

# Global Views

Weekly commentary on economic and financial market developments

October 14, 2011

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

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

### *A Make It Or Break It Week For Europe*

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

**European** markets face a make it or break it moment over the next nine days. They will be overwhelmingly focused upon the after-math of a key meeting and the lead up to the next one. Expect a strong statement out of the meeting of G20 Finance Ministers and central bank chiefs that concludes tomorrow in France. Rumours this week of aggressive Greek debt mark downs, bank recapitalizations, possible capital injections into the IMF, and changes to the EFSF will all come to a head over the next week. They will lead up to the October 23rd meeting of EU and Eurozone leaders in Brussels, and the meeting of G20 Leaders on November 3rd/4th. The potential is there for either major coordinated efforts, or one massive policy flop. In the midst of it all, Spanish bill and bond auctions and a Greek bill auction will be floated. The week is also peppered by ECB speeches. Germany's Economy Ministry will issue fresh government forecasts for GDP growth on Thursday, and the focus on Germany will be retained through investor and business sentiment surveys on Tuesday and Friday respectively. UK markets will digest BoE minutes, CPI, and retail sales — all of which hold the potential to swing markets. The Norges Bank will likely stay on hold on Wednesday.

**Asia** might share the spotlight with Europe next week. China will release Q3 GDP growth on Monday night, and it is expected to hover around 9.5% y/y. That would maintain the slow down from 11.9% recorded in 2010Q1. Markets will also be watching releases for industrial production and retail sales that same evening. Combined with evidence of topping inflationary pressures, any growth downside may not have as adverse effects upon the risk trade if policy has greater flexibility. The RBA releases meeting minutes, and rate decisions are expected in Thailand and the Philippines.

**US** markets will be primarily focused upon a bevy of Q3 earnings releases that will include a number of key financials, and an abundance of Fed speeches as each of Bernanke, Evans, Lacker, Rosengren, Lockhart, Bullard, Pianalto, and Kocherlakota take to the stage throughout the week. This earnings season will go a long way toward settling near-term upsides or downsides to equities given uncertainty over the sustainability of earnings, but as per our analysis of a variety of valuation metrics over a long period of time, we're of the view that equities are cheap only if the market's 'memory' is confined to the environment of the 1990s until just before the crisis (see page 3). Key releases start landing Monday with the first of the regional manufacturing surveys. The Empire gauge will be looked to for evidence of an ongoing contraction in regional manufacturing conditions into October. Also on Monday will be September industrial production that consensus expects to post a small rise, but that may be at risk of contracting in lagged fashion behind what we already know is a falling manufacturing new order book. Wednesday brings a triple whammy with CPI, housing starts and the Beige Book but none of these measures are likely to sharply swing markets. Thursday's releases might, however, since the Philly Fed's regional survey of business conditions is expected to post a third consecutive contraction albeit at a diminishing rate.

**Canadian** markets will mostly follow the global tone next week, with the exception of Friday's CPI release for September. Recall that the prior month's release witnessed an upside surprise to inflation, so markets may be nervous about a repeat especially with a 2 year auction on tap for Wednesday. Regardless, BoC Governor Mark Carney has signaled his bias to look through near-term inflation readings via two key arguments. One is that he has pointed to how the BoC has adjusted its horizon over which to achieve its inflation target from two to twelve quarters in the past while emphasizing a dovish growth-focused tone. Two is that he has made it clear that the BoC will lag the closing of the output gap and the resurrection of inflation pressures by achieving a neutral rate later in the cycle than would have ordinarily been the case in the past. In this regard, Carney is employing the same policy bias he utilized to resist calls for rate hikes earlier this year that were in line with our more dovish than consensus bias throughout the past year. The BoC will also start the week in the spotlight when it releases its influential Business Outlook Survey that polls businesses for their hiring, capital spending and production expectations. The BoC's Senior Loan Officer Survey is also due for release on Monday and will help shed light upon supply and demand conditions in Canadian credit markets particularly given the sharp deceleration in household debt growth following the tightening of mortgage rules in April. Wholesale trade on Thursday will help round out the August GDP indicators.

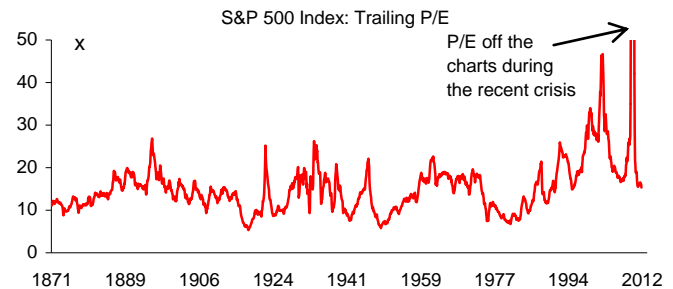
Karen Cordes Woods (416) 862-3080  
[karen\\_woods@scotiacapital.com](mailto:karen_woods@scotiacapital.com)

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

### Are U.S. Equities Under-Valued?

- In a fuller paper available upon request, we survey a variety of equity valuation measures applied to U.S. markets. Our broad takeaway is that equities are cheap only if one confines one's market memory to the period of the 1990s onward, and are likely fairly valued in a longer-run context that we feel makes for a more plausible reference period. What follows is a short summary of the fuller paper.

Even just a quick scan of the headlines would leave investors torn between sharply divergent opinions on equity valuations. Some scream that, like early 2009, current market conditions represent the buying opportunity of a lifetime. Other headlines still point to equity over-valuation, while even gloomier headlines warn of sharply further declines in valuations due to shifting investor demographics.



Source: Shiller, Robert, "Irrational Exuberance," Princeton University Press, 2000, 2005, updated; Scotia Economics

What is needed is perspective that we attempt to provide through a wide variety of U.S. equity valuation measures over long periods of time so

as to avoid the trap of making extreme pronouncements based upon solitary pet measures and narrow time references, given that each conceivable valuation metric has its pitfalls and each time period throughout history has been subject to different macroeconomic and geopolitical factors. In so doing, we're approaching the issue through the lens of economists looking at broad markets and with a focus upon the longer-term attractiveness of equities.

The measures we consider over many decades include: Tobin's 'Q'; equity 'Q'; price-to-trailing earnings; price-to-forward earnings; a cyclically adjusted price-earnings ratio; dividend yield; price-to-book; and the so-called "Fed" model, also known as the competing asset theory. Just one example — the very long-term trailing price-to-earnings ratio — is reflected in the accompanying chart.

Virtually every valuation metric that we have considered suggests that equities are under-valued only in relation to the fairly recent past from the 1990s onward but not so in relation to conditions prior to this period. Thus, what one thinks about current valuations may depend upon whether one's experience was acquired during the equity cycles of the 1990s onward or over a longer time-frame. The 1990s onward period may well be guiding the market's 'memory'.

In this context, the onus therefore lies upon market participants to explain what makes the period from the 1990s until just before the crisis an appropriate reference period before deciding upon a bullish slant toward current equity valuations. We struggle with this, in that we're biased toward viewing the 1990s-to-crisis period as the anomaly within history, not the benchmark for the future. The 1990s-to-crisis period was marked by excessive risk taking motivated by heavy leveraging and lax regulation that is now at risk of turning excessively tighter. This prompted massive behavioural shifts by investors that had less to do with shifting age structures of the population and far more to do with large intra-cohort shifts in risk taking. For example, 40 years olds in the 1980s held far less debt in inflation adjusted terms and had far lower equity ownership rates than 40 year olds in the lead up to the crisis, and the outcome was similarly portrayed across other age groups through successive U.S. Surveys of Consumer Finances produced by the Federal Reserve. One example of why this is important entails rejecting casual empiricism that naively plots age variables with market performance metrics in that many other macroeconomic and behavioural shifts have occurred in highly correlated fashion to slow moving age trends. Understanding how the psychology of investors may change going forward is therefore at least as important as any fundamental and historical arguments.

Please contact the authors for the full 5 page report titled "Are U.S. Equities Under-Valued?" distributed on Friday October 14th 2011.

Gorica Djerić (416) 866-4214  
[gorica\\_djeric@scotiacapital.com](mailto:gorica_djeric@scotiacapital.com)

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

### ***Canada & The United States: A Moderate Pickup Likely For Q3 GDP Growth***

- **Both Canada and the United States appear to have retained positive forward momentum heading into the fall, providing some cushion in the face of increasing global economic and financial headwinds.**

Based on available data, we estimate annualized output growth in the July to September period will come in around 1½% for Canada and 2½% for the United States, a moderate pickup from their disappointing second-quarter results. In Canada, consumers have become more conservative shoppers, but have not abandoned the malls. July retail sales build just under a 1% real spending gain into the quarter. More timely indicators for August and September are mixed. While auto dealers report healthy sales, aided in part by generous incentives, surveys from industry associations point to choppy yet sluggish traffic.

