Global Views

Weekly commentary on economic and financial market developments

June 3, 2011

Global Views is available on: www.scotiabank.com, Bloomberg at SCOE and Reuters at SM1C

Karen Cordes Woods (416) 862-3080
karen_woods@scotiacapital.com

Derek Holt (416) 863-7707
derek_holt@scotiacapital.com

Europe's Rush Toward A Greek Solution Will Dominate Markets Throughout June

- **Please see our full indicator, central bank, auction and event calendars on pp. A3-A11.**

European markets will have the potential to heavily sway the global market tone throughout the rest of the month and that doesn't even rest upon the fundamentals. By month-end, an agreement over restructuring or the doublespeak version called reprofiling Greek debt must be in place given the IMF's threat to withhold conditional financing by month-end in the absence of a more credible Greek funding plan to cover at least the next year. Restructuring/reprofiling is no panacea. "Voluntary" restructuring of debt obligations voted upon and accepted by noteholders could conceivably crush the credit default swap market. High CDS spreads are there for a reason against the default risk, but a "voluntary" restructuring would not enable CDS contracts to be triggered as protection. Thus, the rationale for wide spreads would be removed and with negative implications for credit derivative markets. Inter-bank spreads would likely also widen out from the currently narrow 14bps in 3-month LIBOR-OIS and 28bps in CDOR-OIS, on concerns about European bank exposures. It is also uncertain as to what funding challenges some hedge funds may face. The overall environment could well be negative for the risk trade, and spark a sustained USD and Treasury market bid. In determining the outcome, an important issue concerns whether or not this would be a one-off event. Given how markets work, the concern would be that they would move onto the next most likely candidate across the peripherals. It's possible that the only really sustainable solution in the end is a much more rapid push toward the next stage in strengthening the euro zone which would be to embrace Trichet's remarks in favour of a pan-European finance ministry, like the US Treasury or Canadian Finance, and a pan-European Treasury-style market designed to address the root cause of the problem which relates to highly fragmented capital markets.

Much of this will be the focus of the ECB's rate decision and ensuing press conference on Thursday, but also justifies continued momentum in favour of the doves at the BoE in their rate announcement on the same day. Portuguese general elections occur this weekend, and raise the concern of a political stalemate given the close race between the ruling centre-left Socialists versus the opposition centre-right Social Democratic Party. This risks another round of destabilizing politics in terms of the country's ability to enact reforms. Data risk will also be high in terms of key releases like German factory orders, European trade figures, and euro zone add-ups on retail sales and Q1 GDP.

While the **Canadian** week starts with the re-tabling of the Federal Budget , much of that is already baked into markets (see Mary Webb's Budget preview on page 3). Thus, the real show for Canada watchers comes later in the week. International merchandise trade figures could well paint a bleak picture. We're expecting a large decline in the volume of exports due to supply chain disruptions related to Japan's shocks, but also related to demand destruction in US markets sparked by high commodity prices. What makes forecasting the trade balance uncertain is that there will also be disruptions on the import side. I'm not convinced that the weakness coming to Canadian indicators is fully priced into the C$ or the broader curve. Jobs data for May round out the week on Friday. There will likely be no election effect since the hiring and firing of election workers occurred between survey reference periods, but the soft spot in the world economy into May could well spill over through cross-border supply chains into Canadian job numbers. Canadian job growth has been overstated of late, as most of the prior month's 58k rise was entirely due to one province — Ontario — and one sector — community services. A high base effect on job creation in April could well tilt the risk toward a negative print, but we have opted for a flat reading below consensus.

Asia-Pacific markets will be primarily focused upon the risk of a rate hike or higher reserve ratio requirement by the People's Bank of China, and a divided consensus call between no move by the RBA versus a 25bps hike. Australian job figures will only arrive later in the week. The RBNZ is expected to hold, and so is Indonesia. Consensus expects the Bank of Korea to continue tightening policy.

The week will be relatively light on **US** data risk especially compared to the past week. We expect a further deterioration in the US trade balance owing to global supply shocks during April. Several FOMC members speak during the course of the week, such that speech risk on the eve of the scheduled expiration of QE2 will likely dominate US-centric risk over the course of the week.

Nathan Joshua (416) 866-5338
nathan_joshua@scotiacapital.com

Mary Webb (416) 866-4202
mary_webb@scotiacapital.com

Re-tabling Canada's Federal Budget

- **Critical to the plans of Canada's new majority federal government are the substantial savings anticipated from the *Strategic and Operating Review*.**

With its *Budget* for fiscal 2011-12 (FY12) initially tabled less than three months ago and a detailed election platform subsequently released by the federal Conservative Party, the *Budget* to be presented on June 6th is expected to have few major new surprises. Reportedly remaining intact from the March document will be the numerous smaller measures addressing the needs of communities across Canada (see table), the closure of additional personal and business tax loopholes towards the government's tax fairness objective and the strategy to balance the books by mid-decade.

Yet the backdrop is somewhat altered. As anticipated, monthly *Budget* data point to an FY11 deficit narrower than the government's $40.5 billion estimate. Before supplementary period adjustments, the cumulative deficit for the twelve months of FY11 is $34.4 billion, compared with the year-earlier $47 billion shortfall. For FY12, however, narrowing the deficit to less than $30 billion, as the government indicated in March, will be complicated by the introduction of $2.2 billion of federal HST transition assistance for Quebec. The economic assumptions behind the March *Budget* estimates remain intact, following the government's consultation with private-sector economists, but the global economic outlook has recently appeared slightly less robust. Among the downside risks is the possibility of Canada's real GDP growth in calendar 2013 falling short of the assumed 2.7% if the U.S. substantially steps up its federal fiscal restraint.

The latest forecast from the Office of the Parliamentary Budget Officer (PBO) continues to maintain that Ottawa's books will not be balanced by mid-decade, given the persistence of a structural deficit, albeit diminishing, through FY16 alongside a cyclical shortfall that narrows to $1.5 billion. Reassuring, therefore, is the government's plan to conduct a comprehensive *Strategic and Operating Review* to accomplish targetted savings of $1 billion in FY13, $2 billion in FY14 and $4 billion annually thereafter *(see Global Views article, May 6)*. Once the savings are identified, they will be booked in next year's *Budget*. The *Review* is a tall order on top of the first strategic review over the four years to 2010 that is expected to yield savings of $1.4 billion in FY12. Yet the ambitious goal should force a thorough re-examination of Ottawa's programs, leaving the federal government better prepared for the expanding Seniors cohort over the next couple of decades.

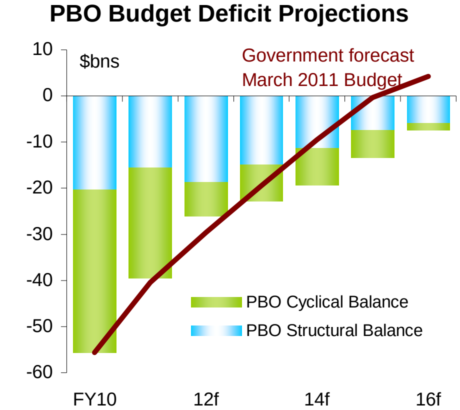
Major Spending and Tax Measures in Federal Budget Presented in March 2011

$ millions	FY12	FY13
Major Spending Initiatives		
Initiatives to Support Economic Growth		
Hiring Credit for Small Business	124	0
Enhancing our Business Advantage	14	16
Investing in Clean Energy	402	71
Public Infrastructure	30	81
Supporting Agriculture	58	47
Supporting Forestry	60	0
	688	**215**
Families and Communities		
Extending Assistance for Workers*	255	210
Assisting Seniors	228	312
Aiding Communities	108	41
Protecting the Environment	771	399
Public Safety, Security and Justice	65	53
Total Less Existing Funding	**1,066**	**669**
Innovation, Education, Training		
Digitial Economy Strategy	120	130
Building Canada's Research Advantage	131	85
Fostering Commercialization & Innovation	24	27
	275	**242**
Major Tax Measures		
Personal Income Tax		
Children's Art Tax Credit	100	100
Volunteer Firefighters' Tax Credit	15	15
Family Caregiver Tax Credit	40	160
Other	143	-15
Less Closure of Tax Loopholes**	-165	-165
	133	**95**
Business Income Tax		
Manufacturers/Processors, Acc.CCA Extension	0	65
Less Closure of Tax Loopholes	-90	-595
	-90	**-530**

* Including Employment Insurance (EI) Work Sharing, EI pilot projects, the Targetted Initiative for Older Workers and the Wage Earner Protection Program. ** Includes revised provisions for Publicly Listed Flow-Through Shares

Source: Finance Canada, March 2011.

PBO Budget Deficit Projections



Source: Finance Canada (March 2011), Office of the Parliamentary Budget Officer (June 2011).

Global Prospects Slip, Again

- **Though the global recovery is only two years old, from a growth perspective, it appears increasingly aged and less vibrant. There has been a palpable loss of confidence in the medium-term outlook that has contributed to renewed volatility in financial markets.**

An uneven pattern of generally slower economic growth is emerging. The US will struggle to move beyond a 2½-3% annualized pace in the absence of renewed stimulus. Japan has probably slipped back into recession, albeit temporarily. Prospects for much of Europe are limited by the spreading sovereign debt strains in the southern periphery, and the increasing bailout costs saddling the northern states. The UK is constrained by massive fiscal consolidation. Even some commodity-sensitive countries, such as Canada, are set to slow given extensive trade ties with sluggish advanced nations, while others, including Australia, have been battered by Mother Nature. Meanwhile, tighter policies designed to stem excessive lending and inflation are beginning to take a bite out of the financially stronger and faster-growing emerging markets.

Policymakers in all corners have their work cut out for them, faced with the challenge of tackling simultaneous and conflicting impediments to economic growth and stability, including the following:

- The aftershocks emanating from Japan's disasters are increasingly being felt around the globe in the form of reduced manufacturing, particularly for automobiles and technology products, and there is little evidence to suggest that a swift turnaround is at hand. The supply chains disruptions have effectively reduced global auto assemblies by about 11% y/y in April, a sharp reversal from an 8% y/y increase prior to the crisis, and are hitting the large car-producing region of the Asia-Pacific particularly hard.

- The price of oil continues to climb. Although it has fallen back from its late-April high, the year-to-date level is running near $100/bbl, roughly 25% above the average price in 2010. The price of crude is likely to remain elevated, reflecting continued underlying demand strength in the emerging markets, as well as persistent geopolitical tensions in the Middle East and North Africa. We estimate that this development has lowered the global growth profile by about 0.5 percentage points in 2011-12, though substitution effects and competitive pressures will limit somewhat the impact on discretionary spending.

- The ongoing European sovereign debt issue shows few signs of abating. Despite successive bailouts for Greece, Ireland and Portugal, government bond spreads relative to German Bunds continue to spike, suggesting that investors are bracing for further fallout given the diminishing voter support for additional accommodations. In Greece and Portugal, further belt-tightening and asset sales are needed to meet the requirements for additional funding, while the ECB and other creditors clash over the issue of burden-sharing by private bondholders. The contagion has not yet spread to other vulnerable economies, though in the absence of significant progress on structural reforms, the risk of infection remains.

- The pace of activity in the major emerging market economies, particularly China, is moderating. Policymakers have been progressively tightening domestic credit conditions through a combination of rate hikes, increased reserve requirements, and stronger currencies. Recent softening in production reflects in part the impact of the Japanese crisis, but there are signs that order backlogs are moderating, and many growth-sensitive commodity prices have retreated from their recent highs. With inflation rising even with government-imposed price controls in certain sectors, policymakers may be forced to tighten monetary conditions further to prevent any significant erosion in purchasing power.

- The US economy is transitioning to export- and business-led growth. American manufacturers have become more competitive, reflecting wage compression incurred during the recession, rising M&E expenditures, and increasing assistance from a weaker US dollar. However, despite gradual labour market improvements, highly-indebted US households will likely remain cautious shoppers as persistent instability in the housing market weighs on the outlook for wealth and consumer spending. Impending fiscal restraint will also work against a rebound in household expenditures.

- Inflationary pressures are gaining momentum. Sharply higher food and fuel costs have been the catalyst, though underlying price trends are being reinforced by critical labour and skills shortages virtually everywhere. Emerging market policymakers have been slow to tighten for fear of imperilling socio-economic prospects. Accordingly, price gains in the emerging markets are being transmitted through exports to the advanced nations, notwithstanding much greater amounts of economic slack.

