. Nevertheless, the Latin American region is well prepared to weather the disruptive events that have recently caused a major spike in global risk aversion. The most financially integrated open economies in the region are immersed in a phase of sustainable growth and count on vast international reserves to be deployed to contain inflation-sensitive foreign exchange volatility.

Latin American stock markets are not (and will not be) immune to a sell-off period in US equity securities. Without exception, all regional markets were adversely hit by the declining phase present in US markets. The combined effect of selling pressures and falling commodity prices also caused a spike in currency market volatility within the region. The market-benchmark EMBIG sovereign debt spread index widened to 300 basis points (bps), strongly correlated with a spike in the US equity volatility VIX index over the past two weeks. Undoubtedly, the persistence of geo-political tensions in the Middle East and Northern Africa provided an ideal opportunity to assess the continuity of emerging-market gains. However, abrupt price movements in financial markets are not uniform throughout the region. It is worth noting that Brazilian equity assets had found a technical barrier to extend gains since last November, finding strong resistance to recover a bullish trend. Within the BRICS group (Brazil, Russia, India, China and South Africa), equity market shifts were not uniform either; in fact, the spike in crude oil prices (the benchmark WTI price is trading again over the US\$100 per barrel mark) as a result of geo-political tensions in oil-producing nations has translated into sustained gains in Russian assets whereas Indian stocks showed a relatively weaker tone due to deteriorating inflation and escalating energy costs.

The Latin American currency markets face a period of volatile adjustments in response to recent (domestic) policy moves and (external) market developments. The Brazilian real (BRL) will be influenced by potential pressures if the correction of global equity securities (particularly in emerging-market economies) persists in the near term; however, selling pressures will be tempered by very attractive interest rate differentials (the Brazilian monetary authorities are expected to increase the target SELIC rate by 50 bps to 12.25% on April 20th). The Chilean peso (CLP) has been subject to escalating volatility and depreciating pressures due to the dual effect of falling copper prices and increasing oil prices; however, recent joint global intervention to moderate yen strength and the surprise increase in the Chilean monetary policy rate by 50 bps to 4% has injected a recovery tone into the CLP, which closed the week at 482 per USD. Finally, Mexico has been one of the major beneficiaries of this renewed phase of global/regional financial/commodity market volatility. Surging crude oil prices, relative currency undervaluation, the absence of intervention mechanism and the growing expectation of monetary tightening have all been supporting factors in favour of the Mexican peso (MXN) which traded below the 12 per USD mark earlier in the week. Finally, the Colombian peso (COP) will continue to be well supported by favourable commodity prices, the expectation of higher government-administered interest rates and the recent revision to investment grade by Standard and Poor's, which would help attract foreign direct equity investments in the near term.

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Bank of England's Response to Inflation Developments Attracts Market's Attention

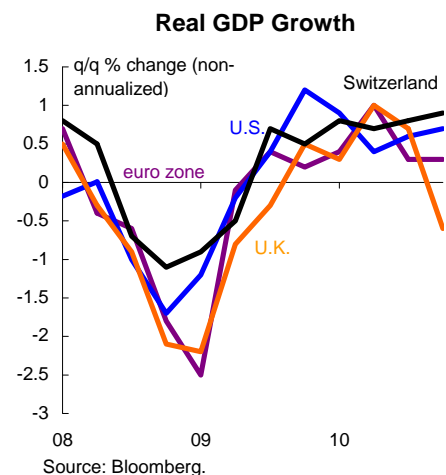
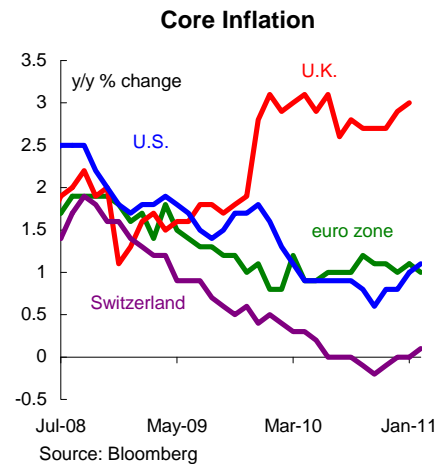
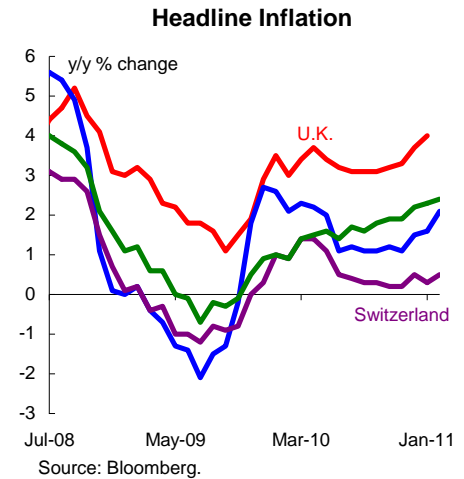
- UK monetary authorities face the challenge of finding a balance between limiting further inflationary pressures and supporting economic growth.

Inflationary pressures continue to intensify in the UK, prompting futures markets to anticipate an early beginning of the monetary tightening cycle despite the economy's uncertain growth outlook. While British monetary policymakers are becoming more concerned about increasing inflation, the Monetary Policy Committee of the Bank of England (BoE) opted to keep the Bank Rate unchanged at 0.5% following its March 10th meeting. The minutes of the latest decision will be published on March 23rd, and might shed more light into the divergences among the policymakers as some appear hawkish about inflation risks while the others remain concerned about economic growth prospects in the context of the country's ongoing fiscal consolidation efforts. The next rate decision is scheduled for April 7th. Futures markets are pricing in a 25 basis point hike in the Bank Rate by the end of the second quarter, once first-quarter economic data are released and assessed by both the authorities and market participants.

Headline consumer price inflation has exceeded the BoE's 2.0% inflation target since December 2009. In January 2011, the consumer price index increased by 4.0% y/y, prompting the BoE Governor Mervyn King once again to send an explanatory letter to the Chancellor of the Exchequer. Prices at the core level are picking up as well (core inflation reached 3.0% y/y in January). Price pressures further up the distribution chain suggest that inflation will accelerate in the coming months; producer prices increased by 4.8% y/y in January. Meanwhile, wage pressures have also intensified but remain below the pre-recession levels on the back of large spare capacity in the economy. Scotia Economics expects headline inflation to hover above 4% y/y in the coming months before subsiding to 3.6% by year-end.

There are three main reasons for the high inflation rate, according to Central Bank Governor King:

- 1) The 2.5 percentage point rise in the Value Added Tax (VAT) to 20% in January 2011. This year's adjustment in the VAT follows a similar increase a year earlier; while the direct impact of the January 2010 hike has dropped out of the inflation index, the second round impacts may still be adding to cost pressures.
- 2) The continuing pass-through impacts of the fall in the British pound (GBP) at end-2007 and in 2008 when the GBP depreciated by almost 35% vis-à-vis the US dollar (USD) and over 31% against the euro.



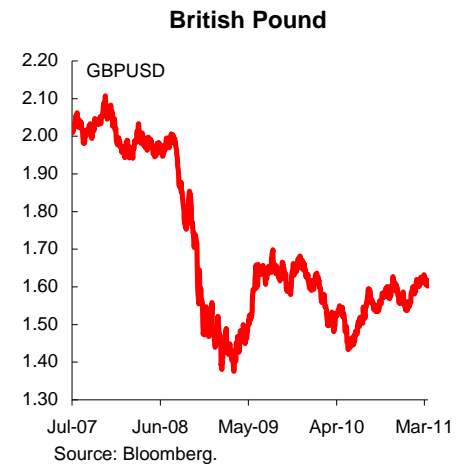
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3) Recent increases in commodity prices, particularly food and energy, which have risen at double-digit rates in the past three months (transport and food account for 16% and 12% of the consumer price index, respectively). Nevertheless, developments in the Middle East and in Japan may alter the commodity price outlook to either direction.

The BoE estimates that without these three impacts, the inflation rate would currently be below the 2.0% target. The extent to which the inflation rate might fall next year is uncertain given increasing expectations of price increases by households and businesses. A fresh survey shows that expectations for inflation over the next 12 months have risen from 3.9% y/y in November to 4.0% y/y in March; the inflation rate next year is expected to be 3.4% (compared with 3.2% in the survey last November) and 3.5% y/y in the long term (versus 3.3% in November). By the same token, however, a risk of low economic activity and persistent spare capacity may push inflation down faster than anticipated. In the latest *Inflation Report*, the BoE assesses that under the assumptions that the Bank Rate moves in line with market interest rates (i.e. the first hike by mid-2011), the medium term inflation outlook is balanced.

While the GBP was one of the strongest major currencies in the first two months of 2011, low economic growth, fiscal consolidation and high inflation dampen the GBP's outlook. We expect the GBP to close the year at 1.63.