Canada's housing sector was still contributing solidly to overall output through the end of the third quarter. A sharp pickup in construction alongside a moderate increase in home sales in the quarter should have more than offset an expected slowing in renovation activity. However, the biggest contributor to the rebound will likely be net exports as production came back online following earlier supply chain disruptions, wildfires and maintenance shutdowns, and as import demand slowed. Based on data through August, net goods trade stands to contribute 2 percentage points to growth in the third quarter.

Canadian businesses are still investing in new machinery and equipment. However, overall outlays, which were inflated in the second quarter by the import of a natural gas platform, appear set to ease back in the third quarter. Meanwhile, a slower pace of inventory accumulation was almost certainly a drag on growth. While wholesalers continue to stockpile, manufacturers are holding the line on inventories following the prior quarter's unintended buildup. And retailers report maintaining lean inventories in anticipation of modest fall sales growth. Non-residential construction figures for the third quarter will be published next week, filling another hole in the puzzle.

In the United States, some mutually-reinforcing data points have come out as of late, placing the risk for third-quarter GDP growth — to be published on October 27 — on the upside. Most of the key indicators have been released for two of the three months, revealing built-in growth upwards of 3.0% q/q annualized. While one-third of the data have yet to be published — and often undergo sizeable monthly revisions and definitional adjustments for the purposes of turning into GDP inputs — these reports, nevertheless, provide some relief after the disappointing GDP performance in the first half of the year. Historically, three consecutive quarters of sub-2% growth tend to precede an economic downturn, so an above-2% advance would serve as further evidence that a gradual recovery remains underway. As we pointed out in last week's article "What Do The ISM Indices Say" — which examined the relationship between the purchasing managers' surveys and the broader economy — mid-cycle slowdowns are not uncommon.

Support in the third quarter appears to be relatively broad based. Business investment, exports and household spending lead the pack — although the latter is more of a technical bounce-back due to a weak base effect — but even government outlays and housing should lend a hand. Only inventories and imports are likely to detract from growth. While companies continue to focus on preserving profit margins, some of the record-high cash reserves are being channeled into new equipment, led by machinery, electronics and transportation, but the latter may be partly benefitting from the base effect produced by the earthquake in Japan. Aside from self-financing future growth — similar to the aftermath of the 1990s Savings & Loan crisis — companies are also geographically diversifying their customer base both across the OECD and emerging markets. Domestic demand, however, remains the weak link. Alongside a stubbornly high unemployment rate, still elevated energy bills, a struggling housing market and ongoing deleveraging, fiscal and political uncertainty at home and abroad are sapping consumer confidence. This is being reflected in cautious household spending — while moderate third-quarter retail sales growth was fairly evenly supported by essential and discretionary purchases, the latter got a strong boost from a weak base effect — and softer imports, with consumer goods as the weakest performer of the major import categories so far in the third quarter.

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

### Canadian Labour Market Mismatch Continues

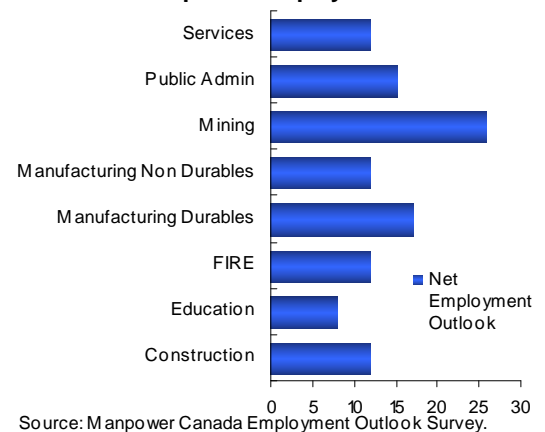
- **Canada's diversified economy is supporting payroll growth in several important sectors. However, some firms are having trouble finding workers that match their needs.**

September job numbers bookended a strong summer for the Canadian labour market. Looking past the monthly wiggles, over 90,000 jobs were added from June to September, mostly private paid and full-time. Meanwhile, the unemployment rate steadily dropped to reach its lowest level since December of 2008. While the pace of job growth is likely to slow in the coming months, several surveys indicate that Canadian employers are cautiously optimistic and looking to expand in several sectors. However, finding workers with the required skills, experience and qualifications is proving to be one of their biggest overall challenges.

A Price Waterhouse Coopers survey released this week brought some interesting insights into the challenges businesses are facing in Canada. Notably, labour shortages ranked as the 3<sup>rd</sup> highest concern after competitiveness and profits, with 26% of respondents placing it as their main challenge. This is a stark contrast to last year's result, where the category didn't place near the top three. Similarly, respondents to the latest Canadian Federation of Independent Business survey listed "shortage of skilled labour" as their second highest concern, affecting 35% of all small- and medium-sized firms. Manpower Canada's Q4 Employment Outlook Survey falls in line with these results, with hiring intentions remaining positive (chart 1).

However, there is a disparity in hiring intentions across industries. The market for engineers (particularly petroleum-related activities), information technology workers, drilling team workers, and mining are all tight. Other sectors such as finance, real estate, transportation and durables manufacturing also have a positive outlook, but have more slack given payrolls in these segments are still hovering at or below their pre-recession levels. Meanwhile, the retail and construction sectors are trailing, with an unwinding in government stimulus spending and an expected slowing in housing construction and renovation activity affecting both.

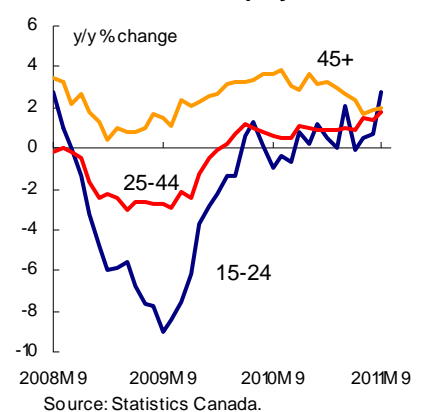
Chart 1 - Manpower Employment Outlook



A challenge facing firms in more active segments is the difficulty finding workers that match their needs in terms of skills and experience. This is demonstrated in chart 2, which shows the pace of hiring for highly experienced workers (45+) far outpacing all other categories. Hiring for workers with 5+ years of experience (25-44) lagged but has recently managed to close the gap, while the most inexperienced group (15-24) suffered the most during the recession and is only recently making back ground. This suggests that businesses are gradually relaxing their requirements and looking at less experienced hires. The weakened pace of wage growth seen over the past few months may in part reflect this cycle.

Overall, Canada's diversified economy is allowing for continued payroll expansion. However, the divergence in sectoral performance will likely remain wide. This could very well exacerbate the challenges faced by employers and job seekers in matching skills and expectations, tempering payroll and wage growth.

Chart 2 - Employment





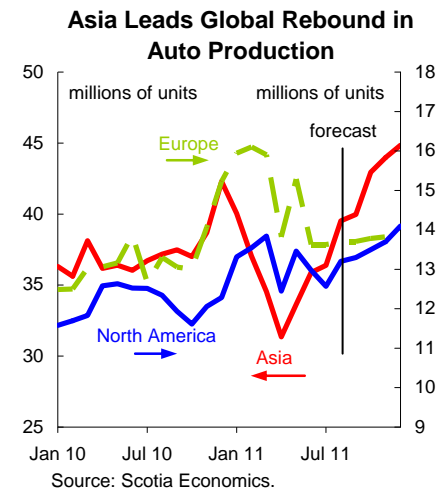
Carlos Gomes (416) 866-4735  
[carlos\\_gomes@scotiacapital.com](mailto:carlos_gomes@scotiacapital.com)

### Global Auto Industry Rebounds

- **Asia is leading the way, but North America is also bouncing back.**

The global auto industry continues to rebound from this summer's supply chain-induced disruptions, despite financial market concerns that global economic activity is slowing. Global vehicle production bottomed in May, and will continue to strengthen in coming months. Sales have also begun to improve in most regions, after being held back during the summer due to product shortages, especially for Japanese automakers.

Global vehicle output rose 5% year over year in August — a sharp improvement from a 2% decline in the second quarter, when parts shortages from Japan forced cutbacks at many facilities throughout the world. Assemblies are scheduled to post a further double-digit increase in the final months of 2011. Asia remains the epicentre of the turnaround, with auto production jumping 7% year over year in August, and a further double-digit gain is likely in the October-December period. In August, assemblies in Asia totalled an annual rate of 40 million units — up from a low of only 31 million in April. We expect assemblies in the region to jump to an annual rate of 44 million units in for the final months of 2011, surpassing the late-2010 peak and accounting for a record 57% of global vehicle output (see chart ).