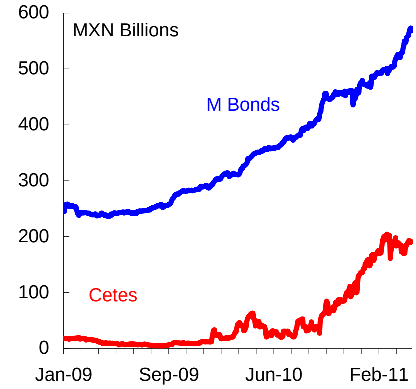
Mario Correa (52 55) 5229-2458
mcorrea@scotiacb.com.mx

Mexico's Financial Magnetism

- **Mexican securities have been quite attractive for international investors, which is explained by strong local macroeconomic fundamentals and the yield-drought provoked by excess liquidity.**

The Mexican financial market has recently been one of the most attractive destinations for international capital inflows. According to the balance of payments, between Q3 2010 and Q1 2011, US$ 65.8 billion entered the country as portfolio foreign investment. This represents 5.3% of GDP estimated for 2011, 51.9% of the current level of international reserves, 10.3% of the last reported financial savings, and 34.8% of Mexico's external debt. Moreover, the outstanding amount of Cetes (Mexican Treasury short-term bills) and M Bonds (Federal Government fixed-rate long-term bonds denominated in pesos) in foreign investors' hands reached US$ 65.3 billion by mid-May. This also represents a significant amount similar to the balance of payments' numbers. Holdings of these securities by non-Mexicans represent close to one third of the total amount outstanding of both Cetes and M bonds (chart 1).

Foreigners' Holdings on Government Securities



Source: Banxico

What has made Mexican securities so attractive to foreign investors? At a first glance, the explanation is quite simple: Mexican peso-(MXN) denominated securities offer an attractive high return. The 6-month Cete average yield was 4.55% from January to May, while the 10-year M Bond offered 7.25%. If we add the MXN's appreciation vis-à-vis the US dollar during the same period of time (5.9%), and the bond price increase (close to 5% in 10 year M Bonds) we end up with a significant return in USD terms that looks terrific and favours MXN assets, especially when compared with the average yield of the 6-month and 10-year US T-Bills (0.13% and 3.38%, respectively).

On a deeper analysis, the explanation has two parts. First, the Mexican economy looks strong from a macroeconomic point of view. GDP growth will exceed 4% this year, while inflation is close to 3% and is expected to remain below 4% by the end-of-the year. Public finances are healthy, with a total public debt of only 28.6% of GDP and a fiscal deficit of less than 3% of GDP. International reserves recently reached US$ 126.7 billion, equivalent to 67% of total external debt, which amounted to US$ 189.2 billion at the end of 2010. Monetary policy has been used in a very consistent way for many years, and is one of the main supports for macroeconomic stability. Therefore, the likelihood of a default of the Mexican sovereign debt is practically non-existent.

Second, global conditions have strongly favored financial investments in Mexico and in other emerging markets. The adoption of a loose monetary policy of unprecedented magnitude in the developed countries, especially in the US, has practically extinguished yields in their financial markets, pushing investors to look for alternatives. This global condition should normalize within the next 12 months, prompting international investors to decide how to rebalance their portfolios at that point. It is likely that extra-loose monetary policy has created distortions in global financial markets, which could cause some turbulence once its correction begins.

Will global investors maintain their appetite for emerging markets, including Mexico, once interest rates start climbing in the US and in other developed economies? Perhaps. As long as the correction process is taken gradually and no negative surprises emerge on the economic front, it is likely that investors will keep reacting to macroeconomic fundamentals and will make orderly adjustments to their holdings. However, if negative events occur, then turbulence could be significantly higher causing aggressive capital reallocation away from riskier assets. In this scenario, some significant short-term adjustments could be observed in currencies and interest rates in emerging markets, including Mexico.

As long as global financial conditions remain within acceptable limits, investing in Mexican assets will remain a very attractive option for foreigners. Mexico will keep glowing in the near future as an oasis of macroeconomic discipline, attracting investors from around the world. This requires the global economic recovery to remain on track after discipline in economic policy is reinstated in major developed economies.

Karen Cordes Woods (416) 862-3080
karen_woods@scotiacapital.com

Derek Holt (416) 863-7707
derek_holt@scotiacapital.com

Sarah Howcroft (416) 866-4205
sarah_howcroft@scotiacapital.com

What Did The BoC Mean By "Eventually"?

- **We're sticking to our longstanding October call, but the risk is still skewed to potentially later.**

Markets initially took the May 31st BoC statement as relatively more hawkish than expected, but that's relative to having largely priced out rate hikes through to year end. That may well be a reasonable bet, but we think the BoC is simply not comfortable with markets getting too far ahead too quickly given the uncertainty, and thus sought to restrain such a tendency that could back the BoC into a difficult position.

We don't view the statement as supportive of the July hike scenario since critical language on how "such a reduction <*ed. in monetary stimulus* > would need to be carefully considered" was left intact. Rather, we believe the statement supports our longstanding October call — or later.

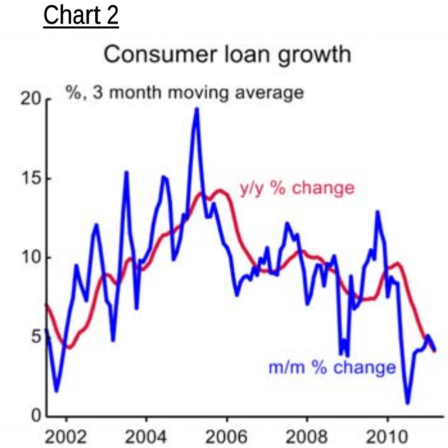
That said, the BoC hedged its bets somewhat. On the one hand, it turned slightly more dovish on global growth. Instead of "growth is solidifying" in the last statement, the US now "continues to grow at a modest pace." Instead of "European growth has strengthened", it's now "growth in Europe is maintaining momentum." The references to Japan and emerging markets are very similar to the previous statement.

However, what markets took as hawkish signals were softening the reference to subdued inflation to now note that it is "relatively subdued" and the following reference: "To the extent that the expansion continues and the current material excess supply in the economy is gradually absorbed, some of the considerable monetary policy stimulus currently in place will be eventually withdrawn, consistent with achieving the 2 per cent inflation target." In other words, should the picture evolve as expected in the BoC's forecasts, expect rate hikes. That's not particularly surprising, and "to the extent" and "eventually" language leaves the door open to the heavy uncertainty premium. But when a central bank uses such language, it is designed to suit a purpose.

Chart 1

Source: Bank of Canada, Scotia Capital Economics

Chart 2



Source: Bank of Canada, Scotia Capital Economics.

We think all the BoC intended here was to halt the market trend toward perpetually taking out rate hikes, versus signalling a nearer term threat to the curve. But the key remains in how to interpret "to the extent" — which flags the BoC's uncertainty — and "eventually." In the context of several forms of tightening already underway, "eventually" could well be a long way off yet. Those forms of tightened policy include global and domestic fiscal policy and rolling sovereign shocks, the forthcoming implementation of counter-cyclical capital rules, the effects of high commodity prices serving to erase real wage growth, tighter mortgage rules, and the lagged and uncertain effects of CAD appreciation on growth and inflation. Some would say hike to cool the household sector, but consumption growth has stalled out and, with the country riding at all-time highs on most household variables, the risk to significant tightening is to list the ship right over.

An added issue for some clients was the BoC's comment that household debt growth could represent upside risks to their inflation forecast. This is not new thinking at the BoC. Further, while mortgage growth has recently sharply accelerated into the March print (chart 1), that was likely to avoid tightened rules. Evidence of much softer mortgage growth for the key sectors that are so far available in April (but not shown in the industry total on the chart since we don't have the grand total) would support this view. Further, consumer loan growth ex-mortgages remains very soft (chart 2), which itself is a further sign that the only reason for accelerated mortgage growth was to get in before rule changes since broader debt growth remained soft.

Gorica Djeric (416) 866-4214
gorica_djeric@scotiacapital.com

Alex Koustas (416) 866-4212
alex_koustas@scotiacapital.com

Every Month Is A Winding Road: Canadian, U.S. Labour Markets Still Face Headwinds

- **Contrasting Canadian and U.S. labour market recoveries reveals that although Canada continues to outperform, headwinds lie ahead for both countries.**

This morning's broadly disappointing U.S. non-farm payrolls report for the month of May highlighted the volatility and the breadth of the ongoing challenges. Although the Canadian labour market has undoubtedly fared considerably better, there too some headwinds lie ahead.

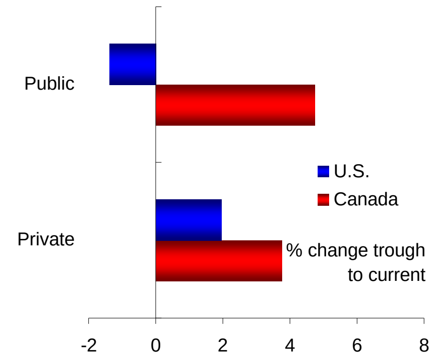
The private sector has accounted for all job growth in the U.S. since the labour market's nadir in February 2010. It has recovered 2% since then (see chart 1), offsetting cuts in the public sector, a pattern that is likely to continue going forward. Comparatively speaking, Canada's labour market has outperformed. However, government employment in Canada is 4% above its pre-recessionary peak — and even higher if one takes into account the broader public sector, such as education and healthcare — a situation that will not persist given coming fiscal consolidation. In contrast, the private sector has yet to fully recover, and has shown less momentum since the turn of the year. In both countries, an acceleration in private sector hiring is needed for the economic recovery to maintain its momentum.

In the United States, prospects have improved for new graduates. Since bottoming in December 2009, hiring of recent graduates — which fall in the 20- to 24-year old category, and account for about 9% of overall employment — has increased by 4.4% (see chart 2). Employment of those aged 25 years and older improved by a much more modest 1.1%, with the 55+ category absorbing all of the gains, while the middle cohort continues to languish, trending along the floor since bottoming in December 2009. Given that the 25+ category accounts for 87% of overall employment, in level terms it has doubled the gains made by the newly-graduated. Those with a bachelor degree or higher education are preferred, with high school graduates in disproportionately lower demand. These results emphasize two important points: 1) that U.S. companies are prioritizing cost-effectiveness and labour productivity, and highly-educated, new graduates fulfill that criteria, and 2) that less educated members of the labour force are struggling to find employment, with the construction industry having been dealt the heaviest blow.

In contrast, while the growth rates between the new graduates and 25+ category in Canada have been relatively comparable. The more experienced category surpassed its pre-recession peak back in April of last year, and currently sits at a record high, over 300,000 posts above the cycle's crest. Here, too, the 55+ category leads job gains, while the middle cohort continues to struggle. For recent graduates, the tally remains below its pre-recession peak.

In both Canada and the United States teenagers, age group 15 to 19, have been hit the hardest by the downturn, particularly in Canada. While this group only represents roughly 5% of the overall

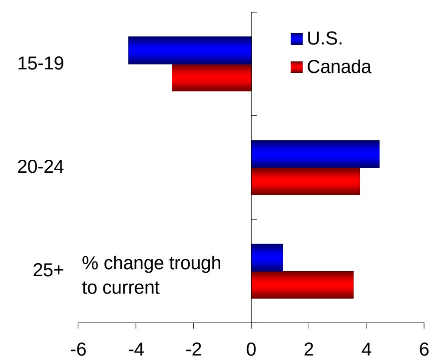
Chart 1 **Public Sector Hiring Leads Canadian Recovery**



Source: BLS, Statistics Canada, Scotia Economics.

Chart 2

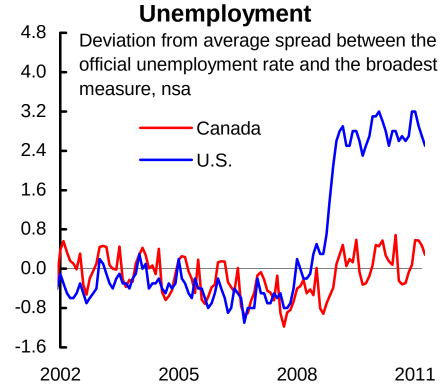
US New Graduates Among Those Benefitting From Increased Hiring



Source: BLS, Statistics Canada, Scotia Economics.

Chart 3

U.S. Faces Historically High Unemployment



Source: US Conference Board, Scotia Economics.

Gorica Djeric (416) 866-4214
gorica_djeric@scotiacapital.com

Alex Koustas (416) 866-4212
alex_koustas@scotiacapital.com

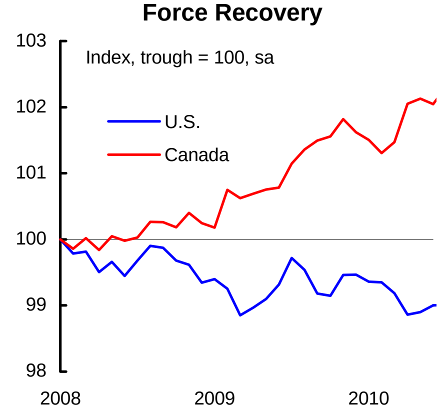
… continued from previous page

workforce, they account for roughly 34% of the peak-to-trough decline, more than double in the United States. In both countries they remain the only categories to continue to shed jobs.