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A New Market for Mexican Homebuilders

Mexican homebuilders have poor cash flow because they reinvest their profits in land for future development. While a large housing deficit exists in the long term, serving this demand requires new financing schemes. A bill pending in Congress would authorize the housing agency to develop such programs, ensuring that the land the builders have accumulated can be profitably developed.

Last month's release of year end results for the Mexican homebuilders shows that not much has changed, both the good and the bad. The homebuilders we follow, Geo, Urbi, and Homex, all reported continued high margins and significant sales growth (Figure 1), but again at the expense of cash flow generation (Figure 2). That pattern is nothing new, as cash flow is reinvested into the business to fund future growth.

A key part of this reinvestment is the purchase of land reserves. For example, Urbi, which has the largest reserve, owns sufficient land for about 292,000 homes, which represents about nine years of sales at 2010 rates. That land reserve is critical to the firm's high margins, since large chunks of land in undeveloped areas can be purchased cheaply, and then tend to rise in value as the area develops. In the past, the government would grant tax deferrals to the builders in return for their continued purchase of new land, mitigating part of the negative impact on firm cash flow. The rules for such tax deferral will be significantly more restrictive going forwards, and tax bills should increase. Meanwhile, land reserve accumulation should slow, especially among firms who have already built up a sufficient reserve. Note for example that Urbi's inventories actually fell by 6% in 2010, while those of Homex and GEO rose 17% and 8%, respectively. In addition to land investments, GEO and Urbi (but not Homex) are investing in new technology to accommodate the government's expected shift towards vertical housing.

Continued growth and investment, while perhaps desirable from the perspective of equity holders, brings little benefit and significant risk to creditors; the value of the latter's claims depend on the ability of the homebuilders to continue to earn returns on those land reserves up to nine years from now. The key determining factor here is government policy towards housing, which has been instrumental to the success of the homebuilders thus far. The biggest source of home financing is currently Infonavit, the government agency that takes in mandatory payroll deductions every month, and then provides financing for home purchases to those workers who have contributed. That agency provided 475,000 loans in 2010 and is expected to provide 480,000 in 2011. The problem is that the number of Infonavit affiliates who still need houses is being depleted; by 2017, Infonavit expects to only offer 300,000 credits. That change would represent a 25% decrease from the total number of mortgages from all sources expected for 2011, and an even more significant decrease for our three homebuilders, who specialize in low-income housing and sell 69% of their homes thanks to the help of Infonavit loans.

The good news is that, according to the government, a significant housing shortage exists among Mexicans who are not affiliated with Infonavit but have the savings and income to pay for a home if they can obtain financing. There are four categories of non-affiliated workers that the government is looking at: municipal government employees, professionals like doctors and lawyers, employees in certain service industries working under contract, and of course workers in the informal economy. That last category, perhaps the most important for continued sales to the low-income segment that the homebuilders specialize in, warrants some explanation.

Several American investors have asked us why the government would want to finance houses for Mexicans who refuse to join the formal economy and pay taxes. That question raises some interesting cultural differences. According to Mexico's National Statistics Institute (INEGI), there are 7.5 million people working in the informal sector, composed mostly of domestic workers and street vendors. Having a housekeeper in Mexico is much more common in Mexico than in the U.S. As a result, many Mexicans understand the magnitude of the informal economy as a social problem—that of a large class of people who are poor and uneducated, with few opportunities for participating in the formal economy. For this reason,

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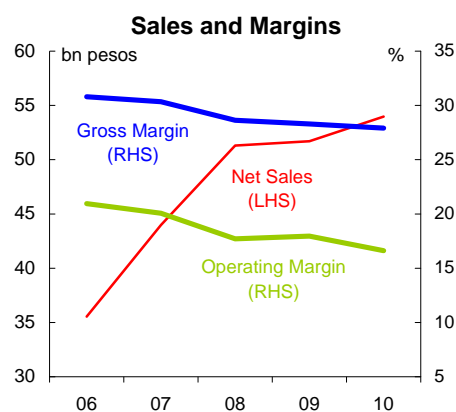
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government policy may be more geared towards helping these people than prosecuting them for noncompliance with tax laws. In addition, the microfinance industry in Mexico has proven the viability of lending to members of the informal economy. For example, Banco Comportamos reported an astounding 60% net interest margin in 4Q10. Of course, financing home purchases for members of the informal economy would be entering uncharted territory, and there is no way to know what the repayment rates would be on such mortgages.

Under current regulations, Infonavit is not allowed to service most non-affiliated groups. A major reform bill currently under consideration that could be approved by Congress as early as April would create the necessary authorizations. Five years from now we could see, in addition to the 300,000 Infonavit credits given to affiliates, an equal additional number of credits given to non-affiliates; as a result, the total number of Infonavit mortgages could grow rather than shrink.

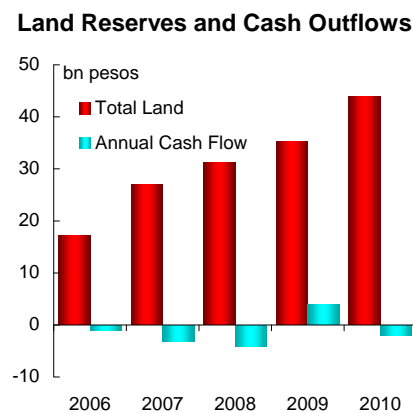
Some firms, notably Urbi, have already started preparing for this eventuality by developing programs for non-affiliates. Under one experimental rent-to-own program, workers rent their home for six-months while at the same time furnishing their home and installing fixtures and appliances. Those who demonstrate a stable income by paying their rent would qualify for a mortgage, while those who fell behind would be evicted. In contrast, other firms, like Homex, believe it is premature to plan for government programs that don't exist yet. Homex argues that their business—building homes—will remain the same no matter how the government ultimately chooses to provide financing for those homes. While we think Urbi's early involvement may give it a competitive advantage, the magnitude of that advantage is uncertain and comes with some risks. For example, Urbi's rent-to-own program led to a dramatic increase in accounts receivable in 4Q10 and hurt cash flow, as Urbi awaited payment from a private equity fund that is buying the homes of those who are in the provisional 6 month rental period.

Figure 1



Graph based on sum of financial data for Geo, Urbi, and Homex. Source: Firm annual reports.

Figure 2



Graph based on sum of financial data for Geo, Urbi, and Homex. Source: Firm annual reports.

Another risk we should mention is the potential for a resurgence of competition. SHF, the government agency that supports financial intermediaries involved in housing finance, plans to support the provision of \$15bn MXN in bridge loans to builders this year, which should be sufficient for 62,000 houses. Over the last two years, large homebuilders have grown at the expense of smaller builders for whom financing had dried up. In fact, Urbi's practice was to buy up such smaller competitors as one means for achieving growth. The revival of financing for smaller competitors may impede such growth going forwards.

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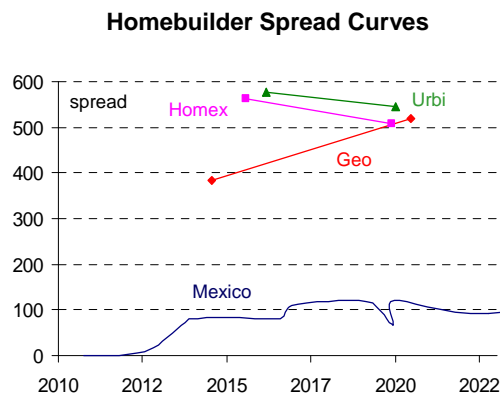
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Homebuilder bonds performed well in the second-half of last year but spreads have widened in the past month (Figure 4). We are not sure if that is due to lower US Treasury yields, lower global risk appetite due to the conflict in Libya, or investor dissatisfaction with 4Q10 results released at the end of February that overall did not show a material improvement in cash flow.

While we do not expect any significant changes in firm performance this year, we could receive important news on public policy soon that would affect the long-term outlook. We like the homebuilders because they offer high-yield but their fundamentals are largely uncorrelated with economic cycles (sales did not fall during the 2009 financial crisis). We do not have a strong preference between the homebuilders since the overriding driving factor for all of them is Mexican public housing policy; bond investors do not distinguish between them either, as evidenced by the comovement of their spreads over time (Figure 4). We note that the 5Y bonds for Urbi and Homex are callable, and the companies are currently evaluating whether to exercise their call and to refinance at lower rates; long term investors may prefer the 10Y point. We look forward to news about the reform bill on Infonavit, which should help to resolve a portion of the uncertainty around the builders' long term prospects.

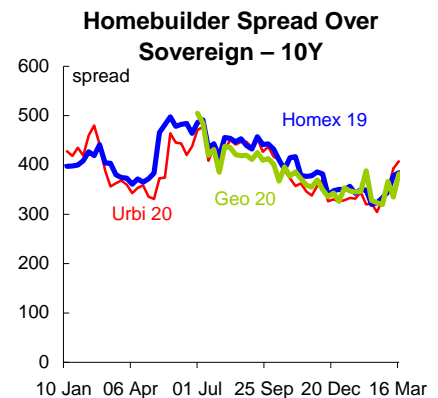
For our complete report, see "Making houses like tortillas: Mex. homebuilders", Scotia Capital, October 18, 2010.