In North America, automakers boosted third-quarter production to an annualized 13.2 million units, a sharp acceleration from the slowdown in the April-June period, when supply chain disruptions cut North American assemblies to an annual rate of only 12.5 million units. Despite the improvement, output remains below the early-2011 high.

The recent rebound in U.S. vehicle sales and low inventories for Japanese automakers have prompted manufacturers to schedule a further 7% quarter-to-quarter jump in North American assemblies during the final months of 2011. We estimate that this translates to an annualized production rate of 14.1 million units — a level above the early-2011 high and the highest level since the opening months of 2008, prior to the sharp fall-off in global economic activity later that year. This increase will likely add at least half of a percentage point to economic growth across North America in the final months of 2011.

The rebound in production across North America is being led by more than a 20% year-over-year increase at Japanese-owned facilities, as these automakers attempt to restock depleted inventories. While production at Japanese plants across North America are now back to normal, inventories for these automakers remain 18% below the industry average. Japanese dealers in the United States ended September with only a 41 days' supply of vehicles, well below 54 days' for the rest of the industry.

Global vehicle sales have also begun to strengthen, reversing five months of decelerating growth. Purchases jumped 6% year over year in both August and September, led by double-digit gains in Eastern Europe and an acceleration in the United States. The sales pace also gained momentum in China last month, with volumes advancing 9% year over year in September, up from a 7% gain in the June-August period and only a 4% increase in April-May. The improvement in China reflects a robust labour market, as well as higher incentives. The pace of job creation remains solid in China at 4% year over year. Luxury volumes are the strongest segment in China, with sales of German luxury vehicles soaring 35% through September.

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

### **Thailand's Overextended Monsoon Will Slow Growth Temporarily**

- **The country's solid manufacturing machine will bounce back at the turn of the year.**

We anticipate that flooding across Thailand will have short-term adverse consequences causing loss of public and private property and a temporary derailment of the country's manufacturing sector. As firms rush to catch up with previous orders the economy will likely rebound through the turn of the year. Our forecast for Thailand's GDP growth has now been downgraded to 3.9% y/y in 2011, and 4.2% in 2012.

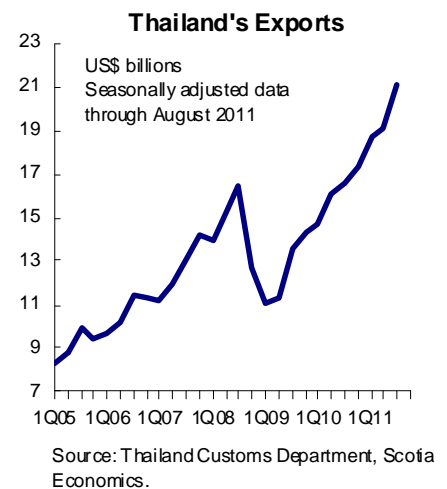
The damage caused by what appears to be Thailand's worst monsoon deluge in 50 years is widespread, as at least a third of the country's provinces are underwater according to the Department of Disaster Prevention and Mitigation. Flood waters concentrate on the central regions, with tourist destinations less affected and fully accessible as all of the country's airports remain functional. Based on our preliminary analysis, we estimate a short-term downturn in activity that will be subsequently offset by the effects of the rebuilding effort.

Thailand's economy has been a poster child for the Asian recovery following supply-chain disruptions that reverberated through the region last March. Underpinned by a rebound in export values, manufacturing output has climbed back to its turn-of-the-year peak. China — Thailand's main export destination (accounting for 19% of overall foreign sales) — has been pulling the country forward, with Japan and Europe also remaining important trade partners. Interestingly, Europe bound shipments have performed relatively well so far this year, whereas sales to the US have failed to keep pace (chart).

As Japanese carmakers Toyota and Honda announced production stoppages this week, the overextended monsoon is likely to lower manufacturing momentum, though without provoking derailment. A significant share of Thailand's exports is concentrated in manufacturing, with motor vehicle production figuring prominently. Stellar export performance (shipment values through August are 21.5% over and above the 2010 average) generated a rebound in factory output to turn-of-the-year peaks, pushing activity above levels observed prior to the global slowdown in 2008 (second chart). Manufacturing accounts for 35% of GDP.

Damage to the country's trade and communications infrastructure implies that a slowdown is now probable in local demand, which otherwise has been running alongside foreign sales. While investment outlays rebounded to pre-global-crisis levels on the back of up-trending credit growth, their expansion will likely be tamed by the combined effect of the catastrophe and ongoing global uncertainty.

Price pressures have yet to stabilize given the upbeat tone in local activity prior to the deluge. Core inflation increased in the September reading to 2.9% y/y, remaining barely within the Bank of Thailand's (BoT) 0.5-3% target range. Core inflation is expected to capitulate soon helped by capped increases in fuel costs and a softer commodity cost mix. In the midst of an uncertain global scenario, and now a natural disaster locally, we expect the central bank to maintain monetary conditions unchanged after the policy committee of the BoT meets later this month.



Eduardo Suarez (416) 945-4538  
[eduardo\\_suarez@scotiacapital.com](mailto:eduardo_suarez@scotiacapital.com)

### Diverging Trends In LATAM FX Policy?

- Central banks/FinMins across LATAM are facing tough choices and are taking increasingly divergent FX policy paths.
- The table on pages 2 & 3 summarizes their current policy mix, and potential further moves we see as possibilities.

The combination of a favourable terms of trade shock and strong portfolio & FDI inflows derived from the region's stronger fundamentals, natural resource endowments and abundant global liquidity have led to appreciating pressure for LATAM FX over recent years. The current environment is becoming even more complicated by rising volatility, slowing economies, and in some cases rising inflation.

In this environment, the region's central banks are increasingly adopting divergent approaches. Countries like Chile and Mexico remain relatively committed to free-floating exchange rates. Colombia also signalled a shift away from targeting COP weakness towards seeking lower volatility, moving from daily USD purchases towards a "two-sided" intervention rule. On the other hand, Brazil is fighting its "currency war" with a combination of spot & currency swap intervention, as well as other measures such as taxes on FX positions. Peru continues with its policy of containing volatility on a daily basis to shield its highly dollarized financial system, while occasionally acting to weaken PEN.

FX intervention in LATAM can be broadly classified into three main objectives:

#### 1. Reducing FX volatility

Measures used to reduce FX volatility include the BCRP's non-rules based daily intervention, as well as BanRep's current policy of "two sided" intervention when a 2% band around the 10-day moving average of the TRM is broken.

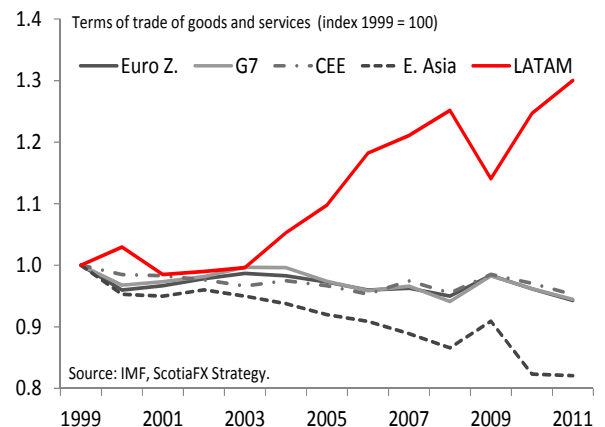
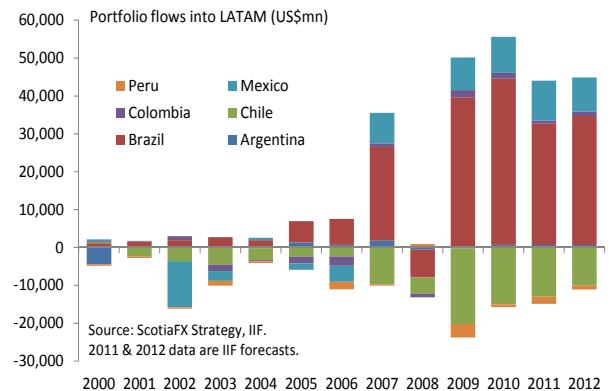
#### 2. Manipulating the level of the currency

Measures to weaken the currency/slow its appreciation include direct USD purchases, Brazil's IOF taxes, Peru's use of reserve requirement increases, as well as the issuance of local currency linked global bonds (among others).