Broader unemployment measures provide greater insight into the health of the labour market than the official rate alone, as they include marginally attached workers and those working part-time due to economic reasons. Calculating the divergence from the average spread between the headline rate and the broadest gauge, thereby accounting for also structural factors, one can observe that there is a wide differential between Canadian and American labour market performance (see chart 3). While Canada is gradually returning to its historical level of broader unemployment, there is a far greater share of American workers on reduced hours or finding themselves in stop-gap positions. Therefore, while headline numbers are gradually improving, there is still significant ground to be made in the pace of hiring activity, job quality and working hours in the American market. This downturn has created a 'new normal' in a number of regards. From the perspective of businesses, a greater focus is being placed on cost effectiveness, labour productivity, technology and innovation. This structural shift will likely mean that the United States will not recover all of the 8.75 million jobs lost over the recession for many years to come.

Unless businesses step up the pace of hiring, the unemployment rate could climb further before seeing any improvement, as discouraged Americans re-enter the job market. After contracting by nearly 1.5 million, high by historical standards, the U.S. labour force has seen only about 250,000 individuals re-join the job market (see chart 4). This is in stark contrast to the Canadian labour force, which has exceeded its pre-recession levels by nearly 400,000 to establish a new all-time high. In light of uncertain employment prospects, more Americans have decided to upgrade their qualifications. The volume of student aid & non-federal loans issued for the purpose of financing postsecondary education expenses has increased at an annual growth rate of 9.6% since the beginning of the downturn, a 30% acceleration when compared to the ten-year period prior. A similar trend has emerged in Canada, suggesting that a further expansion in the labour force is in the offing for both countries.

Chart 4 **Divergence in Labour Force Recovery**



Source: BLS, Statistics Canada, Scotia Economics.

Canada compares more favourably to the United States, and leading indicators suggest further gains through the year. However, it still faces some challenges, including the need for continued solid private-sector hiring — especially amid upcoming fiscal consolidation — regional disparities and a future influx of more educated jobseekers. Although private businesses south of the border are gradually expanding their workforce, the cyclical and structural pressures brought on by the recession — including a high number of discouraged and marginal workers as well as increased emphasis on cost effectiveness — have created significant headwinds that will limit the pace of recovery for some time.

Nathan Joshua (416) 866-5338
nathan_joshua@scotiacapital.com

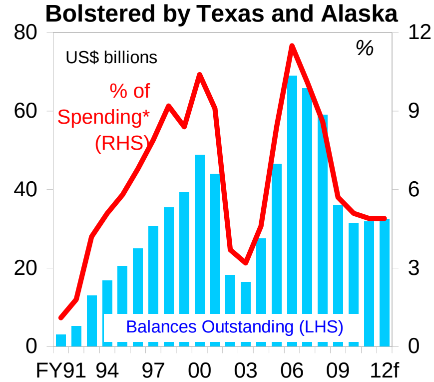
Mary Webb (416) 866-4202
mary_webb@scotiacapital.com

The U.S. State Budget Squeeze — Moderating But Extended

- **U.S. State budget planning for FY12 reveals ongoing, albeit less steep, restraint, with a continuing emphasis on restructuring State governance and promoting growth.**

The Spring 2011 *Fiscal Survey of States* recaps preliminary results for fiscal 2011 (FY11)[1] and reviews FY12 *Budget* plans. It adds detail to our conclusions in last week's *Global Views* that the States' drag on U.S. growth is lessening, but their fiscal repair will be extended, especially for the many jurisdictions with substantial unfunded pension and other retiree benefit liabilities. From FY09 to FY11, State governments have already solved operating budget gaps of almost $230 billion. Through the first ten months of FY11, emerging budget shortfalls caused seven States to introduce tax and fee hikes totalling $3.6 billion and 23 States to cut spending by nearly $8 billion. Nevertheless, this FY11 mid-year spending correction compares with 39 States trimming $18.3 billion midway through FY10 and 43 States making mid-year cuts of $31.3 billion in FY09. A number of States will face a further budget gap to close by the end of FY11. Although not all States had completed their forecasts by the survey, 33 States were already estimating a total $75 billion gap for FY12, and 21 States were anticipating a $62 billion operating budget shortfall for FY13.

State Year-End Balances Bolstered by Texas and Alaska

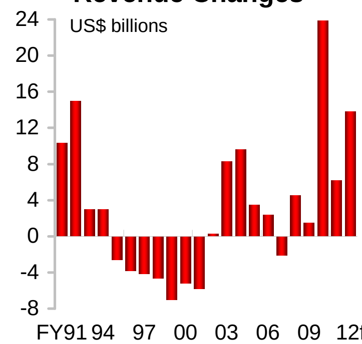


* General fund. Source: National Association of State Budget Officers.

State government year-end balances, that peaked at $69 billion or 11.5% of general fund expenditures in FY06, dropped to $31½ billion by FY10 and are expected to stabilize at just over $30 billion for FY11 and FY12. If, however, the balances of Texas and Alaska, estimated at $5.0 billion and $10.4 billion respectively for the end of FY11, are removed, the remaining balances represent only 2.7% of the other States' general fund expenditures as jurisdictions struggle to preserve a minimal rainy day reserve. At the end of FY12, a dozen States expect balances equal to less than 1% of their general fund expenditures, and a further 22 States anticipate balances of 1% to 4.9% of their general fund outlays.

The gradual State revenue recovery since FY09 has prompted States to plan a net tax and fee increase of nearly $14 billion for FY12, plus $2.8 billion in new revenue measures that do not affect taxpayers' liability. From FY08 through FY12, net State tax and fee increases total close to $50 billion. A dozen States for FY12 plan a net tax and fee increase; a dozen plan a net decrease. State sales and personal income taxes will account for most of the FY12 net tax increase, alongside a $0.5 net decline in corporate taxes as States such as Michigan and Florida strive to spur growth. State general fund revenues, after an estimated rise of almost 6% in FY11, are forecast to rise 2.1% in FY12. Yet the depth of the revenue decline still leaves forecast FY12 general fund revenues 3½% below FY08 levels, even with the considerable rise in tax and fee rates.

U.S. Enacted State Revenue Changes*



* Positive data indicate a net tax and fee increase. Source: National Association of State Budget Officers.

State governments' general fund expenditures, after a 5.2% jump in FY11, are expected to rise a smaller 2.6% for FY12. In real terms (*chart overleaf*), after a decline of more than 12% from FY08 to FY10, the FY11 and FY12 increases are modest. This reflects the continuing squeeze from the States' gradual revenue recovery and the withdrawal of the federal funding support provided during the downturn, directly under the *American Recovery and Reinvestment Act, 2009 (ARRA)*, and indirectly through a range of federal stimulus

[1] Forty-six States have a fiscal year-end of June 30th. All data in US$.

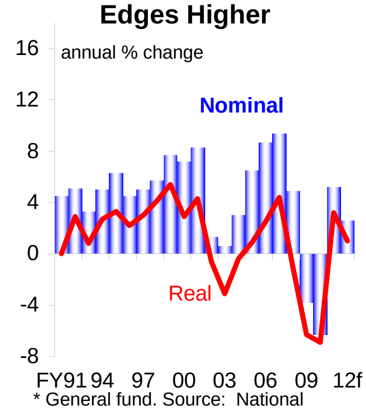
Nathan Joshua (416) 866-5338
nathan_joshua@scotiacapital.com

Mary Webb (416) 866-4202
mary_webb@scotiacapital.com

… continued from previous page

initiatives. States' flexible emergency funding under ARRA, that totalled just over $60 billion in FY10 and $51 billon in FY11, is expected to slide to less than $3 billion in FY12. The federal enhanced Medicaid match rate, in place since October 2008, ends in June 2011. For total Medicaid outlays, estimated to decline 2.9% in FY12 after jumps of 7.9% in FY10 and 11.2% in FY11, federal funding is expected to drop 13%, requiring an 18½% jump in State funding.

U.S. State Spending* Edges Higher



* General fund. Source: National Association of State Budget Officers.

Almost all States are again implementing targeted spending cuts in FY12. Many are focusing on trimming boards, agencies and commissions, 15 States are planning layoffs and 17 are cutting employee benefits. In post-secondary education, objectives are shifting from expanding enrolment to raising the percentage of programs completed. Eighteen States in FY12 are decreasing their assistance to local governments and many States are implementing tougher audit and tax compliance processes. To spur growth, however, new initiatives include investments in research parks and innovation. State governments are divided on business tax credits, with a number adopting new credits while others eliminate existing credits, judging them unsuccessful.

With Medicaid absorbing over $1 in every $5 of total State spending, efforts to streamline health care continue. Twenty States are limiting benefits, 24 are reducing provider payments, some States are focusing on implementing electronic medical records and others are restructuring services, such as Arkansas which is shifting from a fee-for-service to a results-oriented approach. Several States are already exploring the set-up and cost of new health insurance exchanges, as outlined under Washington's heath reform.

Alan Clarke (44 207) 826-5986
alan_clarke@scotiacapital.com

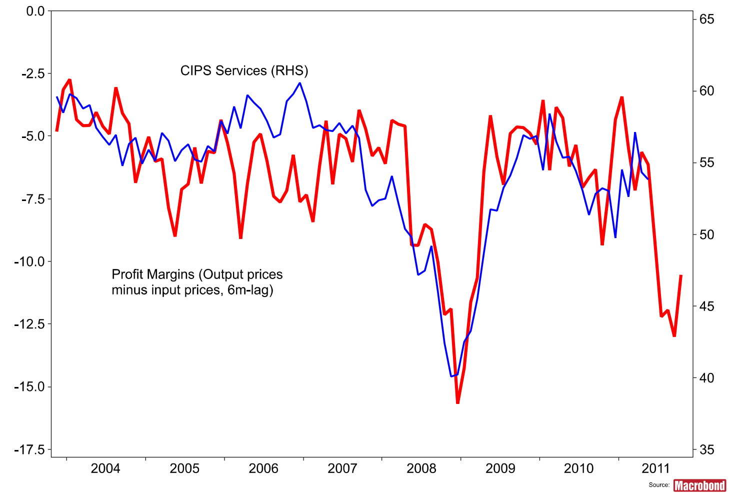
Heavy Going for the UK Consumer

- **The news on household consumption has been disappointing, and it is likely to get worse before it gets better. Negative real disposable income growth and weak household confidence help to explain the weakness. The good news is that both are likely to improve next year, particularly as inflation begins to moderate. In the context of BoE policy, sluggish GDP growth could delay the first interest rate hike until next year — potentially not until H2.**

Weaker than expected PMIs

Data released over the past week has reinforced our pessimism on the UK economy. The PMI surveys surprised to the downside and look to have established a downward trend. Given the squeeze on profit margins (as shown by the balance of prices charged minus input costs) we believe it is likely that the downward trend in the services sector PMI will continue (Chart 1). In turn, given the weight of business services in overall GDP, this is likely to weigh heavily on q/q GDP growth over the remainder of this year.

Chart 1



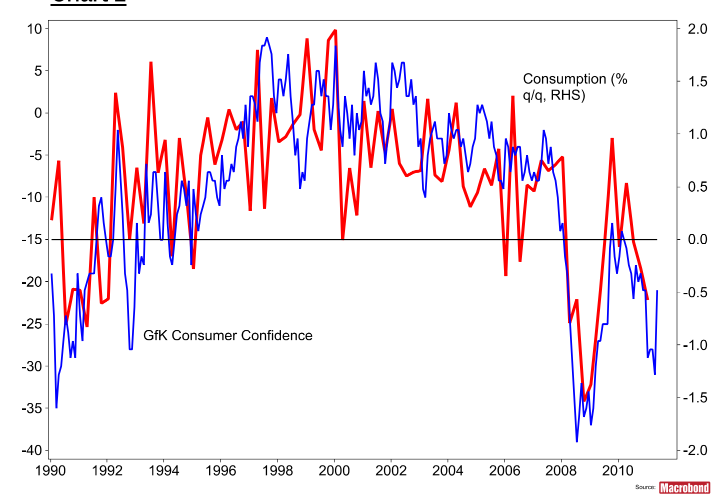
The downbeat PMI data followed a disappointing breakdown for Q1 GDP the previous week. In particular, household consumption posted a 0.6% q/q contraction — much weaker than consensus expectations for a flat reading. The consensus has been downgrading its expectations for the pace of consumption. At the start of the year the majority view was that consumption would expand by around 1% y/y. That has since be scaled down to 0.5% y/y on average for this year. We believe that a flat reading is probably the best we can hope for. This is crucial for both overall GDP growth as well as monetary policy. Household consumption represents around 2/3 of GDP by expenditure. Hence a weak outcome will set the tone for overall GDP growth. In the context of monetary policy, the fragility of the consumer has been highlighted by recent BoE minutes and commentary from MPC members such as Paul Fisher. Hence further disappointment is likely to curtail the MPC's appetite for near term interest rate hikes.