Figure 3



Graphs show Z-spreads over US swaps. Spreads calculated to par call date for those bonds that are callable. Source: Bloomberg.

Figure 4



Graphs shows spread differentials between homebuilders and UMS, with spreads calculated to 2015 call. Source: Bloomberg.

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Flight-to-Quality Favours Large Caps

This text was published on March 14, 2011 (all data as at March 11, 2011).

- Although the risk-off trade has just started to be more visible, global small-cap benchmarks have been underperforming since the beginning of the year. The MSCI World Small Cap index is up 2.3% this year, but it is lagging the MSCI World index by 43 basis points. In the U.S., the Russell 2000 is trailing the Russell 1000 by 74 bp year-to-date. Canada is no exception despite the large gold/energy bias in the index. The TSX SmallCap is underperforming the TSX 60 by 291 bp YTD.
- Thanks to last Friday's rebound, the TSX SmallCap is performing in-line with the TSX 60 so far in March. However, seven of nine TSX SmallCap sectors are underperforming their large cap counterparts, with Consumer Staples and Materials being the exception (see Exhibit 1). The biggest names in the TSX SmallCap Materials sector are performing well so far this month, which explains the sector's outperformance vis-à-vis large caps Materials.
- The bigger, the better.** The migration towards larger cap names is also visible within the TSX SmallCap index. In Exhibit 2, we look at the performance of TSX SmallCap companies sorted by market capitalization. The top quartile, i.e. the largest companies, is down 1.6% on average in March compared to a 6% decline for the bottom quartile, which includes the smallest companies. The performance spread between the top and bottom quartile is even wider on a year-to-date basis: the top quartile is up 5.5% on average this year vs. a 9.1% decline for the bottom quartile.

Exhibit 1

Exhibit I

S&P/TSX Indices Performance					TSX SmallCap Relative to TSX 60 (bp)
MTD Performance (%)					
	S&P/TSX	TSX 60	Completion	SmallCap	
Index	-3.3%	-3.1%	-3.6%	-3.1%	1
Energy	-5.6%	-5.5%	-5.8%	-6.5%	-97
Materials	-4.9%	-5.6%	-3.4%	-2.2%	334
M/Mining	-7.0%	-6.9%	-7.1%	-5.8%	115
Golds	-3.0%	-2.9%	-3.5%	-3.9%	-102
Industrials	-0.6%	-0.5%	-0.9%	-1.3%	-85
Discretionary	-1.3%	-0.6%	-3.3%	-3.0%	-239
Staples	-1.8%	-1.3%	-2.9%	-0.3%	99
Health Care	0.0%	-0.2%	0.5%	-5.6%	-538
Financials	-0.8%	-0.4%	-2.6%	-1.9%	-147
Technology	-4.0%	-4.0%	-3.9%	-5.3%	-132
Telecom	-2.6%	-2.7%	-1.5%	n/a	n/a
Utilities	-2.6%	-2.7%	-2.5%	-4.8%	-218

Source: Scotia Capital estimates

Exhibit 2

TSX SmallCap: The Larger, the Better			
Market Cap - Quartile	Average Market Cap (M\$)	Performance (%)	
		MTD	YTD
Q1 - Largest	1,708	-1.6%	5.5%
Q2	927	-3.6%	-3.0%
Q3	569	-3.2%	2.0%
Q4 - Smallest	281	-6.0%	-9.1%
TSX SmallCap	868	-3.1%	-0.4%

Source: Scotia Capital estimates

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TSX SmallCap still trading 12.5% above its 200-d MA

- The TSX SmallCap is down 4.8% from its recent high reached on February 17, but the index is still trading 12.5% above its 200-d moving average. This is not as bad as a few weeks ago when the index was hovering 20% above its 200-d MA, but as illustrated in Exhibit 3, this is still elevated on an historical basis. Last summer, the TSX SmallCap dropped 11% from peak-to-trough and the index hit its 200-d MA before rebounding (Exhibit 4).
- According to our risk-on/risk-off barometer, the equity risk-reward window was wide open last summer, closed in late Q4/10, and we believe it will re-open again after a healthy pullback (see Exhibit 5). In fact, as long as macro fundamentals continue to improve, and especially U.S. jobless claims, any equity pullback should remain relatively shallow and treated as a buying opportunity.
- In the short term, however, technicals could prevail over fundamentals and indices could re-test lower levels.

Go up in size, Down in beta

- In the near term, large caps should continue to outperform small caps, and we would suggest investors reduce beta in portfolios. In Exhibits 6 to 14 (please refer to the *Strategic Edge Weekly* report dated March 14, 2011), we offer a sector breakdown of the TSX SmallCap index including beta, recent performance, relative strength index (RSI), and sector weighting for each company. Not surprisingly, Materials and Energy sectors have the highest beta (weighted average) in the TSX SmallCap index at 1.3 and 1.6, respectively.
- We maintain a 5% cash weighting in our mid-cap model portfolio and carry an average market cap of \$1.5B vs. \$0.8B in the TSX SmallCap index. We remain overweight Financials, Industrials, and Technology. Within resources, we are market weight Energy and underweight Materials (Gold).

Exhibit 3

TSX SmallCap: Deviation from 200-d MA

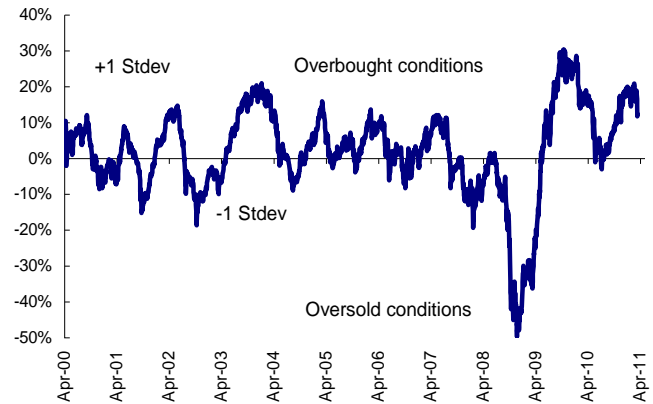


Exhibit 4

TSX SmallCap hit 200-d MA before rebounding last summer

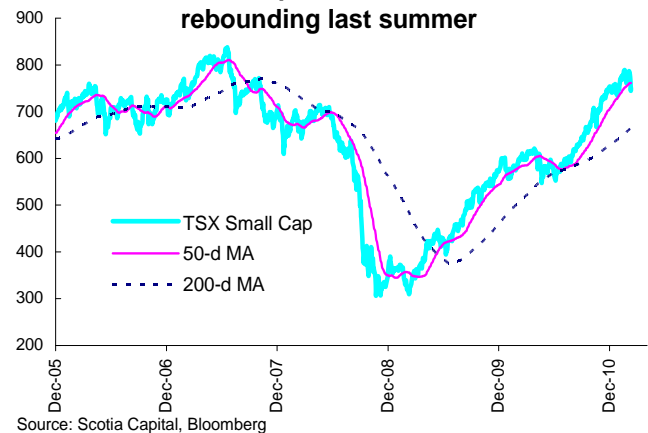
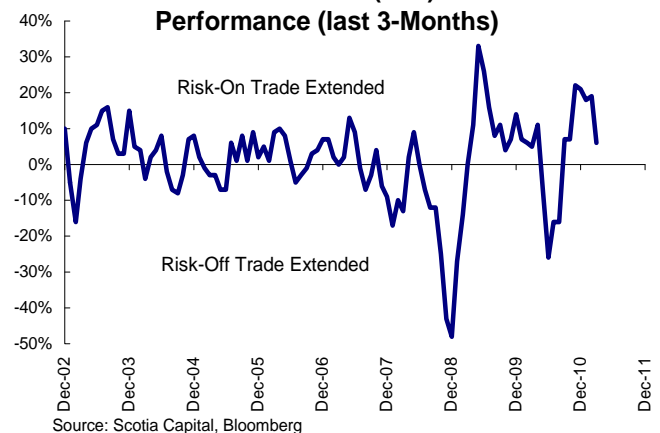


Exhibit 5

S&P 500 vs. LT Bonds (TLT) - Relative Performance (last 3-Months)

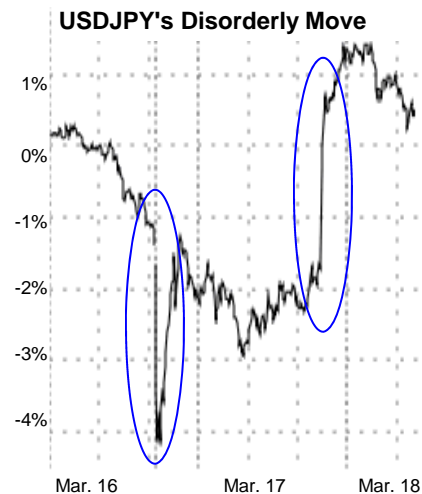


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G7 Agrees to Coordinated FX Intervention to Halt Disorderly Yen

- **After a stunning 4.3% appreciation in yen over a ten minute interval, authorities step in to help stabilize markets with the first coordinated FX intervention since 2000.**

As North American traders were passing trading books to Asia late on March 16th, the yen experienced a stunning 4.3% appreciation over a violent 10 minute trading interval — see chart. With an average daily turnover of \$570bn, USDJPY is one of the most liquid tradable assets in the world, accordingly it is unlikely that the move was an issue of liquidity. Instead it was likely the combination of flows being repatriated into yen, traders positioning for expected yen strength, the collapse of what is left in the carry trade (which has also seen yen sellers evaporate) and model accounts taking advantage of a significant move. By all accounts the trading pattern was disorderly. Should it have continued, it risked a significant destabilization in the financial and economic foundation of Japan.