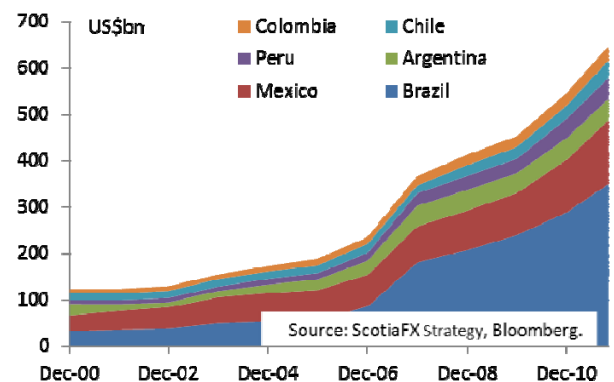
#### 3. Increasing the level of FX reserves or adjusting the pace of their accumulation

These measures include Chile's daily USD purchases, the quarterly determined-daily USD sales implemented by Mexico in the early 2000s and Banxico's current monthly USD put-option sales.

LATAM currencies have experienced strong appreciation pressures derived from a favorable terms of trade shock and portfolio inflows



LATAM CBs have responded by stockpiling large FX reserves





Eduardo Suarez (416) 945-4538  
[eduardo\\_suarez@scotiacapital.com](mailto:eduardo_suarez@scotiacapital.com)

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### A guide to LATAM FX intervention (this is not an exhaustive guide)

Country	Institution	Actions * (bolded = currently used / italicized = one off)	Purpose / Impact	Potential changes
Brazil	CenBank (BCB)	<ul style="list-style-type: none"> <li>• Cross currency swaps</li> <li>• Spot intervention</li> <li>• Rate cuts (not formally referenced as an FX policy)</li> </ul>	<ul style="list-style-type: none"> <li>• The BCB uses currency swaps to both contain BRL appreciation and depreciation.</li> <li>• Up until recent BRL weakness led to a change in policy direction, the BCB held 1 or 2 daily auctions where it bought USD (contributing to an increase of &gt;US\$140bn in the BCB's FX reserves since 2007).</li> <li>• The BCB unexpectedly cut the SELIC rate back in August, surprising the market, and contribution to a sell-off in BRL. The DI curve is pricing ~150bps of rate cuts over the next 12 months.</li> </ul>	<ul style="list-style-type: none"> <li>• The BCB is faced with the problem of the "impossible trinity": allowing free flowing of capital, conducting a sovereign monetary policy, while controlling the exchange rate. Brazil is operating in somewhat of a "gray area" in both the exchange rate and capital flows, while attempting to carry out a sovereign monetary policy.</li> <li>• Policy direction is likely dependent on BRL's strength. A stronger BRL could lead to the use of "reverse swaps", further USD purchases, as well as potentially more rate cuts.</li> </ul>
	FinMin	<ul style="list-style-type: none"> <li>• IOF taxes</li> <li>• BRL linked global bonds</li> <li>• Sovereign wealth fund (USD buying)</li> </ul>	<ul style="list-style-type: none"> <li>• The IOFs have been used to make it more expensive for capital to flow into Brazil, with the government incrementally restricting access to more products.</li> <li>• Another tool at the FinMin's disposal is the potential to issue BRL linked global bonds, to satisfy demand for BRL without putting appreciating pressure on the real.</li> <li>• The FinMin has also stressed the possibility of using the SWF to slow BRL appreciation.</li> </ul>	<ul style="list-style-type: none"> <li>• The FinMin has dismissed speculation that the IOF could be scrapped, at least for now. We believe the possibility could resurface if we get another strong bout of risk aversion that pushes USD/BRL materially higher.</li> <li>• The FinMin has already stated it is considering issuing global bonds by year end, we believe the currency choice will be influenced by the strength/weakness of BRL.</li> </ul>
Chile	CenBank (BCCh)	<ul style="list-style-type: none"> <li>• Schedule US\$50mn daily purchases</li> </ul>	<ul style="list-style-type: none"> <li>• In January 2011, the BCCh announced plans to increase its FX reserves by US\$12bn in order to increase the central bank's FX reserves to levels comparable to its peers, as well as to cope with a strengthening CLP.</li> <li>• The BCCh also published a paper in January which shows several metrics it uses to determine what the optimum level of FX reserves is. A number of the metrics described in the study suggests the "optimum level" lies in the neighborhood of 20% of GDP.</li> </ul>	<ul style="list-style-type: none"> <li>• The BCCh is one of the region's central banks most committed to a free-floating currency. However, it has in the past signaled discomfort with the peso's level and as recently as January 2011, taken measures to weaken the peso.</li> <li>• We believe that if measures to weaken CLP were taken, we would first get clear signals of discomfort from the BCCh, and that USD purchase would likely materialize before capital controls (which BCCh Governor de Gregorio has in the past mentioned as a possibility).</li> </ul>
	FinMin	<ul style="list-style-type: none"> <li>• Issuing CLP linked global bonds</li> <li>• Changes to AFP's foreign exposure limits</li> </ul>	<ul style="list-style-type: none"> <li>• The FinMin could issue CLP linked global bonds to satisfy demand for the peso, without putting appreciating pressure on CLP.</li> <li>• The current foreign investment limits (announced November 4, 2010 by the BCCh) don't leave much room for further increases in foreign exposure limits, given the type A funds can now invest 100% of their assets abroad, and the limit is &gt;75% for fund types A, B, &amp; C.</li> </ul>	
Colombia	CenBank (BanRep)	<ul style="list-style-type: none"> <li>• "Two way spot intervention to reduce volatility"</li> <li>• Sale of USD put/call options</li> <li>• Direct intervention in spot through daily auctions</li> </ul>	<ul style="list-style-type: none"> <li>• BanRep has alternatively intervened to slow COP appreciation, or to reduce currency volatility.</li> <li>• The newly announced "two-way" intervention in the spot market appears targeted at reducing volatility (for further details on the program, see "LATAM FX Week-Ahead", October 10-14, 2011).</li> </ul>	<ul style="list-style-type: none"> <li>• We believe that for now, BanRep is comfortable with COP's level and will stay with the recently announced mechanism to reduce currency vol.</li> <li>• Back-testing suggests that even under a Lehman type scenario, the CB's FX reserves can comfortably cope with the required USD sales (see "LATAM FX Week-Ahead", October 10-14, 2011).</li> </ul>
	FinMin	<ul style="list-style-type: none"> <li>• Slowing/avoiding the repatriation of foreign assets (including Ecopetrol's)</li> <li>• Issuing COP linked global bonds</li> </ul>	<ul style="list-style-type: none"> <li>• The FinMin has in the past delayed the repatriation of USD denominated assets in order to reduce appreciating pressures. Another alternative at its disposal is the sale of COP linked global bonds.</li> </ul>	<ul style="list-style-type: none"> <li>• On October 11, 2011 the FinMin confirmed it has no plans to repatriate USD held abroad.</li> </ul>

\* / Where applicable, bolded text indicates intervention mechanisms are currently being used. One off mechanisms are italicized

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Eduardo Suarez (416) 945-4538  
[eduardo\\_suarez@scotiacapital.com](mailto:eduardo_suarez@scotiacapital.com)