Brace for further weakness

We remain pessimistic regarding the near term outlook for the consumer on two fronts — weak consumer confidence and negative real household disposable income growth.

Survey evidence suggests that the weakness of household consumption in Q1 GDP should not have come as a surprise. Consumer confidence according to the GfK survey has been incredibly weak and indicates that the extent of the contraction in consumption during Q1 was perfectly reasonable. Barring a significant recovery in confidence in the coming months, we are likely to see consumption at least as weak during Q2 as it was in Q1 (Chart 2).

Chart 2

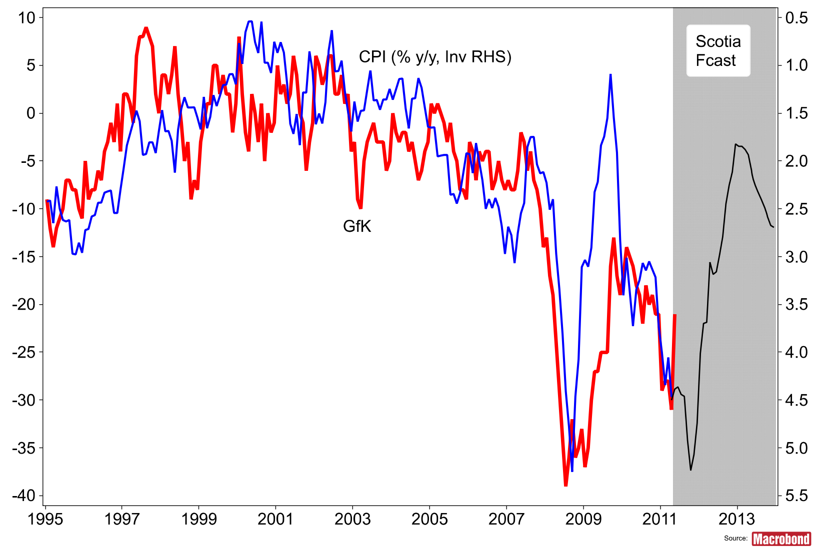


Alan Clarke (44 207) 826-5986
alan_clarke@scotiacapital.com

… continued from previous page

Much of the weakness in consumer confidence is likely to be due to elevated inflation. With inflation likely to continue accelerating to around 5% y/y later in the year (from 4.5% y/y currently), we believe this points to a relapse in consumer confidence over the remainder of the year (Chart 3). Having said that, the likelihood of lower inflation from next year onwards points to better news at that stage — which we will discuss a little later. For now, the prospect of renewed weakness on consumer confidence would imply further disappointment on household consumption in the immediate quarter or so.

Chart 3



Real household disposable income growth turned negative at the end of last year and is likely to remain so this year. In very simple terms, inflation is running at around double the pace of nominal income growth. Wage inflation of around 2% y/y coupled with employment growth of 0.5%-1% y/y is no match for inflation verging on 5% y/y. Prior to the financial crisis, households were able to maintain spending growth in excess of disposable income, helped by a booming housing market. Double digit house price inflation enabled households to make use of mortgage equity extraction to supplement disposable incomes. However, with household activity and house price inflation at best stagnant, MEW is not a luxury that many households can now rely on.

The consumer enjoyed a significant boost at the height of the financial crisis thanks to the aggressive interest rate cuts delivered by the BoE. The mortgage interest burden component of RPDI slumped by more than 80% and was the biggest boost to pretty respectable RPDI growth at that time. However, that was a one off. Bank Rate is as low as it can reasonably go. Because interest rates are no longer falling (rates are still low, but not falling) this boost to disposable income *growth* has faded. Hence it should be no surprise that consumption *growth* has also stalled. At some point this is bound to reverse as Bank Rate begins to rise and that should prevent household consumption from breaking any speed records over the next few years.

Every Cloud has a silver lining

As highlighted above, although the likelihood of further acceleration in inflation could provoke a renewed weakening in consumer confidence, the outlook is less negative further ahead. Powerful base effects associated with the VAT hike and energy prices dropping out of the y/y inflation calculation mean that inflation is likely to slow sharply during 2012 (down by around three percentage points towards 2% y/y by the end of the year). Given the relationship with consumer confidence, this suggests that optimism should improve during next year. Similarly, elevated inflation has been the biggest drag on real household disposable income growth. Sharply lower inflation next year should help to boost consumers' real purchasing power and in turn consumption growth. Nonetheless, with employment growth and wage inflation still likely to be sluggish, the upward trajectory for consumption growth is likely to be shallow.

Alan Clarke (44 207) 826-5986
alan_clarke@scotiacapital.com

… continued from previous page

The Bottom Line

This year is going to be a write-off as far as consumer spending growth is concerned. We fear that the disappointing consumer spending numbers around the start of this year are unlikely to be a temporary soft-patch — more likely a more prolonged period of slow growth. The situation is bad — though not terrible and we are unlikely to revisit the near 4% y/y pace of contraction that was experienced at the height of the recession. Nonetheless, we expect the situation to get worse before it gets better, particularly as the burden of inflation on disposable income intensifies. This is likely to set the tone for overall GDP and suggests that the BoE is still too optimistic on growth. The BoE expects growth on average of close to 1.8% y/y — we believe the pace of growth could be around ½% lower than that.

The good news is that the likely sharp deceleration in inflation during next year should alleviate the burden on households. This coupled with a slightly less intense squeeze from fiscal policy points to a better year for GDP growth. However, concrete evidence of this may not emerge until a year from now.

The published BNS forecast is for the first rate hike to arrive in August. However, disappointment relative to the BoE's near term growth outlook, in tandem with the downbeat signal painted by the PMI surveys highlights a significant risk that Bank Rate remains on hold all year. Furthermore, inflation is likely to begin falling sharply from early 2012 and GDP growth is unlikely to exceed potential by much (if at all). Hence if the BoE doesn't hike in the near term provoked by elevated current inflation, the justification to hike will diminish. This could delay the first rate hike at least until mid-2012.

Joe Kogan (212) 225-6541
joe_kogan@scotiacapital.com

Dominican Republic Update: Treasury Auctions Are Back

On Monday of this week, President Leonel Fernandez signed a law authorizing the issuance of 25.2bn pesos ($660mn USD-equivalent) of local treasury bonds. Delays in Congressional approval of this bill had prevented any issuance since December of last year, but the government's need for funding has finally reopened the primary issuance calendar for an instrument that we have long argued presents an attractive risk-return profile to foreign investors. Pending some additional administrative approvals, the government expects to hold the first Treasury bond auction of the year on Tuesday, June 7, and then to hold further auctions every month through December.

As a single-B rated credit, the country certainly does have some risks, and an update on these risks is in order. We have seen the following developments over the last few months:

(1)Politics. Presidential elections are scheduled for May 20, 2012, and if necessary, a second round will be held one month later. For a long time, observers wondered whether three-time president Fernandez (1996-2000, 2004-2008, 2008-2012) would try to run again. From the economic perspective, another term might well have been a good thing since his presidency is associated with good policies that have permitted some very impressive economic growth rates. Nevertheless, modifying the Constitution to allow Fernandez a third consecutive term would have been harmful for the country's nascent democracy. That uncertainty is now resolved, with Fernandez pledging not to run, and his wife, who had briefly pondered entering, also opting out. Nevertheless, these decisions may add to the uncertainty regarding who will be the future president and what policies he will support. In a recent poll, Hipólito Mejía from the opposition PRD party placed well; he was the President from 2000 to 2004, a term which critics remind us was associated with the country's banking crisis. The poll projected he would win over Danilo Medina, the likely candidate from Fernandez' PLD party, though it's really much too early to be sure. Candidates from other parties may also participate. The good news is that despite the country's high poverty rate, there are currently no radical candidates who could win, making a Peru-type situation unlikely.

(2)Economic growth. One of the reasons that foreign investors were excited about the Dominican Republic back when they issued Global bonds one year ago was the country's recent record of extremely high growth rates; last year's growth was 7.8%, while growth in the pre-crisis period of 2005-2007 was nearly 10% each year. In light of these numbers, the 4.3% growth rate attained in the first quarter of 2011 was disappointing. Growth fell in most sectors, with notable drops in agriculture, construction, and many service industries. According to the Central Bank, lower growth results in part from the tightening of monetary policy it has undertaken to prevent the economy from overheating, as well as from reduced government spending and higher prices for oil and other raw materials. If these are indeed the causes, then the current more moderate growth rate is sustainable; after all, a 4% growth rate is still encouraging. Nevertheless, we will have to see the trend demonstrated by second quarter results.

(3)Exchange rate. With international reserves typically covering only 2 to 3 months of imports, the sustainability of the current exchange rate scheme is always a concern. On top of that is a higher current account deficit in the first quarter, caused by higher prices for oil and raw materials imports. Despite these challenges, the Central Bank has proven itself adept at maintaining an annual depreciation rate of less than 4% over the past four years. The methods employed by the Central Bank may be dicey in the long-term, as they typically involve a combination of moral suasion directed at local financial institutions, sweetened with the sale of high yielding central bank notes that encourage peso holdings, but they do continue to work. Also helpful is of course new funding from the IMF Standby Agreement, which runs through March 2012.

These developments represent a deterioration relative to the previous year and markets have responded accordingly. Spreads on Global 10Y bonds have increased by about 60bp relative to the end of 2010. The last issue of Central Bank 7Y peso bonds was placed to banks in mid-May at a yield of 18.5%, significantly higher than the 16% issuances we saw previously.

Joe Kogan (212) 225-6541
joe_kogan@scotiacapital.com

… continued from previous page

In Figure 1, we show the historical issuance yields for Treasury bonds from last year as a guide for investors planning on participating in the upcoming auctions. We would expect next week's auction to come out a higher yield though. Shorter-term bonds might be affected by central bank rate increases totaling 275bp since October (On Monday of this week, the Central Bank decided to leave rates unchanged at 6.75%). More importantly, the recent increase in yields on Central Bank paper suggests that Treasury yields should increase as well, though not by as much.

Figure 1. Weighted average yields of accepted bids in local auctions

		Auction Dates				
		8/10/2010	9/7/2010	10/5/2010	11/2/2010	12/7/2010
	DRGB 10.5 08/09/13 Corp	10.28	10.41	10.25	10.60	10.50
Bond	DRGB 12 08/07/2015 Corp	12.07	12.00	11.87	11.85	
Series	DRGB 13.5 08/04/17 Corp	13.25	NA	13.10	13.40	13.32
	DRGB 16 07/10/20 Corp	16.00	15.71	15.36	15.59	15.10

Source: Ministry of Finance, Bloomberg

In summary, our view on the Dominican Republic is not that the country is without risks, but rather that the 15-16% yields on the peso bonds do a much better job of paying investors for taking those risks then the sub-7% yields available on the Global bonds.

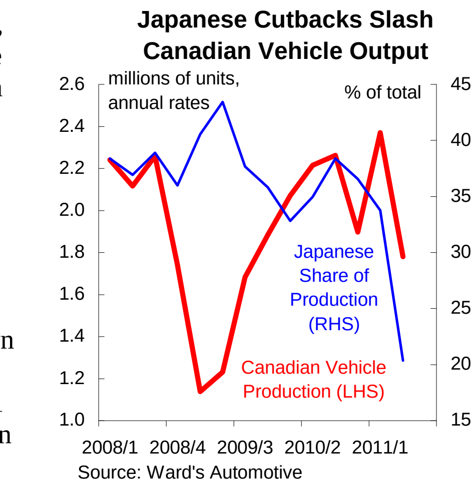
Karen Cordes Woods (416) 862-3080
karen_woods@scotiacapital.com

Derek Holt (416) 863-7707
derek_holt@scotiacapital.com

Key Data Preview

CANADA

Canadian jobs and trade figures will dominate market risk next week, in addition to Monday's Federal Budget that is largely priced into the market (see page 3 for Mary Webb's preview). We have gone out on a limb in forecasting weakness in both the trade and job reports.