In response and after a request by the Japanese authorities, the US, the UK, Canada and ECB agreed to coordinated FX intervention (the first since 2000 when authorities stepped in to support a weak EUR). After today's statement was released early in the Asian trading session, the yen immediately weakened 3% and USDJPY climbed to 81.50. At 8am EST, North American authorities followed up with a further round of intervention, pushing USDJPY briefly over 81.50.

The G7 stepped in to weaken yen, not because the valuation of yen had become extreme (which it had), but more likely because the trading pattern in USDJPY had become disorderly — see chart. This type of volatility in currencies threatens much more than the economic recovery of the third largest nation. To us, the most important sentence in the G7 statement was: “as we have long stated, excess volatility and disorderly movements in exchange rates have adverse implications for economic and financial stability”. Above all, the G7's role was an attempt to stabilize markets.

Looking into the past, interventions have had varying degrees of success. The last non-coordinated yen intervention by the BoJ (under the direction of the MoF) occurred on September 15th, 2010, and saw a stunning \$23bn purchase of USD against yen, creating an impressive one day 3.4% weakening of yen. This move was then retraced over the following 14 sessions. However the purpose of this round of intervention was more likely to slow appreciation as oppose to halt a disorderly move.

Looking ahead, we expect that major sellers of yen (mainly carry trade participants, Japanese institutions looking for foreign expose and investors hoping to benefit from weak Japanese fundamentals) have temporarily evaporated. Leaving the market weighted towards yen buyers (investors trying to position ahead of repatriation flows and repatriation itself, the closing of remaining carry trades and offside short yen positions). We expect that today's coordinated intervention will provide some temporary relief, but was not meant to, nor will it succeed at reversing near-term yen strength. The chances of repeated intervention by Japan is high, the chance of repeated coordinate intervention will depend on the trading pattern from here. The priority of G7 authorities is the destabilizing result of disorderly movements in foreign exchange markets, and less the negative economic consequences of a strong yen. Any further disorderly movements in USDJPY will likely be met with a renewed commitment from the G7.

We expect near-term pressures to favour a stronger yen, however have made no change to our year-end forecast of slight yen weakness. After all, once these initial flows cease, the currency fundamentals in Japan have clearly deteriorated. We hold a year-end USDJPY forecast of 84.00.

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USD and EUR Valuation vs. the EM Asian Currency Bloc

- By constructing USD/EM-Asia and EUR/EM-Asia FX indices, it becomes clear that the USD has recently surpassed its pre-crisis low versus the Asian currency bloc, while EUR remains below its decade high.

In this note, we lay out our construction of nominal effective exchange rate indices for the USD and EUR against the emerging market Asian currency bloc. Understanding the broad behaviour of a currency on a trade weighted basis is important from both a longer term economic point of view, and from the point of view of shorter term trading strategy. In addition, one of the most important relationships in international finance today is that between the US and the EM Asian country group. It is the economic inter-relationship between this group of countries that constitutes the so called “Bretton-Woods II” international financial system that has had such a significant impact on global interest and inflation rates, as well as asset prices over the past decade¹. Ultimately, the broad evolution in the value of the USD in terms of these currencies is the subject of much political discourse and economic importance.

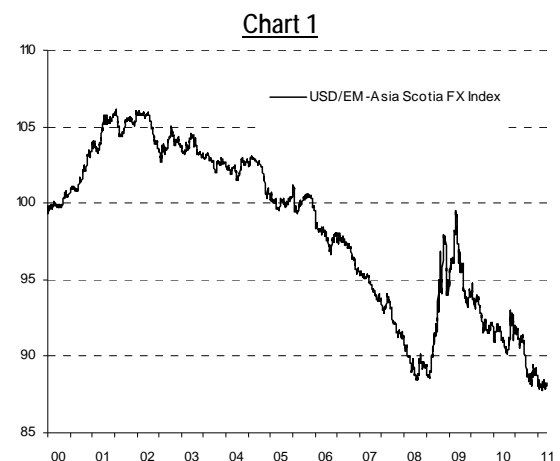
It has long been conventional wisdom that a longer term depreciation in the USD versus the EM-Asia currency bloc is required to facilitate a global economic rebalancing in order to address large, persistent current account deficits in the US and surpluses in Asia. As such, tracking the evolution of the USD on a broad trade-weighted basis against the emerging Asian currency bloc naturally provides a real time indication of this dynamic. We focus on the nominal effective exchange rate between the USD and the Asian currency bloc due to its importance in shorter term financial market fluctuations, as well as the focus that is placed on nominal exchange rate values by international policymakers and politicians. Below, we describe the construction of our indices and elaborate on some important features.

Construction

To construct our USD/EM-Asia and EUR/EM-Asia FX indices, we utilize bilateral trade weights between the US, Europe and the following countries: China, Hong Kong, India, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan, Thailand, and Vietnam. Country weights are estimated over a two year period using total overall trade (exports and imports) in order to ensure a balance between incorporating in the weightings the importance of shifting trade patterns, and smoothing away “noisy” short term deviations from medium to long term trends due to temporary economic shocks (like the global financial crisis/recession). A base period for the index is arbitrarily chosen so that Q1 2005 = 100. The index is constructed so that an increase indicates USD (or EUR) strength versus the EM Asian FX bloc.

Indices

An immediately obvious and interesting feature of our USD/EM-Asia index (Chart 1) is that the index has already surpassed its pre-crisis low and registered its lowest level in over a decade (as of early February). It is our view that this trend depreciation will continue at least through our medium term horizon of the next two years. Growth, fiscal and monetary policy dynamics are projected to remain well in favour of the EM Asian currency bloc. Chart 2 captures the relative monetary policy trend, a very important one indeed for the USD’s overall direction and valuation versus the EM-Asia FX bloc. In recent weeks we have seen further monetary tightening undertaken by Korea, Thailand, and most recently India. For those countries that have recently elected to pause on policy tightening (Indonesia and Malaysia), a hawkish stance is still very

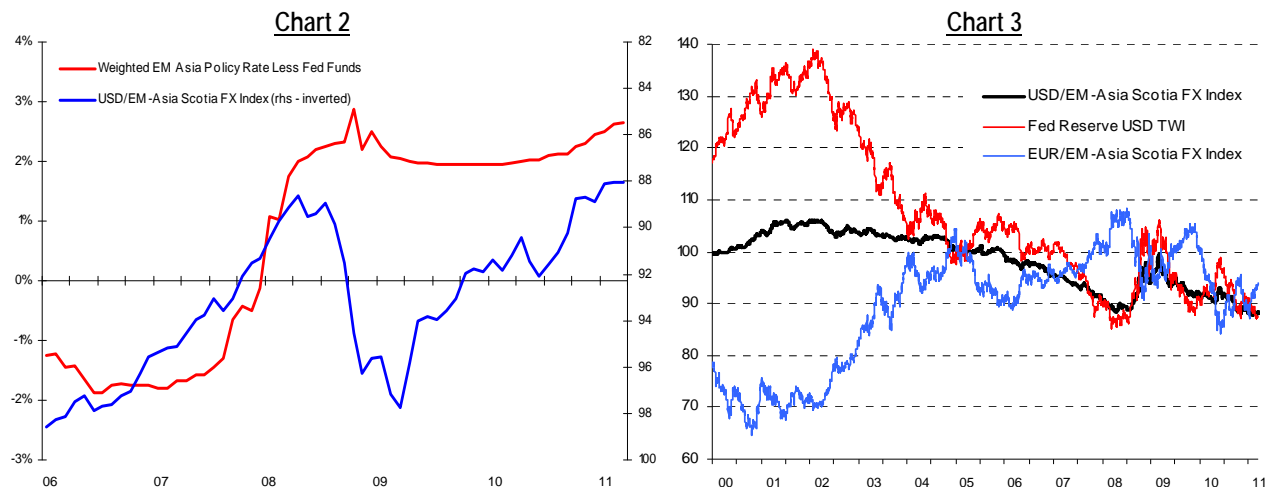


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evident. Chart 2 shows the co-movement between nominal policy rate shifts (trade-weighted for EM Asia) and weakness in the USD versus the EM-Asia currency bloc. With policy pro-activity still very much required in Asia, and no sign of policy normalization in the US in the near term, further deterioration in our USD/EM-Asia FX index is likely.