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Country	Institution	Actions * (bolded = currently used / italicized = one off)	Purpose / Impact	Potential changes
Mexico	CenBank (Banxico)	<ul style="list-style-type: none"> <li>Monthly USD put-option auctions.</li> <li>Scheduled USD sales (there have been several mechanisms, including daily sales to slow FX reserve accumulation, as well as daily USD sales to provide USD liquidity to the local market).</li> </ul>	<ul style="list-style-type: none"> <li>Banxico stated the purpose of the options is to accumulate FX reserves as protection against a potential reversal of capital flows.</li> <li>The options also tend to slow the pace of MXN's appreciation, as traders often use them as "exits" for betting against an appreciating trend. This behavior sometimes forces the market to trade against itself.</li> <li>Banxico has scheduled daily USD sales for two reasons: to slow the pace of FX reserve accumulation in the early 2000s, and to provide USD liquidity to the local market during the post-Lehman crisis.</li> </ul>	<ul style="list-style-type: none"> <li>Banxico intervenes in the FX market for 2 major reasons: a) because they feel either the level or the pace of accumulation of FX reserves is inadequate, or b) because they feel the "price discovery mechanism" of the currency is broken (such as during the post-Lehman fall-out, where there was no "natural supplier of USD to the market").</li> <li>We don't expect any imminent changes, but potential next moves could include: scraping the monthly option sales, or scheduling daily USD sales if the "price discovery mechanism" is broken in a severe bout of risk aversion.</li> </ul>
	FinMin	<ul style="list-style-type: none"> <li>During the Post-Lehman crisis, Amafors (the association of local pension funds) reached an agreement to temporarily invest all new "new-assets" domestically, ignoring the allowance to invest 20% of the fund's assets abroad.</li> <li>The FinMin can change the mix of its debt issuance, by increasing/decreasing the FX component of issuance.</li> <li>The repatriation of the proceeds from Pemex's oil exports is done "off-market" through the central bank.</li> <li>Adjustments to afores' (local pension funds) rules.</li> </ul>	<ul style="list-style-type: none"> <li>Afores' foreign investment limits are still relatively low, which leaves the possibility of increasing them. However, given the importance of afores in funding the government's domestic debt issuance, a material increase in foreign investment limits does not look likely.</li> <li>The FinMin can change the mix of its debt issuance, adjusting the FX component—during the post-Lehman crisis a greater portion of the FinMin's funding was done in USD.</li> <li>Although not directly related to FX policy, the changes to the VaR calculations of Afores (February 2010), reduced the pro-cyclicality of their investment decisions, reducing the odds of sharp sell-offs in local bonds and thus MXN.</li> </ul>	<ul style="list-style-type: none"> <li>Strangely, the FinMin is legally the most important entity in the FX Commission (which determines FX policy in Mexico), with Banxico and Hacienda each having three votes, but the tie-breaker goes to the FinMin. In practice, each side has a veto, as both sides must vote for a decision to be binding (so Banxico could walk out from a meeting before the vote, making it void).</li> </ul>
Peru	CenBank (BCRP)	<ul style="list-style-type: none"> <li>Daily intervention—the BCRP keeps PEN in a "dirty-float", seeking to shield a still highly dollarized economy from FX fluctuations.</li> <li>Raising reserve requirements on short USD positions.</li> </ul>	<ul style="list-style-type: none"> <li>Although the BCRP is one of the most active interveners in the region, we believe its major objective is reducing currency volatility (the BCRP has tolerated an annual 3% appreciation of the sol on average over the past 10 years).</li> <li>However, the BCRP and FinMin have taken steps to weaken the currency in the past, such as raising reserve requirements on short USD positions.</li> </ul>	<ul style="list-style-type: none"> <li>We believe that for now, the BCRP is comfortable simply limiting FX volatility (as it usually does), but if the level of the currency makes it uncomfortable, it is a central bank that does not pull any stops (i.e. &gt;100% reserve requirements for short USD positions).</li> </ul>
	FinMin	<ul style="list-style-type: none"> <li>Issuing PEN linked global bonds.</li> <li>Limits on USD forward positions for companies (In January 2011, the banking regulator set a limit on USD forward positions).</li> </ul>	<ul style="list-style-type: none"> <li>The FinMin has in the past issued PEN-linked global bonds to satisfy demand for the currency, without the unwanted appreciating pressures.</li> <li>In the past, authorities' aggressive measures to stem PEN appreciation have included: increased reserve requirements on deposits by foreign banks and foreign currency borrowing, as well as putting a ceiling on USD forward positions.</li> </ul>	

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Alan Clarke (44 207) 826-5986  
[alan\\_clarke@scotiacapital.com](mailto:alan_clarke@scotiacapital.com)

### UK: Revision Notes

- We have revised our forecast for UK GDP growth down sharply. We now expect GDP growth of just 0.7% y/y on average this year and next — well below the latest consensus and BoE projections.

### Updated Forecasts

Last week we published our latest Global Forecast Update publication which refreshed our projections for the key economies. If there was a prize for the economy that saw the biggest revisions to its projections, the UK would have won it by a country mile. Our forecast for UK GDP was slashed, to show just 0.7% y/y growth both this year and next and we suspect that others will follow in our wake pretty soon.

There were a number of key reasons for the downward revision (having already been at the pessimistic end of the spectrum):

- The ONS revised up GDP growth for 2010 (from 1.4% y/y on average to 1.8% y/y), meaning that base effects bear down on the y/y growth rate during 2011.
- GDP growth in % q/q terms during Q1 and Q2 were revised down by 0.1 point per quarter meaning that a surge in q/q GDP growth during H2 is required in order to meet our previous forecast of just above 1% y/y on average; and (related to this)
- The weakening in survey indicators point to a small contraction in output around the turn of the year.

### Consistency Checks

Our forecasts for 0.7% y/y GDP growth on average this year and next are much lower than the latest BoE and Consensus projection (1.5% y/y and 1.1% y/y respectively for 2011 and 2.2% y/y and 1.7% y/y respectively for 2012). Given this divergence, is there a risk that we are overcooking things? Probably the best way of illustrating the outlook for GDP growth is to look at scenarios for the % q/q GDP growth rates over the next 18 months and the annual growth rates implied by these (Table 1).

The far left columns show our base case. Given the slump in the CIPS surveys, we expect q/q GDP growth to slip into negative territory around the turn of the year (Chart 1) before recovering during 2012. GDP growth is likely to experience a major boost during Q3 2012 on the back of the London Olympics. Even so, the contraction in output around the

Chart 1: Scenarios for GDP

	Base Case			BoE	HMT	Upside Scenario		
	% q/q	% y/y	Annual Ave			% q/q	% y/y	Annual Ave
Q1 10	0.1	0.6				0.1	0.6	
Q2 10	1.0	2.1				1.0	2.1	
Q3 10	0.6	2.5				0.6	2.5	
Q4 10	-0.5	1.3	1.6			-0.5	1.3	1.6
Q1 11	0.4	1.6				0.4	1.6	
Q2 11	0.1	0.6				0.1	0.6	
Q3 11	0.2	0.2				0.4	0.4	
Q4 11	-0.2	0.5	0.7	1.5	1.7	0.4	1.3	1.0
Q1 12	-0.1	0.1				0.4	1.3	
Q2 12	0.3	0.3				0.5	1.7	
Q3 12	0.8	0.9				0.8	2.1	
Q4 12	0.3	1.4	0.7	2.2	2.5	0.3	2.0	1.8

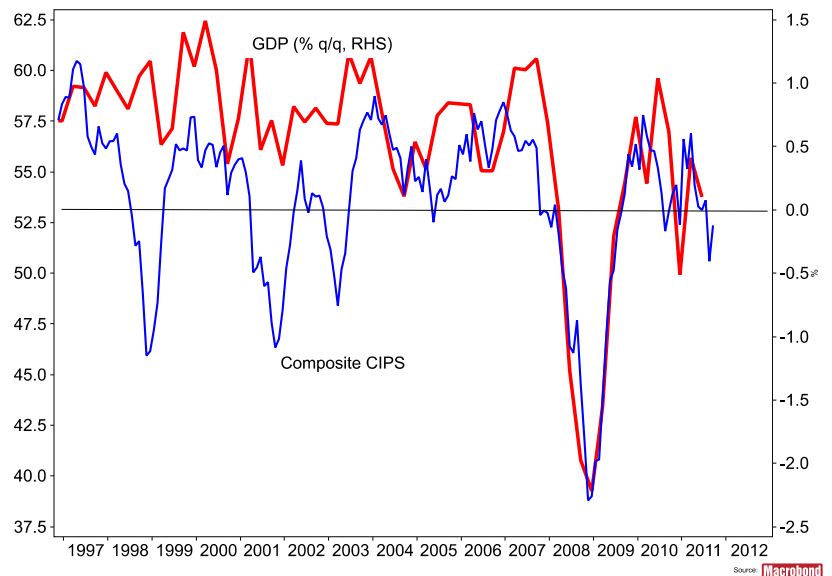
start of the year exerts a significant drag on the full year average growth rate, making it hard for 2011 growth to reach above 1% y/y — let alone get near to the latest consensus forecast. Over the period, the y/y growth rate remains in positive territory, therefore not quite slipping into recession territory according to Mervyn King's preferred definition. Moreover, the extent of any contraction is likely to be limited — less than ½% compared with more than a 7% contraction back in 2008/09.

Alan Clarke (44 207) 826-5986  
[alan\\_clarke@scotiacapital.com](mailto:alan_clarke@scotiacapital.com)

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Clearly the consensus poll was taken prior to these revisions so we suspect that there will be a sharp downgrading of expectations among other forecasters in the coming weeks. Meanwhile, the BoE has persistently aimed high on GDP growth in the belief that GDP growth over the last year or so would be revised up by around a percentage point. Not only did this not happen, but the ONS revised the recent data to show a mild downward revision to growth over the past 3 to 4 quarters. The combination of these means that the Bank will have to slash its growth projection next month.

Chart 1: UK GDP % q/q vs Composite CIPS



As a consistency check, the columns on the far right of the table show what is required in order to get close to the latest consensus growth projection. Essentially, what is required is the UK economy posts q/q GDP growth of 0.4 to 0.5% q/q each quarter for the next year, before enjoying the boost from the London Olympics in Q3 2012 (and the inevitable payback following the closing ceremony). In the context of the PMI surveys, this would require a rebound into mid-50 territory — something we doubt will happen.