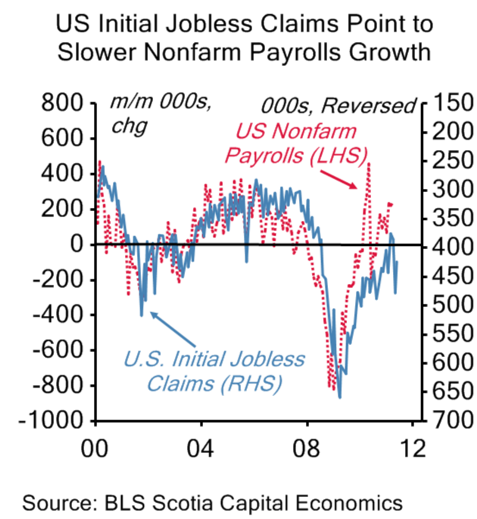


First, **Thursday's trade report** will likely showcase the disruptive effects of Japan's supply shocks. We already know that Canadian auto production fell 25% m/m in April, and believe that it will be roughly flat in May, and then start to gradually rise by June. That's because of the spillover effect of Japan's disruptions on Japanese assembly plants located in Ontario, as well as the temporary shutdown of the Windsor van plants in early April, due to a shortage of engines from a supplier. Automotive products account for about 12% of total Canadian exports. Thus, a 25% shock to the sector's exports — given that most of the production is exported — could well account for at least a two or three percentage point decline in the volume of exports. What complicates matters in forecasting the trade balance, however, is that imports were also likely affected since autos comprise 16% of total imports. Further, high base effects on the prior month's strong export growth figures could put additional downward pressure on the trade account in May, but higher crude and food prices will insulate against some of this. Regardless, the effects will be more specifically focused on the manufacturing report due out on June 15th since there will be no offsetting effect like imports on the trade account. Indeed, Japan's disruptive effects on Canadian supply chains isn't the only risk facing near-term growth. Waning momentum and the impact of demand destruction via high commodity prices that are serving to squeeze tepid nominal wage growth will also combine with the Japanese shocks to roughly chop GDP growth in half during Q2 compared to Q1.

Friday's jobs report could also contain a negative surprise. Consensus is expecting a print of 25k, but we've opted for a flat print. We think the high base effect stemming from the prior month's large gain, coupled with its disturbing composition that signals much softer job growth momentum than the headline suggests, will combine to put downward pressure on May's job tally. Recall that of April's 58k rise in jobs, 55k was focused on one province (Ontario) and 56k was focused on one sector (community services). Most of the gain was in part-time jobs. That made the details much softer than the headline. It is unlikely that the report will be influenced by election hiring since hiring and firing for the early May election was focused in between the labour force survey reference periods.

UNITED STATES

US data risk will be relatively light next week, with much of the focus upon April's **trade balance and initial jobless claims**. As the accompanying chart depicts, initial jobless claims and nonfarm payrolls are heavily correlated over time and the 400k mark for claims is roughly the sawing-off point between expanding and contracting nonfarm payrolls. Continued readings above 400k will have markets increasingly worried about a retrenchment in US jobs.



Unlike the case of Ontario's Japanese assembly plants that disrupt exports, we think the 5% share of US imports coming from Japan will be more affected by the supply shocks than the 3% share of US exports going to Japan such that the trade deficit could well narrow.

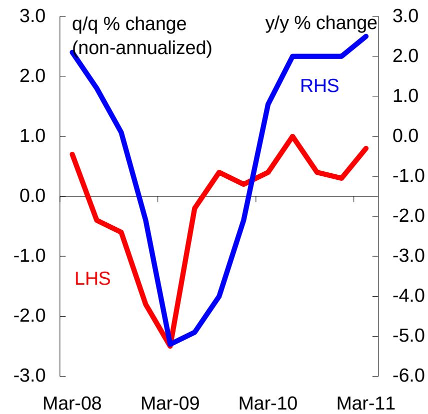
Daniela Blancas (416) 862-3908 daniela_blancas@scotiacapital
Tuuli McCully (416) 863-2859 tuuli_mccully@scotiacapital.com
Oscar Sánchez (416) 862-3174 oscar_sanchez@scotiacapital.com

… continued from previous page

EUROPE

According to preliminary estimates, the euro zone experienced exceptional economic growth in the first quarter of 2011, with real GDP expanding by 0.8% q/q (non-annualized) and 2.5% y/y. Eurostat will release revised euro zone real GDP data on June 8th, showing a breakdown by expenditure components. On the back of the strong performance, we have revised our real GDP growth forecasts, and now expect the euro zone to expand by 1.8% this year, followed by a 1.7% expansion in 2012. The German economy will likely record a 3.4% advance this year, followed by a slowdown to 2.3% in 2012, while French output is set to increase by 2.0% in 2011 and 1.4% next year.

Euro Zone Real GDP Growth



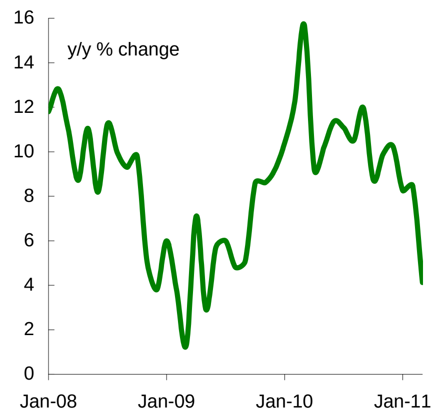
Source: Bloomberg.

LATIN AMERICA

Once again, Peru and Brazil will attract the region's attention for the coming week (June 6th-10th). Peru's presidential elections will take place on Sunday, June 5th and according to recent surveys, a tight race between Keiko Fujimori and Ollanta Humala will materialize. Investors have shown concern over the continuity of stable and prudent macroeconomic policies, prompting the latest episode of volatility in Peruvian assets. The central bank will issue its monetary policy announcement this week, in which we expect the reference rate to remain unchanged at 4.25%.

As for Brazil, besides a monetary policy release, data on inflation and retail sales will be published. Consumer prices have been increasing significantly in recent months, achieving an annual rate of 6.51% in April. This has put more pressure on monetary authorities to hike the reference rate at the next meeting on June 8th. After posting a growth rate of 4.1% y/y in March, retail sales are expected to continue to decelerate, while maintaining a modest pace on a year-over-year basis.

Brazilian Retail Sales

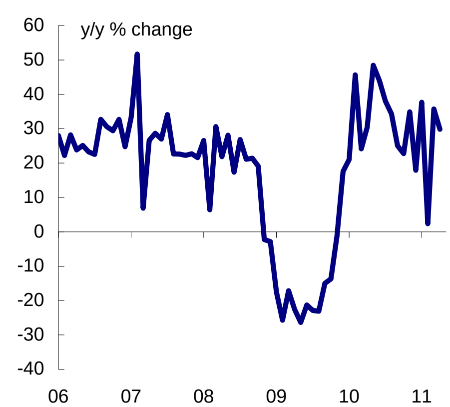


Source: Bloomberg.

ASIA

Chinese exports for May will depict the blip already observed in industrial production and other output indicators. Yearly growth in foreign sales was very solid early in 2011 averaging over 30% y/y in March and April. As supply-chain disturbances throughout the Asian region have become evident, we are expecting a deceleration in the yearly pace of shipments to 19%. Exports should bounce back in coming months as manufacturing processes are brought back to normal, be it by a resumption of Japanese key parts supplies or via opportunistic substitution from alternative competitors.

China's Exports Growth



not sa. Source: Bloomberg.

Key Indicators for the week of June 6 - 10

North America

Country	Date	Time	Event	Period	BNS	Consensus	Latest
CA	06/06	08:30	Building Permits (MoM)	APR	-5.0	--	17.2
CA	06/06	10:00	Ivey Purchasing Managers Index	MAY	--	--	57.7
CA	06/06	10:00	Ivey Purchasing Managers Index SA	MAY	--	58.8	57.8
US	06/07	15:00	Consumer Credit (US$ billions)	APR	--	5.0	6.0
US	06/08	07:00	MBA Mortgage Applications (WoW)	3-Jun	--	--	-4.0
CA	06/08	08:15	Housing Starts (000s)	MAY	185.0	183.5	179.0
US	06/08	14:00	Fed's Beige Book		--		
MX	JUN 08-15		Vehicle Exports (units) (AMIA)	MAY	--	--	141338
MX	JUN 08-15		Vehicle Production (units) (AMIA)	MAY	--	--	152514
CA	06/09	08:30	New Housing Price Index (MoM)	APR	0.1	--	0.0
CA	06/09	08:30	Int'l Merchandise Trade (C$ billions)	APR	0.0	0.3	0.6
US	06/09	08:30	Initial Jobless Claims (000s)	4-Jun	430	419	422
US	06/09	08:30	Continuing Claims (000s)	28-May	3700	3700	3711
US	06/09	08:30	Trade Balance (US$ billions)	APR	-47.5	-48.8	-48.2
MX	06/09	09:00	Trade Balance (US$ millions)	APR F	443.0	--	766.8
MX	06/09	10:00	Consumer Prices (MoM)	MAY	-0.66	-0.7	0.0
MX	06/09	10:00	Consumer Prices (YoY)	MAY	3.3	3	3
MX	06/09	10:00	Consumer Prices Core (MoM)	MAY	0.16	0.2	0.1
CA	06/10	07:00	Net Change in Employment (000s)	MAY	0.0	25.0	58.3
CA	06/10	07:00	Unemployment Rate (%)	MAY	7.7	7.6	7.6
CA	06/10	08:30	Labor Productivity (QoQ)	1Q	--	--	0.5
US	06/10	08:30	Import Price Index (MoM)	MAY	--	-0.7	2.2
MX	06/10	09:00	Gross Fixed Investment (YoY)	MAR	--	--	8.1
MX	06/10	10:00	Central Bank Monetary Policy Minutes				
US	06/10	14:00	Monthly Budget Statement (US$ billions)	MAY	--	-150.0	-40.5

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

Key Indicators for the week of June 6 - 10

Europe — continued on next page

Country	Date	Time	Event	Period	BNS	Consensus	Latest
UK	JUN 01-08		Halifax House Prices sa (MoM)	MAY	-0.2	0.3	-1.4
SP	JUN 02-05		Spain Consumer Confidence	MAY	--	--	74.3
SP	06/06	03:00	Industrial Output NSA (YoY)	APR	--	--	1.0
EC	06/06	05:00	Euro-Zone PPI (MoM)	APR	0.6	0.8	0.7
EC	06/06	05:00	Euro-Zone PPI (YoY)	APR	6.6	6.6	6.7
UK	06/06		New Car Registrations (YoY)	MAY	--	--	-7.4
RU	JUN 06-07		Consumer Price Index Core (MoM)	MAY	--	0.5	0.5
RU	JUN 06-07		Consumer Prices (MoM)	MAY	--	0.5	0.4
RU	JUN 06-07		Consumer Prices (YoY)	MAY	--	9.6	9.6
SZ	06/07	03:15	CPI - EU Harmonised (MoM)	MAY	--	--	0.0
SZ	06/07	03:15	CPI - EU Harmonised (YoY)	MAY	--	--	0.1
EC	06/07	05:00	Euro-Zone Retail Sales (MoM)	APR	--	0.3	-0.9
EC	06/07	05:00	Euro-Zone Retail Sales (YoY)	APR	--	0.0	-1.7
GE	06/07	06:00	Factory Orders (YoY) (nsa)	APR	--	9.1	9.7
GE	06/07	06:00	Factory Orders (MoM) (sa)	APR	--	2.1	-4.0
GE	06/08	02:00	Exports SA (MoM)	APR	--	-3.7	7.3
GE	06/08	02:00	Imports SA (MoM)	APR	--	0.7	3.1
GE	06/08	02:00	Current Account (€ billions)	APR	--	11.0	19.5
GE	06/08	02:00	Trade Balance (€ billions)	APR	--	14.9	18.9
FR	06/08	02:45	Central Govt. Balance (€ billions)	APR	--	--	-33.6
FR	06/08	02:45	Trade Balance (€ millions)	APR	--	-5950	-5746
TU	06/08	03:00	Industrial Production NSA (YoY)	APR	--	9.7	10.4
TU	06/08	03:00	Industrial Production WDA SA (MoM)	APR	--	--	-0.3
NO	06/08	04:00	Industrial Production SA (MoM)	APR	--	--	-1.5
NO	06/08	04:00	Ind Prod Manufacturing SA (MoM)	APR	--	--	0.9
EC	06/08	05:00	Euro-Zone GDP s.a. (QoQ)	1Q P	0.8	0.8	0.8
EC	06/08	05:00	Euro-Zone GDP s.a. (YoY)	1Q P	2.5	2.5	2.5
EC	06/08	05:00	Euro-Zone Household Cons (QoQ)	1Q P	--	0.3	0.4
EC	06/08	05:00	Euro-Zone Gross Fix Cap (QoQ)	1Q P	--	1.8	-0.5
EC	06/08	05:00	Euro-Zone Govt Expend (QoQ)	1Q P	--	0.1	0.1
GE	06/08	06:00	Industrial Prod. (YoY) (nsa wda)	APR	--	10.0	11.2
GE	06/08	06:00	Industrial Production (MoM) (sa)	APR	--	0.1	0.7
BE	06/08	09:00	GDP sa and wda (QoQ)	1Q F	1.0	--	1.0
GR	06/08		Industrial Production (YoY)	APR	--	--	-8.0
GR	06/08		Unemployment Rate (%) (Monthly)	MAR	--	--	15.9
FR	06/09	01:30	Non-Farm Payrolls (QoQ)	1Q F	--	0.4	0.4
FR	06/09	02:30	Bank of France Bus. Sentiment	MAY	--	106.0	106.8
NE	06/09	03:30	CPI (MoM)	MAY	--	0.1	0.5
NE	06/09	03:30	CPI (YoY)	MAY	--	2.2	2.1
NE	06/09	03:30	CPI - EU Harmonized (MoM)	MAY	--	--	0.6
NE	06/09	03:30	CPI - EU Harmonized (YoY)	MAY	--	--	2.2
NE	06/09	03:30	Industrial Production sa (MoM)	APR	--	0.5	-2.0
NE	06/09	03:30	Industrial Production nsa (YoY)	APR	--	--	3.3
UK	06/09	04:30	Visible Trade Balance (£ millions)	APR	--	-7549	-7660
UK	06/09	04:30	Total Trade Balance (£ millions)	APR	--	-2900	-3005
PO	06/09	05:00	Consumer Price Index (YoY)	MAY	--	--	4.1
PO	06/09	05:00	CPI - EU Harmonised (MoM)	MAY	--	--	0.6
UK	06/09	07:00	BOE Asset Purchase Target (£ billions)	JUN	200	200	200
UK	06/09	07:00	**BOE Announces Rates**		**0.50**	**0.50**	**0.50**
EC	06/09	07:45	**ECB Announces Interest Rates**		**1.25**	**1.25**	**1.25**
GR	06/09		CPI - EU Harmonized (YoY)	MAY	--	--	3.7
GR	06/09		Consumer Price Index (YoY)	MAY	--	--	3.9
GR	06/09		GDP (QoQ)	1Q F	0.8	--	0.8
GR	06/09		GDP (YoY)	1Q F	-4.8	--	-4.8