Compared with a broad trade weighted USD index (sourced from the Federal Reserve), our constructed USD/EM-Asia index is much less volatile (Chart 3). This makes sense as these currencies have been heavily managed against the USD throughout the past decade, and as the USD depreciated in broad nominal terms against all trading partners, policymakers in the Asian bloc elected to “lean against the wind” of this



depreciatory trend. Interestingly, our EUR/EM-Asia index displays much greater variability, indicating less of a focus on trade competitiveness with the Eurozone vis-à-vis the United States for our Asian reserve managers. This reflects not only the predominance of the USD in global trade transactions, but more importantly the importance of the USD as a global reserve currency with deep, liquid government bond markets. The need to hold a sufficient war chest of precautionary reserves following the Asian financial crisis of the late nineties, combined with the export-oriented growth model pursued by the Asian bloc contributed towards the low volatility of the index.

To place the stark differences in volatility between the USD and EUR indices into perspective, we can examine the statistical properties of each index. Indeed, EUR index variance is more than 3.6 times that of USD index volatility. This helps place in perspective the actual size of what on the surface seems like rather restrained moves (due to intervention) in our USD index. For instance, 96% of the daily returns in the USD/EM Asian FX index fall between -0.33% and +0.37%. In fact, a 0.24% return represents a 1.5 standard deviation event, and thus a fairly significant change. Even a 0.1% move in the USD index is still a fairly “impressive” daily shift in the value of the index. The equivalent numbers for our EUR/EM-Asia FX index are -1.28% and 1.27%, while a 1.5 standard deviation euro return is 0.87%.

As it stands, the USD/EM-Asia Index is down around 3% on the year, while the EUR index is down 0.5%. We’d expect losses on the USD index to continue to build in coming months. Gains in the EUR index should build, but considering the above analysis, with a greater degree of variance than the more stable USD index.

¹ This essentially involved heavy management of the currencies in the high-saving EM-Asian bloc versus the USD, in order to support export-led growth strategies, resulting in rapid FX reserve accumulation and a recycling of export revenues into US government Treasuries. This is hypothesized to have (in recent years) contributed to lower overall global rates of inflation and interest rates depressed below levels that would have otherwise persisted.

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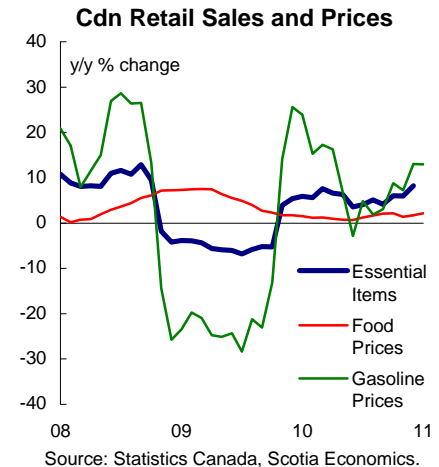
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Key Data Preview

CANADA

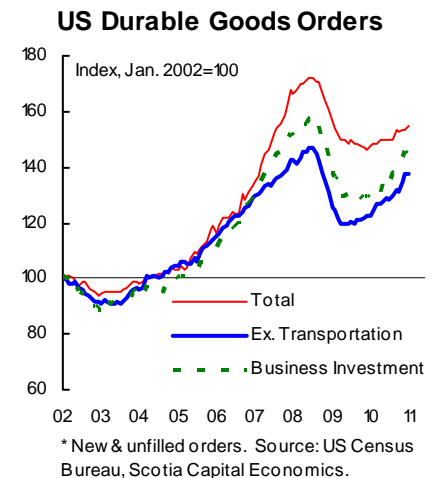
Tuesday's **retail sales** print represents the final leading indicator for January GDP. We are expecting a gain of 1.0% m/m, on the back of a pickup in motor vehicle sales, and a weak base effect following December's 0.2% contraction. Core (ex. auto) sales should advance by 0.8%. Relevant to GDP is the change in sales volume, and we are looking for a more muted gain on this basis, given the recent strength in food and fuel prices, which are likely to continue to inflate the headline figure (see chart 1). Looking ahead to the March 31st GDP report, the boost to growth from retail will add to the modest lift from housing starts and the substantial push from manufacturing and wholesale sales. Of the remaining available indicators, we know that a steep deterioration in net exports will detract from upward momentum and a flat reading in hours worked will have a neutral effect. However, GDP surprises can always materialize out of the large and unobservable components of resources, utilities and services.



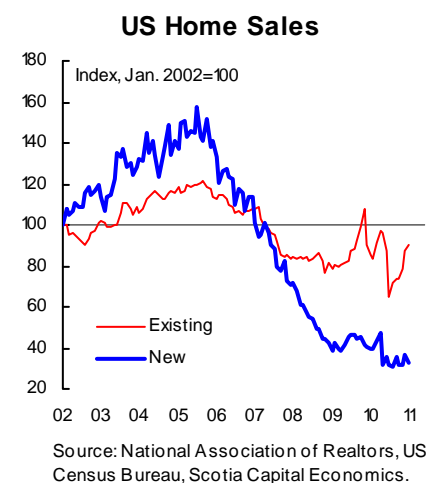
UNITED STATES

The final print for **Q4 GDP** is due out next Friday. The consensus view ranges from 2.7% to 3.2% q/q annualized, with our forecast looking for a one-tenth increase to 2.9%, on modest upward revisions to trade, business investment and housing data.

Leading indicators suggest that headline **durable goods orders** (Thursday) are likely to have improved in February, but the strong base effect from the prior month — growth was upwardly revised to the strongest pace since September — and the second straight month of softer commercial aircraft orders are expected to have a dampening effect. Our forecast is looking for a headline gain of 1.0% m/m. According to the latest ISM manufacturing index — strongly correlated with durable goods orders — growth in orders accelerated to the fastest pace since early 2004. Our view is further reaffirmed by the auto sector, which accounts for nearly 15% of the overall durable goods orders, a moderate rise in defense spending and a nominal boost from higher commodity prices and a weaker US dollar. We expect a stronger core (ex. transportation) gain of 1.8%, following last month's sharp contraction, but also as capital spending continues to benefit from the pick-up in business sentiment (see middle chart).



While **existing home sales** (Monday) have improved since bottoming in July — marking their third straight month of advance in January, but at a slowing clip — data compiled by the National Association of Realtors show a sizeable contribution from sales of distressed properties to investors. **New home sales** (Wednesday) have been trending along the floor since May (see bottom chart). Leading indicators of resale activity — like pending home sales, purchase mortgage applications and consumer confidence — point to weaker demand in February. We are forecasting a retrenchment of 4.0% m/m to 5.0 million annualized pre-owned units, and gain of 3.5% to 294k new housing units, boosted by a weak base effect from the prior month. A more sustainable pick up in hiring activity is paramount in encouraging potential buyers to step off the sidelines.



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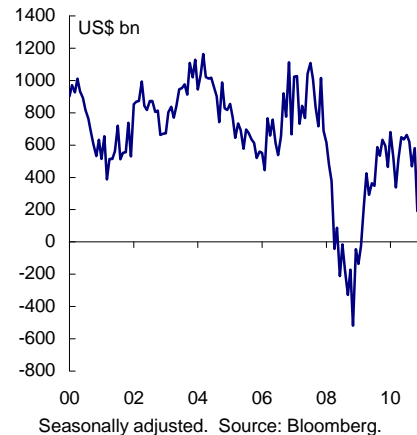
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ASIA

Based on indications of sizable foreign orders of machinery and equipment for January, we expect Japan's exports to accelerate in February, leading to a rise in the seasonally adjusted **trade balance**. While imports were also strong during the first month of the year, we believe the outlook for the contribution of net foreign sales to growth remains promising

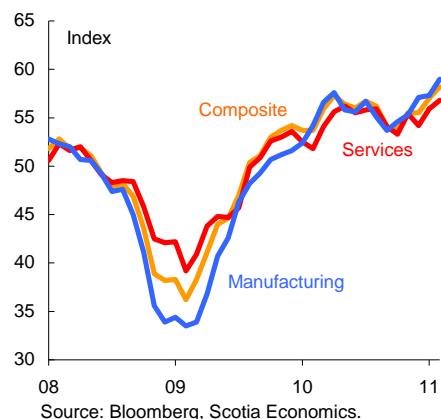
Trade Balance: Japan



EUROPE

The underlying momentum of the euro zone economy remains positive despite the ongoing sovereign credit turmoil. The preliminary estimate for the March purchasing managers' indices will be released on March 24th. We expect a small uptick in the euro zone composite index, reflecting improving business sentiment and the recent favourable performance of the industrial sector.