### The bigger picture

A further consistency check worth considering is the bigger picture. In other words, what is the trend growth rate in the economy, and what influences should lead growth to deviate from that pace? This approach helped to warn of downside risks this year. More specifically, we believe that trend GDP growth is around 1½% to 1¾% y/y. The main influence that should have caused GDP growth to deviate from this pace is fiscal tightening. The extent of planned fiscal tightening this year is 2.1% of GDP. Assuming a fiscal multiplier of ½ (in other words a £1 fall in government spending typically reduces GDP by 50p) that would suggest that other things equal, GDP growth should be in the 0.5 – 0.75% y/y ballpark. The flipside is that monetary conditions could also lead GDP growth to deviate from trend. Despite Bank Rate standing at a record low, our LILI model (which is essentially a big monetary conditions index) shows that conditions are only slightly looser than average. On the basis of this, a GDP forecast towards the upper end of the 0.5% -- 0.75% y/y range would seem reasonable.

For 2012, the degree of fiscal tightening is projected to ease ever so slightly, though to remain around 1.6% of GDP. Hence given a fiscal multiplier of ½, barring a drastic swing in monetary conditions (either via the bond market, equities or the BoE policy rate) GDP growth should be very similar next year to this year's pace.

### Conclusion

It is no secret that the pace of UK GDP growth has been more disappointing than most expect. However, we doubt that most people fully appreciate how slow GDP growth is likely to be on average for this year and next. This will have implications for the public finances, inflation (via the output gap) and the point at which the level of output returns to pre-recession levels. We will visit these issues in due course.

Alan Clarke (44 207) 826-5986  
[alan\\_clarke@scotiacapital.com](mailto:alan_clarke@scotiacapital.com)

### UK: A Lost Decade...But It Wasn't Ours In The First Place

- The 2008 recession was deeper than previously thought. This, coupled with our forecast of sluggish growth in the early phase of the recovery suggests that it will be several years before output has returned to pre-recession levels. It would not be unreasonable to say that the UK is facing a lost decade of output. However, the lost output wasn't really ours in the first place.

#### Revision Notes

Last week the Office for National Statistics (ONS) rewrote history and revised the level of real GDP data going back to 1997. One of the main headlines that accompanied the news was that the recession of 2008 was now judged to have been even deeper than previously thought. For the record, GDP is now judged to have contracted by 7.1% — compared with 6.4% prior to the revisions.

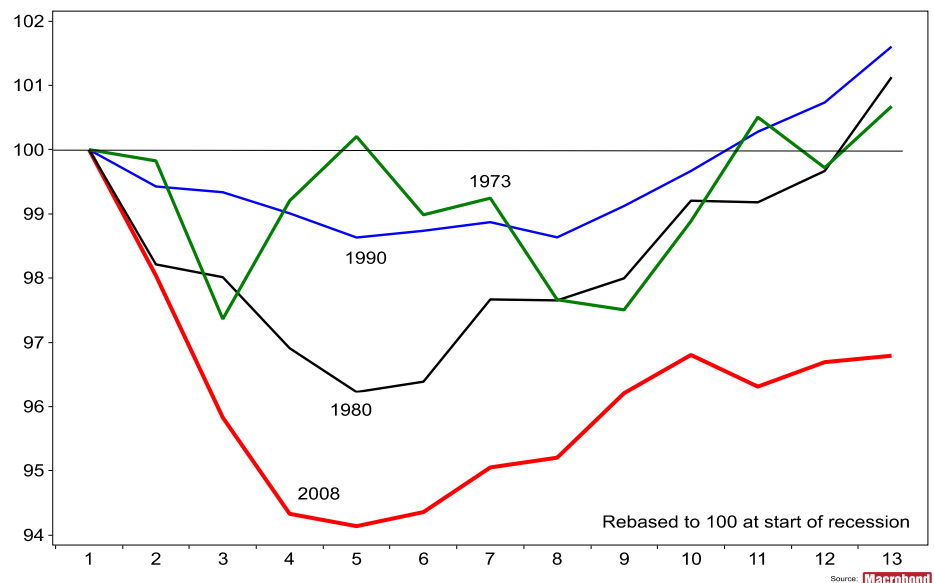
Last week we also took the opportunity to update our forecasts for GDP growth in the major economies including the UK. In light of downward revisions to H1 2011, coupled with survey evidence pointing to a mild contraction in output, we now expect GDP growth of just 0.7% y/y both this year and next (See article 'Revision Notes' for more details).

In light of both of these developments, the date at which output returns to pre-recession levels has been pushed further into the future. The bottom line is it is not unreasonable to say that the UK is facing a lost decade of GDP output.

Chart 1 Compares the path of GDP output following the start of the last four UK recessions. It shows that the level of GDP is still almost 4½% below the level prevailing before the 2008/09 recession began (just over 3 years ago!).

By this stage following the three previous recessions (1990, 1980 and 1973) output had already returned to pre-recession levels. With GDP growth of just 0.7% y/y this year and next, that gap is unlikely to close any time soon.

Chart 1: Level of GDP Following Previous Recessions



#### When will output return to pre-recession levels?

The following charts help to answer this question. Chart 2 plots our forecast for the level of GDP based on our forecast for GDP growth at 0.7% y/y on average this year and next, before accelerating to 1.8% y/y in 2013 then a spell of growth of 3% to 4% thereafter. Although our assumption is that trend growth in the UK is now around 1½% y/y, given the degree of spare capacity in the economy it is not unreasonable to expect above trend growth at some point once the headwinds currently pounding the economy have subsided. Furthermore, once the economy eventually resumes a decent pace of expansion, the BoE is likely to be loath to choke off the recovery by tightening monetary policy prematurely and too aggressively. This means a period of above trend growth is likely.



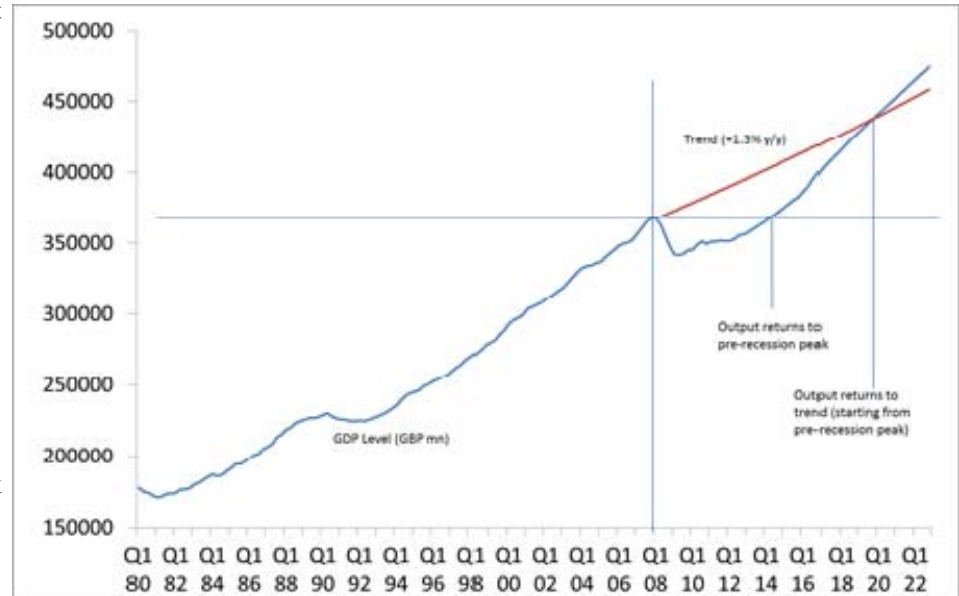
Alan Clarke (44 207) 826-5986  
[alan\\_clarke@scotiacapital.com](mailto:alan_clarke@scotiacapital.com)

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The chart shows that based on this outlook for growth, the level of GDP will not return to the pre-recession peak until H1 2014. Given that the recession began in H1 2008, this means that the gap between the pre-recession peak and output subsequently returning to pre-recession levels is likely to be around 6 years.

This only takes the economy back to where it was before output began to fall. It overlooks the fact that output tends to rise over time. The extrapolation towards the right hand side of the chart attempts to take account of this. That line shows where the level of GDP would have been if output had continued to trend upwards at around 1½% y/y. On the basis of this assumption, the economy will not be back to where it 'should' have been until H2 2021. That would represent a gap of 14 years!

Chart 2: When Will the Level of GDP Return to Pre-Recession Peak?