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

Key Indicators for the week of June 6 - 10

Europe

Country	Date	Time	Event	Period	BNS	Consensus	Latest
PO	06/09		GDP (QoQ)	1Q F	-0.7	--	-0.7
PO	06/09		GDP (YoY)	1Q F	-0.7	--	-0.7
PO	06/09		Trade Balance (€ millions)	APR	--	--	-1617.0
GE	JUN 09-16		Wholesale Price Index (MoM)	MAY	--	--	0.2
GE	JUN 09-16		Wholesale price Index (YoY)	MAY	--	--	9.2
RU	JUN 09-14		Budget Level (Year to date) (RUB billions)	MAY	--	--	134.0
RU	JUN 09-14		Trade Balance (US$ billions)	APR	--	18.2	17.3
RU	JUN 09-14		Exports (US$ billions)	APR	--	44.8	44.1
RU	JUN 09-14		Imports (US$ billions)	APR	--	26.9	26.8
FI	06/10	02:00	Industrial Production sa (MoM)	APR	--	--	-1.1
FI	06/10	02:00	Retail Sales Volume (YoY)	APR F	--	--	4.8
GE	06/10	02:00	Consumer Price Index (MoM)	MAY F	--	0.0	0.0
GE	06/10	02:00	Consumer Price Index (YoY)	MAY F	--	2.3	2.3
GE	06/10	02:00	CPI - EU Harmonised (MoM)	MAY F	-0.2	-0.2	-0.2
GE	06/10	02:00	CPI - EU Harmonised (YoY)	MAY F	2.4	2.4	2.4
FR	06/10	02:45	Industrial Production (MoM)	APR	--	0.4	-0.9
FR	06/10	02:45	Industrial Production (YoY)	APR	--	3.9	3.3
FR	06/10	02:45	Manufacturing Production (MoM)	APR	--	0.3	-1.0
FR	06/10	02:45	Manufacturing Production (YoY)	APR	--	4.1	4.6
SW	06/10	03:30	Industrial Prod. s.a. (MoM)	APR	--	0.5	0.9
SW	06/10	03:30	Industrial Prod. n.s.a. (YoY)	APR	--	13.7	15.0
IT	06/10	04:00	GDP sa and wda (QoQ)	1Q F	0.1	0.1	0.1
IT	06/10	04:00	GDP sa and wda (YoY)	1Q F	1.0	1.0	1.0
NO	06/10	04:00	CPI (MoM)	MAY	--	--	0.5
NO	06/10	04:00	CPI (YoY)	MAY	--	--	1.3
NO	06/10	04:00	CPI Underlying (MoM)	MAY	--	0.1	0.8
NO	06/10	04:00	CPI Underlying (YoY)	MAY	--	1.1	1.3
UK	06/10	04:30	Industrial Production (MoM)	APR	-0.2	0.0	0.2
UK	06/10	04:30	Industrial Production (YoY)	APR	1.1	1.3	0.7
UK	06/10	04:30	Manufacturing Production (MoM)	APR	-0.5	0.0	0.2
UK	06/10	04:30	Manufacturing Production (YoY)	APR	3.0	3.3	2.7
UK	06/10	04:30	PPI Input NSA (MoM)	MAY	--	-1.0	2.6
UK	06/10	04:30	PPI Input NSA (YoY)	MAY	--	16.2	17.6
UK	06/10	04:30	PPI Output n.s.a. (MoM)	MAY	--	0.3	0.8
UK	06/10	04:30	PPI Output n.s.a. (YoY)	MAY	--	5.3	5.3
UK	06/10	04:30	PPI Output Core NSA (MoM)	MAY	--	0.3	0.6
UK	06/10	04:30	PPI Output Core NSA (YoY)	MAY	--	3.4	3.4
UK	06/10		NIESR GDP Estimate (QoQ)	MAY	--	--	0.3

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

Key Indicators for the week of June 6 - 10

Asia Pacific

Country	Date	Time	Event	Period	BNS	Consensus	Latest
PH	06/06	21:00	Consumer Price Index (YoY)	MAY	--	5.1	4.5
PH	06/06	21:00	Consumer Price Index NSA (MoM)	MAY	--	0.5	0.8
AU	06/07	00:30	**RBA CASH TARGET**		**4.75**	**4.75**	**4.75**
TA	06/07	04:00	CPI (YoY)	MAY	--	1.6	1.3
SK	06/07	19:00	GDP at Constant Price (QoQ)	1Q F	--	--	1.4
SK	06/07	19:00	GDP at Constant Price (YoY)	1Q F	--	--	4.2
JN	06/07	19:50	Trade Balance - BOP Basis	APR	--	-379	240
TA	06/08	04:00	Total Trade Bal (US$ billion)	MAY	--	2.5	3.0
TA	06/08	04:00	Total Exports (YoY)	MAY	--	7.4	24.6
TA	06/08	04:00	Total Imports (YoY)	MAY	--	11.1	25.7
NZ	06/08	17:00	**RBNZ Official Cash Rate**		**2.50**	**2.50**	**2.50**
JN	06/08	19:50	Nominal GDP (QoQ)	1Q F	--	-1.3	-1.3
JN	06/08	19:50	GDP Annualized (QoQ)	1Q F	--	-3.1	-3.7
JN	06/08	19:50	Gross Domestic Product (QoQ)	1Q F	-0.6	-0.8	-0.9
AU	06/08	21:30	Employment Change (000s)	MAY	--	25.0	-22.1
AU	06/08	21:30	Unemployment Rate (%)	MAY	--	4.9	4.9
AU	06/08	21:30	Full Time Employment Change (000s)	MAY	--	--	-49.1
AU	06/08	21:30	Part Time Employment Change (000s)	MAY	--	--	26.9
ID	08-09 JUN		**Bank Indonesia Reference Rate**		**6.75**	**6.75**	**6.75**
MA	06/09	00:01	Industrial Production (YoY)	APR	--	--	2.4
MA	06/09	00:01	Manufacturing Sales Value (YoY)	APR	--	--	14.1
SK	06/09	20:00	Bank of Korea Monetary Policy Committee Meeting				
SK	06/09	21:00	**South Korea 7-Day Repo Rate**		**3.00**	**3.13**	**3.00**
PH	06/09	21:00	Total Monthly Exports (US$ millions)	APR	--	--	4353
PH	06/09	21:00	Total Exports (YoY)	APR	--	9.0	4.1
CH	06/09	22:00	Trade Balance (US$ billions)	MAY	18.0	19.8	11.4
CH	06/09	22:00	Exports (YoY)	MAY	19.0	22.0	29.9
CH	06/09	22:00	Imports (YoY)	MAY	24.0	22.5	21.8
IN	06/10	01:30	Industrial Production (YoY)	APR	--	--	7.3

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

Key Indicators for the week of June 6 - 10

Latin America

Country	Date	Time	Event	Period	BNS	Consensus	Latest
CO	06/04	20:00	Consumer Price Index (MoM)	MAY	--	0.2	0.1
CO	06/04	20:00	Consumer Price Index (YoY)	MAY	--	2.9	2.8
BZ	06/06	07:30	Central Bank Weekly Economists Survey				
CL	06/06	08:30	Economic Activity (YoY)	APR	--	6.7	15.4
BZ	06/06	09:30	Vehicle Sales (units) (Anfavea)	MAY	--	--	289189
BZ	06/06	09:30	Vehicle Production (units) (Anfavea)	MAY	--	--	280128
BZ	06/06	09:30	Vehicle Exports (units) (Anfavea)	MAY	--	--	48674
BZ	06/06	10:00	Trade Balance (US$ millions) (FOB) - Weekly	5-Jun	--	--	783
BZ	06/07	08:00	IBGE Inflation IPCA (MoM)	MAY	--	0.5	0.8
BZ	06/07	08:00	IBGE Inflation IPCA (YoY)	MAY	--	6.6	6.5
CL	06/07	08:30	Trade Balance in (US$ million)	MAY	--	--	1582.5
BZ	06/07	09:00	CNI Capacity Utilization (%)	APR	--	--	82.4
CL	06/08	08:00	CPI (MoM)	MAY	--	0.3	0.3
CL	06/08	08:00	CPI (YoY)	MAY	--	3.2	3.2
CL	06/08	08:00	CPI Ex Perishables & Fuel (MoM)	MAY	--	0.2	0.3
BZ	06/08		**SELIC Target - Central Bank**		**12.25**	**12.25**	**12.00**
BZ	06/09	04:00	FIPE CPI - (WoW)	7-Jun	--	0.2	0.5
BZ	06/09	07:00	FGV Preview Inflation IGP-M (WoW)	8-Jun	--	0.5	0.7
PE	06/09		**Reference Rate**		**4.25**	**4.50**	**4.25**
BZ	06/10	08:00	Retail Sales (MoM)	APR	--	0.4	1.2
BZ	06/10	08:00	Retail Sales (YoY)	APR	--	11.8	4.1
CL	06/10	08:30	Central Bank Economist Survey				
CO	06/10		Monetary Policy Meeting Minutes				
PE	06/10		Trade Balance (PEN millions)	APR	--	--	817.0

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

Global Auctions for the week of June 6 - 10

North America

Country	Date	Time	Event
US	06/06	11:00	U.S. Fed to Purchase USD5-7 Bln Notes/Bonds
US	06/06	11:30	U.S. to Sell 3-Month Bills
US	06/06	11:30	U.S. to Sell 6-Month Bills
CA	06/07	10:30	Canada to Sell CAD8 Bln 98-Day Bills
CA	06/07	10:30	Canada to Sell CAD3 Bln 182-Day Bills
CA	06/07	10:30	Canada to Sell CAD3 Bln 364-Day Bills
US	06/07	11:00	U.S. Fed to Purchase USD1-2 Bln TIPS
US	06/07	11:30	U.S. to Sell 4-Week Bills
US	06/07	13:00	U.S. to Sell 3-Year Notes
US	06/08	11:00	U.S. Fed to Purchase USD5-7 Bln Notes/Bonds
CA	06/08	12:00	Canada to Sell 30-Year Bonds
US	06/08	13:00	U.S. to Sell 10-Year Notes Reopening
US	06/09	11:00	U.S. Fed to Purchase USD6-8 Bln Notes/Bonds
US	06/09	13:00	U.S. to Sell 30-Year Bonds Reopening

Europe

Country	Date	Time	Event
GE	06/06	05:15	Germany to Sell EU5 Bln 6-Mth Bills
FR	06/06	09:00	France to Sell Bills
DE	06/07	04:15	Denmark to Sell 2% 2014 Bonds
DE	06/07	04:15	Denmark to Sell 2.5% 2016 Bonds
SZ	06/07	05:30	Switzerland to Sell 3-Month Bills
UK	06/07	05:30	U.K. to Sell GBP1 Bln 0.625% I/L 2040
TU	06/07	06:00	Turkey to Sell Zero Coupon 2013 Bonds
TU	06/07	06:00	Turkey to Sell New 2014 Fixed Rate Lira Bonds
SW	06/08	05:10	Sweden to Sell Bills
SZ	06/08	05:30	Switzerland to Sell Bonds
HU	06/08	05:30	Hungary to Hold Exchange Offer Auction
RU	06/08	06:00	Russia to Sell Up to RUB20 Bln OFZ Bonds.
IT	06/10	05:00	Italy to Sell Bills
NO	06/10	05:00	Norway to sell Bills
HU	06/10	05:30	Hungary to Sell 6-Week Bills
UK	06/10	06:10	U.K. to Sell Bills

Source: Bloomberg, Scotia Economics.