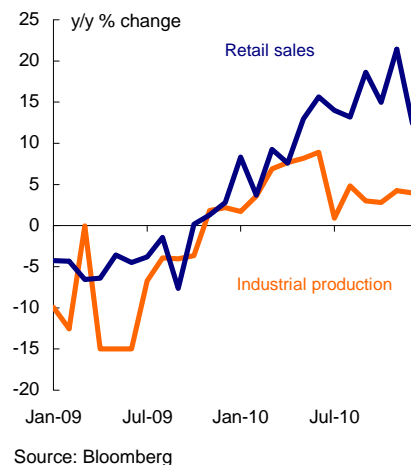
Euro Zone PMI



LATIN AMERICA

The economic release calendar for Latin America is fairly light in the week ahead (March 21st-25th), leaving Colombia's fourth quarter GDP release as the key event for the region. In the third quarter of 2010, Colombian real GDP expanded by 3.6% y/y on the back of increasing local demand, especially in the consumer spending and gross fixed capital formation categories. On March 16th, Standard & Poor's recognized Colombia's strong economic activity and its resilience to external shocks, prompting the agency to upgrade the country's long-term sovereign credit rating from "BB+" to "BBB-" with a "stable" outlook. Accordingly, Colombia regained an "investment grade" status, which it had lost at the end of the 1990's. We expect the Colombian economy to continue to expand at a strong pace, at least in the first half of the year, leading to an annual growth rate of 4.6% in 2011. Sustained high oil and commodities prices have and will continue to support a positive outlook for the country.

Colombian Economic Indicators



Key Indicators for the week of March 21 - 25

North America

Country	Date	Time	Event	Period	BNS	Consensus	Latest
US	03/21	08:30	Chicago Fed Nat Activity Index	FEB	--	--	-0.2
US	03/21	10:00	Existing Home Sales (MoM)	FEB	-4.0	-4.5	2.7
CA	03/22	08:30	Leading Indicators (MoM)	FEB	--	0.6	0.3
CA	03/22	08:30	Retail Sales (MoM)	JAN	1.0	1.1	-0.2
CA	03/22	08:30	Retail Sales Less Autos (MoM)	JAN	0.8	0.7	0.6
US	03/22	10:00	House Price Index (MoM)	JAN	-0.2	-0.2	-0.3
MX	03/22	10:00	Aggregate Supply & Demand (YoY)	4Q	--	--	9.3
US	03/22	10:00	Richmond Fed Manufacturing Index	MAR	22	22	25
US	03/23	07:00	MBA Mortgage Applications (WoW)	18-Mar	--	--	-0.7
MX	03/23	10:00	Retail Sales (YoY) (INEGI)	JAN	--	--	2.6
US	03/23	10:00	New Home Sales (MoM)	FEB	3.5	2.1	-12.6
US	03/24	08:30	Durable Goods Orders (MoM)	FEB	1.0	1.0	3.2
US	03/24	08:30	Durables Ex Transportation (MoM)	FEB	1.8	2.0	-3.0
US	03/24	08:30	Cap Goods Orders Nondef Ex Air (MoM)	FEB	--	4.4	-6.2
US	03/24	08:30	Initial Jobless Claims (000s)	19-Mar	390	--	385
US	03/24	08:30	Continuing Claims (000s)	12-Mar	3720	--	3706
MX	03/24	10:00	Unemployment Rate (%)	FEB	--	--	5.4
US	03/25	08:30	GDP QoQ (Annualized)	4Q T	2.9	3.0	2.8
US	03/25	09:55	U. of Michigan Confidence Index	MAR F	--	68.0	68.2
MX	03/25	10:00	Trade Balance (USD millions)	FEB P	--	--	69.3

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

Key Indicators for the week of March 21 - 25

Europe

Country	Date	Time	Event	Period	BNS	Consensus	Latest
RU	MAR 18-24		GDP (YoY)	4Q P	--	--	2.7
RU	MAR 18-21		Disposable Income (YoY)	FEB	--	-1.1	-5.5
RU	MAR 18-21		Real Wages (YoY)	FEB	--	6.0	5.5
RU	MAR 18-21		Retail Sales (Real) (MoM)	FEB	--	-1.8	-25.0
RU	MAR 18-21		Unemployment Rate (%)	FEB	--	7.5	7.6
RU	MAR 18-21		Investment In Productive Capacity (YoY)	FEB	--	0.3	-4.7
UK	03/20	20:01	Rightmove House Prices (MoM)	MAR	--	--	3.1
FR	03/21	04:00	PMI Manufacturing Index	MAR P	--	--	55.7
FR	03/21	04:00	PMI Services Index	MAR P	--	--	59.7
UK	03/22	05:30	CPI (YoY)	FEB	4.2	4.2	4.0
UK	03/22	05:30	Core CPI (YoY)	FEB	3.1	--	3.0
UK	03/22	05:30	Public Finances (PSNCR)	FEB	--	--	-14.4
UK	03/22	05:30	Public Sector Net Borrowing (GBP billions)	FEB	--	--	-5.3
SP	03/22		Trade Balance (Mln Euros)	JAN	--	--	-5365.3
UK	03/23	05:30	Bank of England Minutes				
UK	03/23	05:30	BBA Loans for House Purchase (units)	FEB	--	--	28932
EC	03/23	06:00	Industrial New Orders SA (MoM)	JAN	--	--	2.6
TU	03/23	08:00	Benchmark Repo Rate (%)		6.25	--	6.25
UK	03/23	08:30	U.K. Chancellor of the Exchequer Osborne Announces Budget				
EC	03/23	11:00	Euro-Zone Consumer Confidence Index	MAR A	--	--	-10.0
FR	03/24	03:45	Business Confidence Indicator Index	MAR	--	--	106.0
SP	03/24	04:00	Mortgages on Houses (YoY)	JAN	--	--	-17.0
GE	03/24	04:30	PMI Manufacturing Index	MAR A	--	62.0	62.7
GE	03/24	04:30	PMI Services Index	MAR A	--	58.8	58.6
IT	03/24	05:00	Consumer Confidence Index sa	MAR	--	--	106.4
EC	03/24	05:00	PMI Composite Index	MAR A	58.3	--	58.2
EC	03/24	05:00	PMI Manufacturing Index	MAR A	--	58.4	59.0
EC	03/24	05:00	PMI Services Index	MAR A	--	56.4	56.8
UK	03/24	05:30	Retail Sales Ex Auto Fuel(MoM)	FEB	--	--	1.6
UK	03/24	05:30	Retail Sales w/Auto Fuel (MoM)	FEB	--	-0.5	1.9
IR	03/24	07:00	GDP - s.a. (QoQ)	4Q	--	--	0.5
CZ	03/24	08:00	Repo Rate Announcement (%)			0.75	0.75
FR	03/24	13:00	Jobseekers- Net Change (000s)	FEB	--	--	-19.3
GE	03/25	03:00	GfK Consumer Confidence Survey	APR	--	5.8	6.0
FR	03/25	03:45	Consumer Confidence Indicator	MAR	--	--	85.0
SP	03/25	04:00	Producer Prices (YoY)	FEB	--	--	6.8
GE	03/25	05:00	IFO - Business Climate Index	MAR	--	110.3	111.2
IT	03/25	05:00	Retail Sales s.a. (MoM)	JAN	--	--	0.2
RU	03/25		Russia Refinancing Rate (%)		8.25	--	8.00

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

Key Indicators for the week of March 21 - 25

Asia Pacific

Country	Date	Time	Event	Period	BNS	Consensus	Latest
ID	MAR 20-25		Total Local Auto Sales (units)	FEB	--	--	73849
PH	MAR 20-25		Budget Deficit/Surplus (PHP billions)	FEB	--	--	13.4
TH	MAR 20-25		Customs Trade Balance (USD millions)	FEB	--	--	-856.8
TA	03/21	04:00	Export Orders (YoY)	FEB	--	11.7	13.5
TA	03/22	04:00	Unemployment Rate - sa (%)	FEB	--	4.7	4.7
NZ	03/22	17:45	Current Account Balance (NZD billions)	4Q	--	--	-1.8
SL	MAR 22-23		GDP (YoY)	4Q	--	8.0	8.0
SI	03/23	01:00	CPI (YoY)	FEB	--	5.2	5.5
TA	03/23	04:00	Industrial Production (YoY)	FEB	--	15.6	17.2
NZ	03/23	17:45	GDP (QoQ)	4Q	--	--	-0.2
AU	03/23	19:00	Conference Board Leading Index	JAN	--	--	0.7
JN	03/23	19:50	Merchandise Trade Balance Total (JPY billions)	FEB	--	883.4	-471.4
CH	03/23	22:30	HSBC Flash China Manufacturing PMI	MAR	--	--	0.0
PH	03/24	04:00	Overnight Borrowing Rate (%)		4.00	4.25	4.00
HK	03/24	04:30	Trade Balance (HKD billions)	FEB	--	-28.8	-16.0
SK	03/24	17:00	SK Consumer Confidence Index	MAR	--	--	105.0
JN	03/24	19:30	Natl CPI (YoY)	FEB	--	0.0	0.0
JN	03/24	19:30	Natl CPI Ex Food, Energy (YoY)	FEB	--	-0.7	-0.6
JN	03/24	19:50	Corp Service Price Index (YoY)	FEB	--	--	-1.1
PH	03/24	21:00	Trade Balance (USD billions)	JAN	--	--	-729.0
SI	03/25	01:00	Industrial Production (MoM) sa	FEB	--	2.5	15.4
MA	03/25	05:00	CPI (YoY)	FEB	--	2.4	2.4