This is a rather extreme scenario. The main reason the economy shrank so much is it was operating beyond potential prior to the recession. Hence the truth is probably somewhere between those two extremes — the period of lost output is likely to be longer than 6 years, but shorter than 14 years. The point is that it is not unfair to say that the economy is experiencing a lost decade of output — even if that output wasn't ours in the first place.

### Compromise

Chart 3 plots the trend through 3 discreet periods in post-war UK GDP.

- From 1955 to 1980, the economy grew by an average of 2.7% y/y per year;
- From 1980 to 1990 the economy grew by an average of 3.2% y/y; and
- From 1995 to 2007, the economy grew by an average of 3.4% y/y.

The period leading up to the credit crunch saw the steepest trajectory – with GDP growth running at an average of almost one percentage point faster than trend for a period of ten years. This was underpinned by household spending in excess of disposable income (fuelled by borrowing) and government spending in excess of tax receipts (again — fuelled by borrowing).

As an illustration, government consumption grew by just over 3% y/y on average over the 10 years from 1997. That was just over double the average pace over the period from 1970 until now. That rapid pace of spending growth leading up to the recession was never going to last and at some point fiscal consolidation was going to have to begin. On the basis of current budget plans, the UK faces at least another 5 years where government spending will have to be below average in order to bring down the Budget deficit.

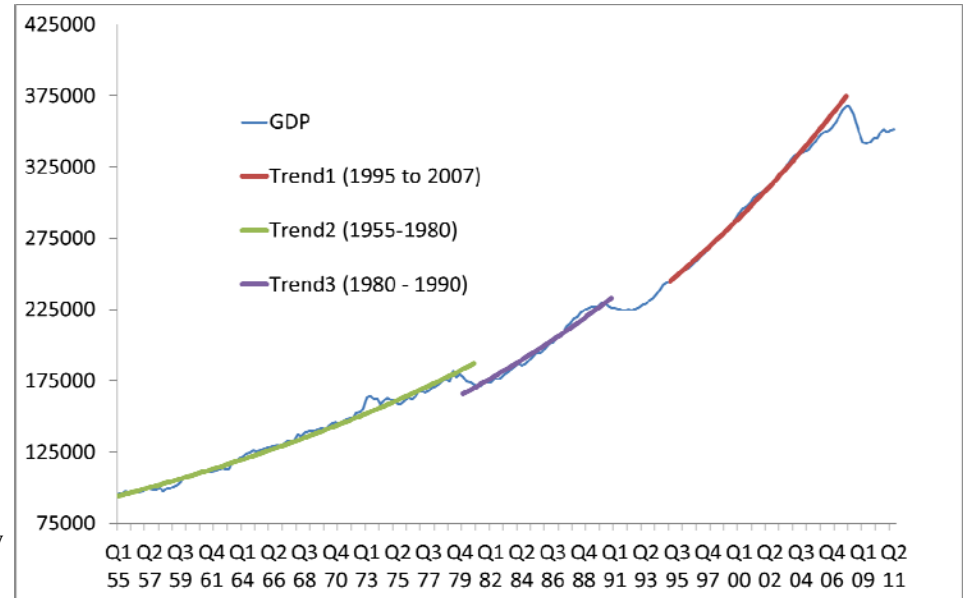
Alan Clarke (44 207) 826-5986  
[alan\\_clarke@scotiacapital.com](mailto:alan_clarke@scotiacapital.com)

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Hence it is unfair to plot trend growth starting from the pre-recession peak because the economy should never have been there in the first place. It is more reasonable to look at where output is relative to a longer term trend, starting back in 1980 or even 1970 (Chart 4).

On the basis of this, output was around 5% above its long term trend prior to the recession. Hence the 7% fall in output that ensued merely took output down to a couple of percentage points below trend. At face value, that would mean it shouldn't take long to get back to where the economy 'should' be.

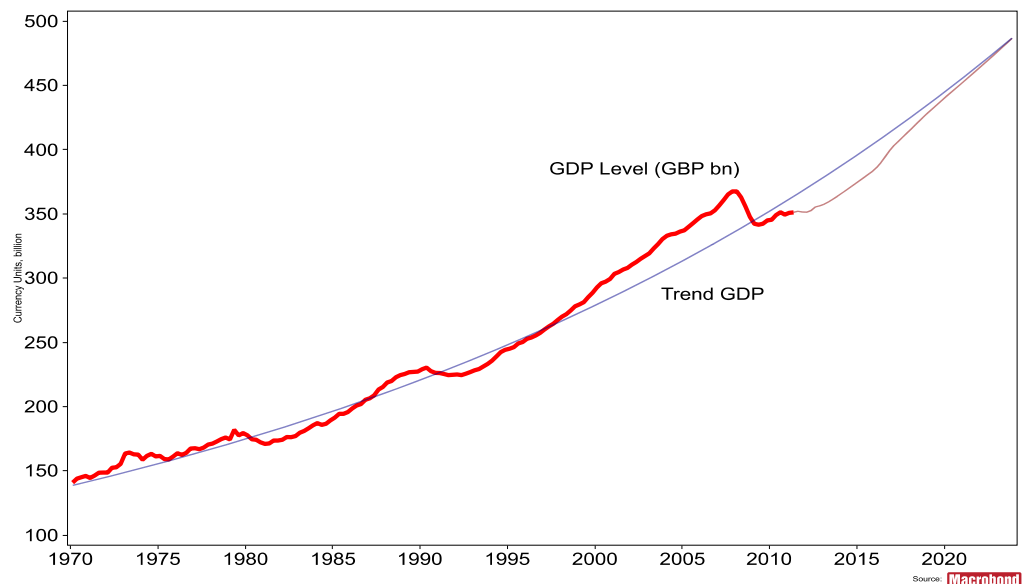
Chart 3: Three Phases of UK GDP



However, anaemic growth since the trough has meant that the potential output of the economy is going up faster than actual output. Hence the shortfall relative to trend has got bigger (as new shocks to growth have come along) and not smaller. Based on the assumptions that we have made for GDP growth in the coming years, the point at which output eventually catches up with that long run trend is around 2020.

That essentially confirms that the economy is in the midst of a lost decade. By comparison, following the early 1990s recession, output returned to trend after around 5 years. Furthermore, it is quite striking that just as the chart shows the level of GDP is below the trend line for a prolonged period following the recession — there was an equally big and prolonged overshoot relative to the trend line prior to the recession. We never had it so good before the recession, but now it is payback time.

Chart 4: UK GDP vs Long Term Trend



Hugo Ste-Marie (514) 287-4992  
[hugo\\_ste-marie@scotiacapital.com](mailto:hugo_ste-marie@scotiacapital.com)

### Beat The Street — Q3 Earnings Season Preview

- We are publishing the highlights of our "Beat the Street" report, which provides a preview of the Q3 earnings season for the TSX and S&P 500.

#### Q3/11 earnings preview

- We believe the U.S. Q3 earnings season will positively surprise for the following reasons: (1) U.S. Q3 macro data was better than Q2, (2) Europe accounts for a relatively small share of S&P 500 revenues, (3) expectations for Q3 have been lowered, (4) the percentage of negative earnings warnings (relative to the positive ones) remains low, and (5) the preliminary Q3 beat ratio is relatively strong at 72%. Guidance will be key to monitor this quarter to assess the impact of the global economic slowdown on Q4 and 2012 earnings forecasts.
- **S&P 500:** Q3 EPS is expected to come in at \$24.64, slightly below Q2 EPS of \$24.86 (see Exhibit 1). S&P 500 quarterly EPS posted sequential declines in 2004, 2005, and 2006 without triggering an earnings collapse. Q3 EPS has been revised 2.6% lower in the last three months. Four sectors should register sequential earnings decline: Materials (-24% QOQ), Discretionary (-7%), Energy (-3%), and Industrials (-3%).
- S&P 500 top-line is expected to slip 1% sequentially, but post a 8% YOY increase in Q3.