Global Auctions for the week of June 6 - 10

Asia Pacific

Country	Date	Time	Event
IN	06/05	14:30	5-9 year security for Rs.4,000-5,000 crore
IN	06/05	14:30	10-14 year security for Rs.5,000-6,000 crore
IN	06/05	14:30	15-19 year security forÂ Rs.2,000-3,000 crore
SI	06/06		Singapore to sell 91-Day T-Bills (BQ11122W)
MA	06/06		Bank Negara to Sell MYR500 Mln 121-Day Islamic Notes
MA	06/06		Bank Negara to Sell MYR2 Bln 91-Day Notes
MA	06/06		Bank Negara to Sell MYR1 Bln 210-Day Notes
SK	06/06	22:30	Korea to Sell KRW1.7 Tln 3-Year Bond
TH	06/06	23:00	Bank of Thailand to Sell THB20 Bln 28D Bills
TH	06/06	23:00	Bank of Thailand to Sell THB20 Bln 91D Bills
TH	06/06	23:00	Bank of Thailand to Sell THB18 Bln 182D Bills
HK	06/06	23:30	Hong Kong to Sell HKD25.633 Bln 91-D Bills
JN	06/06	23:35	Japan to Sell 6-Month Bills
JN	06/06	23:45	Japan to Sell 30-Year Bond
TA	06/07	00:30	Taiwan to Sell TWD40 Bln 10-Year Bonds
PH	06/07	01:30	Philippines Plans to Sell PHP9.0 Bln 7-Yr Bonds Due 2018
ID	06/07	04:30	Indonesia to Sell 15-Yr to Maturity Government Bond
ID	06/07	04:30	Indonesia to Sell 20-Yr to Maturity Government Bond
ID	06/07	04:30	Indonesia to Sell 1-Yr to Maturity Treasury Bills
CH	06/07	21:30	China to Sell CNY30 Bln 5-Year Bonds
TH	06/07	23:00	Thailand to Sell THB4.5 Bln Bonds due 2061
JN	06/07	23:35	Japan to Sell 3-Month Bills
IN	06/08	07:30	India to Sell INR 80Bln 91-Day Bills
IN	06/08	07:30	India to Sell INR 30Bln 182-Day Bills
JN	06/08	23:45	Japan to Sell 5-Year Bond
NZ	06/09	22:30	New Zealand Plans to Sell Government Bonds
TH	06/09	23:00	Bank of Thailand to Sell THB15 Bln FRN due 2014
HK	06/09	23:30	Hong Kong to Sell HKD200 Mln 2.46% 3-Year Notes
HK	06/09	23:30	Hong Kong to Sell HKD1 Bln 1.57% 5-Year Bonds
JN	06/09	23:35	Japan to Sell 2-Month Bills

Source: Bloomberg, Scotia Economics.

Events for the week of June 6 - 10

North America

Country	Date	Time	Event
US	06/06	03:30	Fed's Plosser Speaks on Central Banking in Helsinki
CA	06/06	10:30	Bank of Canada Sr. Dep. Gov. Macklem in Montreal Panel Talk
CA	06/06	16:00	Canada Finance Minister Flaherty Reintroduces 2011-12 Budget
US	06/06	17:30	Fed's Fisher Speaks in New York
CA	JUN 06-09		International Economic Forum of the Americas in Montreal
US	06/07	12:30	Fed's Lockhart Speaks on Economy in North Carolina
US	06/08	14:00	Fed Releases Beige Book Economic Survey
US	06/08	14:20	Fed's Hoenig Speaks in Steamboat Springs, Colorado
US	06/09	04:00	Fed's Plosser Speaks on U.S. Economy in London
US	06/09	11:30	Fed's Yellen Speaks on Housing in Cleveland

Europe

Country	Date	Time	Event
EC	06/05	18:00	EU's Barnier Speaks at financial conference in Montreal
PO	06/05		Portugal Holds Parliamentary Elections
EC	06/06	14:00	EU's Rehn, Juncker Speak to European Parliament Panel
PO	06/06	19:00	Bank of Portugal Releases Financial Stability Report
PO	06/06		Bank of Portugal Releases Data on Banks
EC	06/08	3:00	EU's Rehn Speaks in European Parliament Debate on Governance
EC	06/08	12:00	EU's Olli Rehn Speaks at Conference in Koenigstein, Germany
EC	06/08	12:00	EU's Rehn Speaks at Conference in Koenigstein
GE	06/09	05:30	Schaeuble Holds Keynote Speech at DIW Institute Conference
UK	06/09	07:00	BOE Asset Purchase Target
UK	06/09	07:00	**BOE Announces Rates**
EC	06/09	07:45	**ECB Announces Interest Rates**
EC	06/09	08:30	Trichet Speaks at ECB Monthly News Conference
LX	06/09	12:00	ECB's Mersch Presents Annual BCL Report
SP	06/10	07:00	ECB's Gonzalez-Paramo Speaks in Madrid
EC	06/10	08:50	EU's Rehn Speaks at Research Conference

Asia Pacific

Country	Date	Time	Event
NZ	06/06	18:00	Government Financial Statements
AU	06/07	00:30	**RBA CASH TARGET**
NZ	06/08	17:00	Reserve Bank of New Zealand Reviews Official Interest Rate
NZ	06/08	17:00	**RBNZ Official Cash Rate**
ID	JUN 08-09		**Bank Indonesia Reference Rate**
NZ	06/09	20:00	RBNZ Governor Bollard Scheduled to Speak
SK	06/09	21:00	**South Korea 7-Day Repo Rate**

Source: Bloomberg, Scotia Economics.

Global Central Bank Watch

North America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Canada – Overnight Target Rate	1.00	July 19, 2011	1.00	--
Federal Reserve – Federal Funds Target Rate	0.25	June 22, 2011	0.25	0.25
Banco de México – Overnight Rate	4.50	July 8, 2011	4.50	--

Markets took the BoC's statement as relatively more hawkish than expected, but that's relative to having largely priced out rate hikes through to year end. We don't view the statement as supportive of the July hike scenario since critical language on how "such a reduction <ed. in monetary stimulus > would need to be carefully considered" was left intact. Rather, we believe the statement supports our longstanding October call. That said, the BoC hedged its bets somewhat. On the one hand, it turned slightly more dovish on global growth. However, what markets took as a hawkish signal was reference to the need to eventually withdraw stimulus. We think all the BoC intended here was to halt the market trend toward perpetually taking out rate hikes, versus signalling a nearer term threat to the curve.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	1.25	June 9, 2011	1.25	1.25
Bank of England – Bank Rate	0.50	June 9, 2011	0.50	0.50
Swiss National Bank – Libor Target Rate	0.25	June 16, 2011	0.25	0.25
Central Bank of Russia – Refinancing Rate	8.25	June 24, 2011	8.25	--
Hungarian National Bank – Base Rate	6.00	June 20, 2011	6.00	6.00
Central Bank of the Republic of Turkey – 1 Week Repo Rate	6.25	June 23, 2011	6.25	--

The ECB and the BoE will likely keep their benchmark interest rates unchanged following their monetary policy meetings next week. We expect the ECB to hike in the third quarter of the year, followed by the BoE.

Asia Pacific

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Japan – Target Rate	0.10	June 14, 2011	0.10	--
Reserve Bank of Australia – Cash Target Rate	4.75	June 7, 2011	4.75	4.75
Reserve Bank of New Zealand – Cash Rate	2.50	June 8, 2011	2.50	2.50
People's Bank of China – Lending Rate	6.31	TBA	--	--
Reserve Bank of India – Repo Rate	7.25	June 16, 2011	7.25	--
Hong Kong Monetary Authority – Base Rate	0.50	TBA	0.50	--
Central Bank of China Taiwan – Discount Rate	1.75	June 30, 2011	1.75	--
Bank Negara Malaysia – Overnight Policy Rate	3.00	July 7, 2011	3.00	--
Bank of Korea – Bank Rate	3.00	June 9, 2011	3.00	3.13
Bank of Thailand – Repo Rate	3.00	July 13, 2011	3.00	--
Bank Indonesia – Reference Interest Rate	6.75	June 9, 2011	6.75	6.75

In our view, the central banks of Australia, New Zealand, South Korea and Indonesia will pass this week. While inflation remains elevated throughout the region, recent economic trends point to a soft patch in the coming months as past policy moves (S. Korea, Indonesia) have effectively tightened local credit conditions. Central banks will continue on the normalization route, but at a slower pace.

Latin America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	12.00	June 8, 2011	12.25	12.25
Banco Central de Chile – Overnight Rate	5.00	June 14, 2011	5.25	5.25
Banco de la República de Colombia – Lending Rate	4.00	June 17, 2011	4.00	4.25
Banco Central de Reserva del Perú – Reference Rate	4.25	June 9, 2011	4.25	4.50

The monetary policy committee of the central bank of Brazil (COPOM) will issue its policy announcement on June 8th; we anticipate that the COPOM will increase the reference SELIC rate by 25 basis points to 12.25%. Consumer prices grew 6.51% y/y in April, reaching the upper limit of the central bank's inflation target range (4.5% +/- 2%). The central bank aims to guide the IPCA-based inflation rate towards the target range in 2012.

Following the completion of the second round of presidential elections in Peru on June 5th, which is expected to be tight, the central bank will release its monetary policy statement on June 9th. We expect the authorities to leave the reference rate unchanged at 4.25%, mainly on the back of local markets' sensitivity to a volatile political environment.

Africa

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
South African Reserve Bank – Repo Rate	5.50	July 18, 2011	5.50	--

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

	2000-09	2010	2011f	2012f	2000-09	2010	2011f	2012f
Output and Inflation (annual % change)		**Real GDP**				**Consumer Prices[2]**		
World[1]	3.6	5.1	4.2	4.5				
Canada	2.1	3.2	2.8	2.6	2.1	1.8	3.0	2.4
United States	1.8	2.9	2.6	2.8	2.6	1.6	2.9	2.1
Mexico	1.9	5.5	4.4	3.8	4.9	4.4	3.9	4.0
United Kingdom	1.7	1.3	1.4	1.7	1.9	3.7	3.7	2.9
Euro zone	1.0	1.6	1.8	1.7	2.1	2.2	2.5	2.3
Japan	0.6	4.0	0.3	3.5	-0.3	0.0	0.8	1.3
Australia	3.1	2.7	3.4	3.0	3.2	2.7	2.8	2.5
China	9.4	10.4	9.3	9.5	2.0	4.6	5.0	4.5
India	7.4	9.0	8.3	8.5	6.2	9.5	7.5	6.0
Korea	4.4	6.2	5.4	5.3	3.1	3.5	3.5	3.0
Brazil	2.9	7.5	4.0	4.5	6.6	5.9	6.5	5.5
Chile	3.6	5.2	6.0	5.5	3.7	3.0	4.5	3.5
Peru	5.1	8.8	7.0	7.2	2.5	2.1	3.5	3.0
Central Bank Rates (%, end of period)	**11Q1**	**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	1.25	1.50	1.75	2.00	2.25	2.50	2.50
Bank of England	0.50	0.50	0.75	1.00	1.25	1.50	1.75	2.00
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	4.75	4.75	5.00	5.25	5.50	5.75	6.00	6.25
Exchange Rates (end of period)								
Canadian Dollar (USDCAD)	0.97	0.95	0.94	0.93	0.94	0.94	0.93	0.92
Canadian Dollar (CADUSD)	1.03	1.05	1.06	1.08	1.06	1.06	1.08	1.09
Euro (EURUSD)	1.42	1.47	1.49	1.50	1.48	1.48	1.50	1.50
Sterling (GBPUSD)	1.60	1.64	1.64	1.65	1.65	1.67	1.69	1.70
Yen (USDJPY)	83	79	82	84	86	87	89	90
Australian Dollar (AUDUSD)	1.03	1.07	1.08	1.09	1.09	1.10	1.10	1.11
Chinese Yuan (USDCNY)	6.5	6.4	6.3	6.3	6.2	6.1	6.0	5.9
Mexican Peso (USDMXN)	11.9	11.6	11.8	12.0	12.1	12.0	12.1	12.3
Brazilian Real (USDBRL)	1.63	1.58	1.59	1.60	1.62	1.65	1.67	1.70