Latin America

Country	Date	Time	Event	Period	BNS	Consensus	Latest
BZ	03/21	07:30	Central Bank Weekly Economists Survey				
MX	03/22	10:00	Aggregate Supply & Demand (YoY)	4Q	--	--	9.3
BZ	03/23	07:00	FGV CPI IPC-S (WoW)	22-Mar	--	--	0.6
BZ	03/23	08:00	IBGE CPI IPCA-15 (MoM)	MAR	--	0.5	1.0
MX	03/23	10:00	Retail Sales (INEGI)	JAN	--	--	2.6
BZ	03/24	08:00	Unemployment Rate (%)	FEB	--	--	6.1
MX	03/24	10:00	Unemployment Rate (%)	FEB	--	--	5.4
MX	03/24	11:00	Bi-Weekly Core CPI (WoW)	15-Mar	--	--	0.1
MX	03/24	11:00	Bi-Weekly CPI (WoW)	15-Mar	--	--	0.2
CO	03/24	12:00	GDP (YoY)	4Q	4.0	3.8	3.6
CO	03/24	12:00	GDP (Annual Growth Rate)	2010	--	--	0.8
BZ	03/25	09:30	Current Account - Monthly (USD millions)	FEB	--	--	-5409.3
BZ	03/25	09:30	Foreign Investment (USD billions)	FEB	--	--	2956.0
MX	03/25	10:00	Trade Balance (USD millions)	FEB P	--	--	69.3

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

Global Auctions for the week of March 21 - 25

North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	03/21	11:00	U.S. Fed to Purchase USD1.5-2.5 Bln Notes/Bonds
US	03/21	11:30	U.S. to Sell 3-Month Bills
US	03/21	11:30	U.S. to Sell 6-Month Bills
US	03/22	11:00	U.S. Fed to Purchase USD6.5-8.5 Bln Notes/Bonds
US	03/22	11:30	U.S. to Sell 4-Week Bills
US	03/23	11:00	U.S. Fed to Purchase USD6.5-8.5 Bln Notes/Bonds
CA	03/23	12:00	Canada to Sell 3-Year Notes
US	03/24	11:00	U.S. Fed to Purchase USD5.5-7.5 Bln Notes/Bonds
US	03/24	13:00	U.S. to Sell 10-Year TIPS Reopening
US	03/25	11:00	U.S. Fed to Purchase USD4-6 Bln Notes/Bonds

Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
NO	03/21	06:00	Norway to Sell NOK3 Bln 5% 2015 Bonds
GE	03/21	06:15	Germany to Sell Add'l EU2 Bln 9-Mth Bills
NE	03/21	07:00	Netherlands to Sell up to EUR2 Bln 191-Day Bills
NE	03/21	07:00	Netherlands to Sell up to EUR2 Bln 222-Day Bills
NE	03/21	07:00	Netherlands to Sell up to EUR2 Bln 99-Day Bills
FR	03/21	10:00	France to Sell EUR4.5 Bln 91-Day Bills
FR	03/21	10:00	France to Sell EUR1.5 Bln 168-Day Bills
FR	03/21	10:00	France to Sell EUR2.5 Bln 350-Day Bills
DE	03/22	05:15	Denmark to Sell Bonds
SP	03/22	05:30	Spain to Sell 3M and 6M Bills
SZ	03/22	06:30	Switzerland to Sell 3-Month Bills
GE	03/23	06:15	Germany to Sell Add'l EU4 Bln 10-Year Notes
RU	03/23	07:00	Russia to Sell Up to RUB25 Bln OFZ Bonds
UK	03/25	07:10	U.K. to Sell Bills

Source: Bloomberg, Scotia Economics.

Global Auctions for the week of March 21 - 25

Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
SK	03/20	22:30	Korea to Sell KRW1.6 Tln 10-Year Bonds
MA	03/21		Bank Negara to Sell MYR2 Bln 128-Day Notes
MA	03/21		Bank Negara to Sell MYR1 Bln 306-Day Notes
MA	03/21		Bank Negara to Sell MYR1 Bln 91-Day Islamic Bills
SI	03/21		Singapore To Sell S\$3.9 billion 91-Day T-Bills
PH	03/21	01:00	Philippines to Sell PHP 1 Bln 91D T-bills
PH	03/21	01:00	Philippines to Sell PHP 3.5 Bln 182D T-bills
PH	03/21	01:00	Philippines to Sell PHP 4 Bln 364D T-bills
CH	03/21	01:00	Agricultural Dev Bank to Sell CNY15 Bln 7-Year Bonds
AU	03/21	20:00	Australia Plans to Sell CIB Bonds
TH	03/21	23:00	Bank of Thailand to Sell THB25 Bln 28D Bills
TH	03/21	23:00	Bank of Thailand to Sell THB20 Bln 91D Bills
TH	03/21	23:00	Bank of Thailand to Sell THB12 Bln 182D Bills
HK	03/21	23:30	Hong Kong to Sell HKD28.791 Bln 91-D Bills
JN	03/21	23:35	Japan to Sell 3-Month Bills
JN	03/22	04:00	Japan Auction for Enhanced-Liquidity
ID	03/22	04:30	Indonesia to Sell 5-Yr to Maturity Government Bond
ID	03/22	04:30	Indonesia to Sell 20-Yr to Maturity Government Bond
ID	03/22	04:30	Indonesia to Sell 1-Yr to Maturity Treasury Bills
CH	03/22	23:00	China Government to Sell CNY30 Bln 1-Year Bonds
HK	03/22	23:30	Hong Kong to Sell HKD9 Bln 182-Day Bills
JN	03/22	23:35	Japan to Sell 3-Month Bills
SL	03/23	03:30	Sri Lanka to Sell 91-Day Bills
SL	03/23	03:30	Sri Lanka to Sell 182-Day Bills
SL	03/23	03:30	Sri Lanka to Sell 364-Day Bills
IN	03/23	07:30	India to Sell INR 50Bln 91-Day Bills
IN	03/23	07:30	India to Sell INR 30Bln 364-Day Bills
NZ	03/23	21:30	New Zealand Plans to Sell Government Bonds
JN	03/23	23:45	Japan to Sell 2-Year Bond

Source: Bloomberg, Scotia Economics.

Events for the week of March 21 - 25

North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	03/22	07:30	Fed's Fisher Speaks at Frankfurt Finance Summit
US	03/22	08:00	Fed's Pianalto Speaks on Economy in Akron, Ohio
CA	03/22	16:00	Canada Finance Minister Flaherty Presents 2011 Budget
US	03/23	12:00	Bernanke Speaks to Bankers in San Diego
US	03/25	05:00	Kocherlakota Speaks at Conference in Marseilles, France
EC	03/25	07:30	Dallas Fed's Fisher Speaks at Think Tank in Brussels
US	03/25	08:30	Fed's Evans Speaks to Reporters at Chicago Fed
US	03/25	09:15	Fed's Lockhart Speaks on Economy in Fort Myers, Florida
CA	03/25	11:15	Finance Minister Flaherty Speaks in Montreal
US	03/25	12:15	Fed's Plosser Speaks on Monetary Policy in New York

Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
EC	03/20		EU Trade Ministers Meet in Brussels
GE	03/20		German State Election in Saxony-Anhalt
LX	03/21	04:00	ECB's Mersch Gives Press Conference in Luxembourg
EC	03/21	05:00	EU Foreign Ministers Meet in Brussels
EC	03/21	09:30	Euro-Area Finance Ministers to Hold Special Meeting
EC	03/21	13:00	EU-27 Finance Chiefs Meet on Permanent Rescue Facility
GE	03/22	04:00	Deutsche Bank Expects German Top Court Landmark Swap Ruling
SZ	03/22	05:00	Swiss Financial Regulator Holds Press Briefing
SZ	03/22	06:30	Swiss Central Bank President Speaks in Geneva
UK	03/23	05:30	Bank of England Releases Monetary Policy Committee Minutes
TU	03/23	08:00	Benchmark Repo Rate
EC	03/23	08:15	CEPS Holds Conference on Future of Euro Zone
UK	03/23	08:30	U.K. Chancellor of the Exchequer Osborne Announces Budget
GE	03/23	13:00	Merkel At Baden-Wuerttemberg Election Rally: Ludwigsburg
HU	03/24	05:00	Hungary State Secretary Varga Speaks on Fiscal Program
EC	03/24	07:00	EU Liberal Leaders Meet Before Summit
EC	03/24	08:00	EU Conservative Leaders Meet Before Summit
CZ	03/24	08:00	Repo Rate Announcement
SZ	03/24	13:00	SNB's Danthine Holds Speech in Zurich
EC	MAR 24-25		EU Leaders Hold Summit in Brussels
GE	03/25	11:00	Merkel Speech At Saxony-Anhalt Election Rally: Dessau
EC	03/25	11:30	Van Rompuy, Leterme, Tusk Speak at GMF Conference
GE	03/25	14:00	Merkel At Baden-Wuerttemberg Election Rally: Mannheim
EC	03/25	14:30	EU's Barroso Speaks at GMF Conference
RU	03/25		Russia Refinancing Rate

Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
TH	03/21	22:00	EuroMoney Conference Day 2- BOT Governor Speech
JN	03/22	21:30	BOJ Board Member Ryuzo Miyao to Speak in Oita City
PH	03/24	04:00	Overnight Borrowing 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	April 27, 2011	0.25	--
Banco de México – Overnight Rate	4.50	April 15, 2011	4.50	--

The FOMC kept benchmark rates unchanged at the March-15 meeting. The accompanying statement signaled no policy shift, but hinted at somewhat greater optimism, perhaps to avoid dissent. Recent data volatility in Canada further reinforces our view that the BoC will likely remain on hold until October. We expect no tone shift in the April Monetary Policy Report that would justify a Spring rate call.

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	June 16, 2011	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	6.25

Inflationary pressures remain virtually absent in Switzerland; therefore, the SNB left the Libor target rate unchanged at 0.25% following the quarterly policy meeting on March 17. We expect it to maintain the expansionary policy stance until Q4 2011 when a gradual process of monetary policy normalization begins.

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	April 7, 2011	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	6.75	May 3, 2011	6.50	--
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	--

We expect the central bank of the Philippines to stay put as underlying inflation remains low with the headline rising in January. The benchmark repo rate was lifted to 6.75% in India, as wholesale price inflation rebounded again in February. This time, price acceleration was caused by fuel cost increases with primary goods inflation still downtrending. Rising manufacturing costs have been affected for the first time in six months.

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	4.00	April 12, 2011	4.25	--
Banco de la República de Colombia – Lending Rate	3.50	April 29, 2011	3.50	--
Banco Central de Reserva del Perú – Reference Rate	3.75	April 7, 2011	3.75	--

On the back of high international commodity prices and a shift in inflation expectations, the Bank of Chile raised its benchmark interest rate by 50 basis points to 4.0%, exceeding the market's expectations and increasing the pace of its tightening cycle. The central bank has raised the policy rate by a total of 350 basis points since the second quarter of 2010. In addition, Colombia increased its benchmark interest rate by 25 basis points to 3.5%, as a preemptive action to maintain inflation expectations within the target range.

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	5.50

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

	2000-09	2010e	2011f	2012f	2000-09	2010e	2011f	2012f
Output and Inflation (annual % change)	Real GDP				Consumer Prices²			
World ¹	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
Central Bank Rates (% , end of period)	11Q1f	11Q2f	11Q3f	11Q4f	12Q1f	12Q2f	12Q3f	12Q4f
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
Exchange Rates (end of period)								
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
Commodities (US\$, annual average)	2000-09	2010	2011f	2012f				
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				

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

² 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)		-502	-453	
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	5.3 (Feb)
Housing Starts (000s)	192	192	179	182 (Feb)	Housing Starts (millions)	0.59	0.59	0.53	0.48 (Feb)
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	2.2 (Feb)	CPI	1.6	1.2	1.3	2.1 (Feb)
IPPI	1.0	1.0	2.6	-2.7 (Jan)	PPI	4.2	3.8	3.9	5.6 (Feb)
Pre-tax Corp. Profits	18.4	15.3	16.2		Pre-tax Corp. Profits		34.8		
Mexico					Brazil				
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	6.6 (Jan)	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)
Argentina					Italy				
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	-0.13 (Jan)
Merch. Trade Bal. (US\$B, ar)	12.1	12.0	6.2	6.2 (Jan)	Merch. Trade Bal. (US\$B, ar)	-36.6	-22.9	-44.4	-105.0 (Jan)
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	2.3 (Feb)
Germany					France				
Real GDP	3.5	3.9	4.0		Real GDP	1.7	2.0	1.7	
Current Acc. Bal. (US\$B, ar)	172.6	165.7	250.8	115.2 (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	5.2	5.8	5.4 (Jan)
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	1.7 (Feb)
Euro Zone					United Kingdom				
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	-314 (Jan)	Current Acc. Bal. (US\$B, ar)		-63.9		
Merch. Trade Bal. (US\$B, ar)	0.0	43.0	53.2	-216.0 (Jan)	Merch. Trade Bal. (US\$B, ar)	-151.4	-159.3	-169.6	-133.6 (Jan)
Industrial Production	7.2	7.1	7.9	6.6 (Jan)	Industrial Production	2.0	3.0	3.3	4.5 (Jan)
Unemployment Rate (%)	9.9	9.9	9.9	9.9 (Jan)	Unemployment Rate (%)	7.9	7.8	7.9	8.0 (Dec)
CPI	1.6	1.7	2.0	2.4 (Feb)	CPI	3.3	3.1	3.4	4.0 (Jan)
Japan					Australia				
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	1.8 (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	
China					South Korea				
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)	41.2	42.5	52.1	29.5 (Feb)
Industrial Production	13.5	13.3	13.5	14.9 (Feb)	Industrial Production	16.6	12.9	9.9	15.1 (Jan)
CPI	4.6	3.6	4.6	4.9 (Feb)	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/11	Mar/18*	United States	10Q3	10Q4	Mar/11	Mar/18*
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	0.94	0.91	3-mo. T-bill	0.15	0.12	0.07	0.06
10-yr Gov't Bond	2.76	3.12	3.28	3.18	10-yr Gov't Bond	2.51	3.29	3.40	3.28
30-yr Gov't Bond	3.36	3.53	3.75	3.72	30-yr Gov't Bond	3.68	4.33	4.55	4.43
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)
Germany					France				
3-mo. Interbank	0.86	0.96	1.17	1.01	3-mo. T-bill	0.51	0.40	0.77	0.74
10-yr Gov't Bond	2.28	2.96	3.21	3.18	10-yr Gov't Bond	2.66	3.36	3.56	3.52
FX Reserves (US\$B)	62.4	62.3	62.9	(Jan)	FX Reserves (US\$B)	52.2	55.8	56.4	(Jan)
Euro-Zone					United Kingdom				
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	0.80	0.70	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	3.55	3.52
					FX Reserves (US\$B)	67.2	68.3	72.7	(Jan)
Japan					Australia				
Discount Rate	0.30	0.30	0.30	0.30	Cash Rate	4.50	4.75	4.75	4.75
3-mo. Libor	0.15	0.13	0.13	0.14	10-yr Gov't Bond	4.96	5.55	5.48	5.40
10-yr Gov't Bond	0.94	1.13	1.26	1.22	FX Reserves (US\$B)	38.1	38.7	37.0	(Jan)
FX Reserves (US\$B)	1077.4	1061.5	1060.3	(Jan)					

Exchange Rates (end of period)

USDCAD	1.03	1.00	0.97	0.98	¥/US\$	83.52	81.16	81.86	81.12
CADUSD	0.97	1.00	1.03	1.02	US\$/Australian\$	96.71	102.33	101.38	99.49
GBPUSD	1.572	1.561	1.608	1.619	Chinese Yuan/US\$	6.69	6.59	6.57	6.57
EURUSD	1.363	1.339	1.390	1.414	South Korean Won/US\$	1138	1125	1123	1126
JPYEUR	0.88	0.92	0.88	0.87	Mexican Peso/US\$	12.593	12.360	11.911	12.060
USDCHF	0.98	0.93	0.93	0.90	Brazilian Real/US\$	1.688	1.660	1.665	1.673

Equity Markets (index, end of period)

United States (DJIA)	10788	11578	12044	11888	U.K. (FT100)	5549	5900	5829	5724
United States (S&P500)	1141	1258	1304	1283	Germany (Dax)	6229	6914	6981	6675
Canada (S&P/TSX)	12369	13443	13674	13842	France (CAC40)	3715	3805	3929	3813
Mexico (Bolsa)	33330	38551	36091	35617	Japan (Nikkei)	9369	10229	10254	9207
Brazil (Bovespa)	69430	69305	66685	67162	Hong Kong (Hang Seng)	22358	23035	23250	22300
Italy (BCI)	1033	1048	1129	1077	South Korea (Composite)	1873	2051	1956	1981

Commodity Prices (end of period)

Pulp (US\$/tonne)	990	960	960	960	Copper (US\$/lb)	3.65	4.42	4.10	4.32
Newsprint (US\$/tonne)	638	640	640	640	Zinc (US\$/lb)	0.99	1.10	1.03	1.05
Lumber (US\$/mfbm)	236	308	299	294	Gold (US\$/oz)	1307.00	1405.50	1411.50	1420.00
WTI Oil (US\$/bbl)	79.97	91.38	101.16	101.45	Silver (US\$/oz)	22.07	30.63	34.10	35.15
Natural Gas (US\$/mmbtu)	3.87	4.41	3.89	4.15	CRB (index)	286.86	332.80	351.88	352.08

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

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