Commodities (annual average)	**2000-09**	**2010**	**2011f**	**2012f**
WTI Oil (US$/bbl)	51	79	100	103
Brent Oil (US$/bbl)	50	80	112	115
Nymex Natural Gas (US$/mmbtu)	5.95	4.40	4.40	4.75
Copper (US$/lb)	1.78	3.42	4.25	4.15
Zinc (US$/lb)	0.73	0.98	1.03	1.05
Nickel (US$/lb)	7.11	9.89	11.25	8.90
Gold, London PM Fix (US$/oz)	522	1,225	1,530	1,600
Pulp (US$/tonne)	668	960	1,020	1,050
Newsprint (US$/tonne)	572	607	660	715
Lumber (US$/mfbm)	275	254	270	285

[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	
Real GDP (annual rates)	3.2	2.5	3.1		
Current Acc. Bal. (C$B, ar)	-50.0	-71.5	-41.1		
Merch. Trade Bal. (C$B, ar)	-9.1	-26.0	0.6	7.5	(Mar)
Industrial Production	4.6	7.7	6.0	5.2	(Mar)
Housing Starts (000s)	192	192	179	179	(Apr)
Employment	1.4	1.8	1.7	1.7	(Apr)
Unemployment Rate (%)	8.0	8.0	7.7	7.6	(Apr)
Retail Sales	5.5	4.0	5.3	0.9	(Mar)
Auto Sales (000s)	1560	1609	1554	1578	(Feb)
CPI	1.8	1.8	2.3	3.3	(Apr)
IPPI	1.0	1.0	2.6	-5.0	(Apr)
Pre-tax Corp. Profits	21.2	19.0	19.1		
Mexico					
Real GDP	5.4	5.1	4.4		
Current Acc. Bal. (US$B, ar)	-5.7	-7.5	-14.0		
Merch. Trade Bal. (US$B, ar)	-3.1	-9.0	-4.2	9.2	(Apr)
Industrial Production	6.0	6.2	4.8	4.2	(Mar)
CPI	4.2	3.7	4.2	3.4	(Apr)
Chile					
Real GDP	5.2	6.9	5.8		
Current Acc. Bal. (US$B, ar)	3.6	-0.2	4.9		
Merch. Trade Bal. (US$B, ar)	11.6	14.7	17.7	19.0	(Apr)
Industrial Production	0.6	4.4	2.7	8.5	(Apr)
CPI	1.4	2.2	2.5	3.2	(Apr)
Germany					
Real GDP	3.5	3.9	3.8		
Current Acc. Bal. (US$B, ar)	187.9	165.7	250.8	328.0	(Mar)
Merch. Trade Bal. (US$B, ar)	201.5	207.6	219.8	254.3	(Mar)
Industrial Production	10.1	10.2	11.8	10.9	(Mar)
Unemployment Rate (%)	7.7	7.6	7.4	7.0	(May)
CPI	1.1	1.2	1.5	3.2	(May)
Euro Zone					
Real GDP	1.7	1.9	2.0		
Current Acc. Bal. (US$B, ar)	-77	-43	-41	-64	(Mar)
Merch. Trade Bal. (US$B, ar)	0.0	43.0	53.2	39.6	(Mar)
Industrial Production	7.4	7.3	8.0	5.6	(Mar)
Unemployment Rate (%)	10.0	10.0	10.0	9.8	(Apr)
CPI	1.6	1.7	2.0	2.8	(Apr)
Japan					
Real GDP	4.0	4.8	2.4		
Current Acc. Bal. (US$B, ar)	195.9	227.5	176.8	246.3	(Mar)
Merch. Trade Bal. (US$B, ar)	74.7	75.1	58.4	-71.5	(Apr)
Industrial Production	16.6	13.3	6.8	-12.8	(Apr)
Unemployment Rate (%)	5.1	5.0	5.0	4.7	(Apr)
CPI	-0.7	-0.8	0.1	0.3	(Apr)
China					
Real GDP	10.3	9.6	9.8		
Current Acc. Bal. (US$B, ar)	30.5				
Merch. Trade Bal. (US$B, ar)	181.8	259.6	247.6	137.1	(Apr)
Industrial Production	13.5	13.3	13.5	13.4	(Apr)
CPI	4.6	3.6	4.6	5.3	(Apr)

United States	2010	10Q3	10Q4	Latest	
Real GDP (annual rates)	2.9	2.6	3.1	1.8	(Q1-A)
Current Acc. Bal. (US$B, ar)	-470	-502	-453		
Merch. Trade Bal. (US$B, ar)	-647	-683	-625	-745	(Mar)
Industrial Production	5.3	6.7	6.2	4.9	(Apr)
Housing Starts (millions)	0.58	0.58	0.54	0.52	(Apr)
Employment	-0.8	-0.1	0.5	0.2	(May)
Unemployment Rate (%)	9.6	9.6	9.6	9.1	(May)
Retail Sales	6.8	5.8	8.1	7.9	(Apr)
Auto Sales (millions)	11.5	11.6	12.3	13.1	(Apr)
CPI	1.6	1.2	1.3	3.2	(Apr)
PPI	4.2	3.8	3.8	6.8	(Apr)
Pre-tax Corp. Profits	36.8	34.8	16.1		
Brazil					
Real GDP	6.7	5.9	4.2		
Current Acc. Bal. (US$B, ar)	-47.4	-46.1	-48.0		
Merch. Trade Bal. (US$B, ar)	20.2	19.3	30.0	42.3	(May)
Industrial Production	10.5	8.0	3.6	-0.1	(Apr)
CPI	5.1	5.0	6.1	6.5	(Apr)
Italy					
Real GDP	1.2	1.4	1.5		
Current Acc. Bal. (US$B, ar)	-0.07	-0.06	-0.07	-0.09	(Mar)
Merch. Trade Bal. (US$B, ar)	-39.1	-28.2	-46.3	-66.2	(Mar)
Industrial Production	6.5	7.5	5.1	3.2	(Mar)
CPI	1.6	1.6	1.8	2.6	(Apr)
France					
Real GDP	1.4	1.7	1.4		
Current Acc. Bal. (US$B, ar)	-54.3	-41.8	-94.9	-46.1	(Mar)
Merch. Trade Bal. (US$B, ar)	-38.6	-42.2	-38.6	-49.3	(Mar)
Industrial Production	5.1	4.3	4.8	3.3	(Mar)
Unemployment Rate (%)	9.8	9.8	9.6	9.4	(Apr)
CPI	1.5	1.5	1.6	2.1	(Apr)
United Kingdom					
Real GDP	1.3	2.5	1.5		
Current Acc. Bal. (US$B, ar)	-56.1	-56.0	-62.2		
Merch. Trade Bal. (US$B, ar)	-151.4	-160.1	-169.4	-148.6	(Mar)
Industrial Production	2.0	3.0	3.3	0.7	(Mar)
Unemployment Rate (%)	7.9	7.8	7.9	7.7	(Feb)
CPI	3.3	3.1	3.4	4.5	(Apr)
Australia					
Real GDP	2.7	2.5	2.7		
Current Acc. Bal. (US$B, ar)	-31.8	-27.6	-37.4		
Merch. Trade Bal. (US$B, ar)	19.2	27.8	25.8	32.5	(Apr)
Industrial Production	4.3	4.3	0.0		
Unemployment Rate (%)	5.2	5.2	5.2	4.9	(Apr)
CPI	2.8	2.8	2.7		
South Korea					
Real GDP	6.2	4.4	4.7		
Current Acc. Bal. (US$B, ar)	28.2	39.7	36.6	22.5	(Apr)
Merch. Trade Bal. (US$B, ar)	41.2	42.5	52.1	33.0	(May)
Industrial Production	16.6	12.9	9.9	7.1	(Apr)
CPI	3.0	2.9	3.6	6.9	(May)

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

Source: Bloomberg, Scotia Economics.

Interest Rates (%, end of period)

Canada	10Q4	11Q1	May/27	Jun/03*	United States	10Q4	11Q1	May/27	Jun/03*
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	1.05	0.96	0.97	0.90	3-mo. T-bill	0.12	0.09	0.04	0.04
10-yr Gov't Bond	3.12	3.35	3.06	3.00	10-yr Gov't Bond	3.29	3.47	3.07	3.02
30-yr Gov't Bond	3.53	3.76	3.50	3.50	30-yr Gov't Bond	4.33	4.51	4.24	4.26
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US$B)	59.4	57.0	62.9	(Apr)	FX Reserves (US$B)	122.1	121.4	131.9	(Apr)
Germany					**France**				
3-mo. Interbank	0.96	1.26	1.41	1.28	3-mo. T-bill	0.40	0.80	0.93	1.00
10-yr Gov't Bond	2.96	3.35	2.99	3.05	10-yr Gov't Bond	3.36	3.71	3.34	3.35
FX Reserves (US$B)	62.4	62.3	66.4	(Apr)	FX Reserves (US$B)	52.2	55.8	57.5	(Apr)
Euro-Zone					**United Kingdom**				
Refinancing Rate	1.00	1.00	1.25	1.25	Repo Rate	0.50	0.50	0.50	0.50
Overnight Rate	0.82	0.90	1.08	0.88	3-mo. T-bill	4.85	4.85	4.85	4.85
FX Reserves (US$B)	300.1	300.2	316.7	(Apr)	10-yr Gov't Bond	3.40	3.69	3.32	3.27
					FX Reserves (US$B)	67.2	68.3	79.2	(Apr)
Japan					**Australia**				
Discount Rate	0.30	0.30	0.30	0.30	Cash Rate	4.75	4.75	4.75	4.75
3-mo. Libor	0.13	0.14	0.13	0.13	10-yr Gov't Bond	5.55	5.49	5.23	5.23
10-yr Gov't Bond	1.13	1.26	1.13	1.14	FX Reserves (US$B)	38.1	38.7	37.9	(Apr)
FX Reserves (US$B)	1077.4	1061.5	1097.8	(Apr)					

Exchange Rates (end of period)

USDCAD	1.00	0.97	0.98	0.98	¥/US$	81.12	83.13	80.80	80.61
CADUSD	1.00	1.03	1.02	1.02	US¢/Australian$	102.33	103.29	107.06	106.88
GBPUSD	1.561	1.603	1.651	1.636	Chinese Yuan/US$	6.61	6.55	6.49	6.48
EURUSD	1.338	1.416	1.432	1.457	South Korean Won/US$	1126	1097	1082	1080
JPYEUR	0.92	0.85	0.86	0.85	Mexican Peso/US$	12.340	11.905	11.604	11.683
USDCHF	0.94	0.92	0.85	0.84	Brazilian Real/US$	1.661	1.632	1.595	1.576

Equity Markets (index, end of period)

United States (DJIA)	11578	12320	12403	12182	U.K. (FT100)	5900	5909	5881	5855
United States (S&P500)	1258	1326	1326	1307	Germany (Dax)	6914	7041	7163	7105
Canada (S&P/TSX)	13443	14116	13798	13500	France (CAC40)	3805	3989	3951	3887
Mexico (Bolsa)	38551	37441	35819	35309	Japan (Nikkei)	10229	9755	9522	9492
Brazil (Bovespa)	69305	68587	64295	64865	Hong Kong (Hang Seng)	23035	23528	23118	22950
Italy (BCI)	1048	1120	1079	1080	South Korea (Composite)	2051	2107	2100	2113

Commodity Prices (end of period)

Pulp (US$/tonne)	968	970	1020	1020	Copper (US$/lb)	4.42	4.26	4.15	4.09
Newsprint (US$/tonne)	640	640	640	640	Zinc (US$/lb)	1.10	1.05	1.02	1.01
Lumber (US$/mfbm)	268	297	227	230	Gold (US$/oz)	1405.50	1439.00	1533.00	1540.00
WTI Oil (US$/bbl)	91.38	106.72	100.23	99.91	Silver (US$/oz)	30.63	37.87	37.69	35.19
Natural Gas (US$/mmbtu)	4.41	4.39	4.33	4.75	CRB (index)	332.80	359.43	346.27	348.23

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

Scotia Economics

Scotia Plaza 40 King Street West, 63rd Floor
Toronto, Ontario Canada M5H 1H1
Tel: (416) 866-6253 Fax: (416) 866-2829
Email: scotia_economics@scotiacapital.com

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