Exhibit 1: S&P 500 EPS – Q3/11 Bottom-Up Consensus					
	Q3/11 EPS			Contribution to Earnings	Sector Weighting
	\$	QOQ	YOY		
<b>S&amp;P 500</b>	<b>24.64</b>	<b>-1%</b>	<b>14%</b>	<b>100%</b>	<b>100%</b>
<b>Industrials</b>	<b>12.54</b>	<b>-3%</b>	<b>49%</b>	<b>15%</b>	<b>12%</b>
<b>Energy</b>	<b>4.14</b>	<b>-24%</b>	<b>27%</b>	<b>3%</b>	<b>3%</b>
<b>Discretionary</b>	<b>5.35</b>	<b>-3%</b>	<b>10%</b>	<b>10%</b>	<b>10%</b>
<b>Materials</b>	<b>4.98</b>	<b>-7%</b>	<b>12%</b>	<b>8%</b>	<b>11%</b>
<b>Staples</b>	<b>5.40</b>	<b>0%</b>	<b>8%</b>	<b>10%</b>	<b>12%</b>
<b>Technology</b>	<b>8.29</b>	<b>0%</b>	<b>11%</b>	<b>13%</b>	<b>12%</b>
<b>Health Care</b>	<b>3.96</b>	<b>0%</b>	<b>1%</b>	<b>15%</b>	<b>14%</b>
<b>Financials</b>	<b>7.74</b>	<b>1%</b>	<b>16%</b>	<b>19%</b>	<b>20%</b>
<b>Telecom</b>	<b>1.88</b>	<b>6%</b>	<b>2%</b>	<b>2%</b>	<b>4%</b>
<b>Utilities</b>	<b>4.17</b>	<b>45%</b>	<b>1%</b>	<b>5%</b>	<b>3%</b>
<b>S&amp;P 600</b>	<b>5.45</b>	<b>2%</b>	<b>12%</b>	<b>n/a</b>	<b>n/a</b>

Source: Scotia Capital, S&P

- **S&P/TSX:** Q3 EPS is expected to hit \$225 in Q3, implying an EPS run-rate of \$900. Quarterly EPS should post a 2% sequential decline in Q3, but still show a sizeable 42% YOY gain (See Exhibit 2). Four TSX sectors should deliver sequential EPS contraction in Q3: Financials (-11%), Energy (-9%), Staples (-7%), and Telecom (-5%).
- We believe all major TSX sectors (Energy, Golds, Mining and Financials) could offer disappointing results in Q3, suggesting that bottom-up EPS forecasts are too optimistic. The TSX \$225 EPS mark could prove hard to attain in Q3. The TSX beat ratio has hovered in the 50% range since 2009 vs. 70%+ for the S&P 500.
- TSX revenues are expected to decline 7% sequentially, dragged lower by Energy and Financials, but top-line should increase 1% YOY.

Hugo Ste-Marie (514) 287-4992  
[hugo\\_ste-marie@scotiacapital.com](mailto:hugo_ste-marie@scotiacapital.com)

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### Beat (or miss) the Street?

- In this section, we highlight the potential upside/downside surprise for the TSX's main GICS.

- TSX Energy: We expect a miss.**

Energy EPS is expected to come in at \$40 in Q3 based on bottom-up consensus forecasts. Exhibit 13 illustrates quarterly Energy EPS along with the average WTI equivalent price in Canadian dollars. Using the Q3/11 average WTI equivalent price of \$58.09/bbl (WTI US\$89.55/natural gas US\$4.06), our regression is pointing toward EPS

in the \$39 range in Q3, which is 5% below current consensus. Average WTI prices were down 14% QOQ in Q3 and natural gas prices declined 8%. TSX Energy Q2 EPS beat expectations by 7% in Q2.

- TSX Golds: Slight miss.** Bottom-up forecasts are calling for EPS of \$52 in Q3, which is 7% above our EPS model forecast. As illustrated in Exhibit 4, our model derives an EPS value of \$49 using an average gold price of US\$1,706/oz in Q3. With oil prices declining and gold rising, profit margins could be skewed higher. To reach consensus forecasts, we need to use an average gold price of US\$1,800 in our regression model, which is about US\$100 higher than the actual number. Current consensus appears somewhat optimistic and we see some potential downside surprises for TSX Gold earnings in Q3.
- TSX Metals and Mining: Consensus is way too high.** With copper prices averaging US\$4.38 and US\$4.16 per pound in Q1 and Q2, the sector generated EPS of \$145 and \$170, respectively. With lower prices in Q3 (US\$4.07), consensus is looking for a 35% QOQ EPS improvement to \$230. Our regression model is suggesting EPS of \$155 based on US\$4.07 copper prices (see Exhibit 5). We believe the Street is once again overestimating the sector's earning power. The sector missed by a mile in the last few quarters.
- TSX Financials: We expect a miss.** Sharply lower equity markets along with declining bond yields should offer some headwinds to Financials' earnings in Q3 (bank's fiscal Q4). Consensus is looking for EPS of \$33 in Q3, while our regression model is pointing toward EPS of \$26 per share, which is 20% below consensus. We don't expect Q3 earnings to miss that much, but it is nevertheless raising a flag.
- Bottom line:** We believe all major TSX sectors (Energy, Golds, Mining and Financials) could offer disappointing results in Q3, suggesting that bottom-up EPS forecasts is too optimistic. Hence, we should continue to expect more negative earnings revisions in the coming weeks. The TSX \$225 EPS mark could prove hard to attain in Q3.

Exhibit 2: S&P/TSX EPS – Q3/11 Bottom-Up Consensus

	Q3/11 EPS			Contribution to Earnings	Sector Weighting
	\$	QOQ	YOY		
<b>S&amp;P/TSX</b>	<b>225</b>	<b>-2%</b>	<b>42%</b>	<b>100%</b>	<b>100%</b>
<b>Energy</b>	<b>40</b>	<b>-9%</b>	<b>58%</b>	<b>20%</b>	<b>25%</b>
<b>Materials</b>	<b>66</b>	<b>9%</b>	<b>76%</b>	<b>22%</b>	<b>23%</b>
Divers. M/Mining	230	35%	64%	5%	3%
Gold	52	18%	74%	11%	14%
Fertilizers	108	-17%	162%	4%	4%
<b>Industrials</b>	<b>25</b>	<b>26%</b>	<b>17%</b>	<b>6%</b>	<b>5%</b>
<b>Discretionary</b>	<b>21</b>	<b>9%</b>	<b>22%</b>	<b>5%</b>	<b>4%</b>
<b>Cons. Staples</b>	<b>32</b>	<b>-7%</b>	<b>7%</b>	<b>3%</b>	<b>3%</b>
<b>Health Care</b>	<b>9</b>	<b>126%</b>	<b>194%</b>	<b>1%</b>	<b>1%</b>
<b>Financials</b>	<b>33</b>	<b>-11%</b>	<b>49%</b>	<b>35%</b>	<b>30%</b>
Banks	42	-2%	23%	22%	20%
Insurance	16	-15%	460%	5%	5%
<b>Technology</b>	<b>5</b>	<b>41%</b>	<b>-11%</b>	<b>3%</b>	<b>2%</b>
<b>Telecom</b>	<b>18</b>	<b>-5%</b>	<b>-2%</b>	<b>5%</b>	<b>2%</b>
<b>Utilities</b>	<b>18</b>	<b>5%</b>	<b>-4%</b>	<b>1%</b>	<b>5%</b>
<b>TSX 60</b>	<b>14</b>	<b>-3%</b>	<b>43%</b>	<b>79%</b>	<b>n/a</b>
<b>TSX Completion</b>	<b>13</b>	<b>1%</b>	<b>40%</b>	<b>21%</b>	<b>n/a</b>

Q3/11 estimates include companies with quarter ending in August, September, and October.

Source: Scotia Capital estimates, Bloomberg

Araceli Espinosa (5255) 9179-5237  
[araceli\\_espinosa@scotiacapital.com](mailto:araceli_espinosa@scotiacapital.com)

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

## Assessing The Potential For Cemex Asset Sales

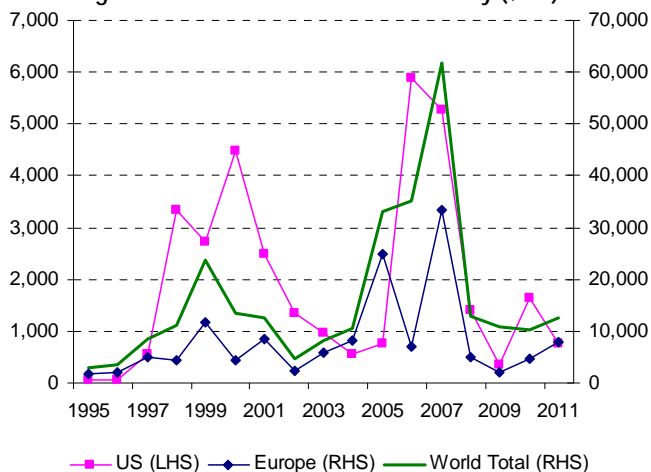
*Historical industry multiples imply that Cemex assets are worth more than the company's total debt, even when valued at the currently much-reduced Ebitda rates. Nevertheless, US and worldwide cement deal volumes have fallen by a factor of six since the peak, suggesting that creditors could not possibly force the magnitude of asset sales necessary to actually realize those theoretical valuations. As a result, the banks will continue having to work with Cemex, even in the event of a covenant breach or other financial problems, which should provide some good news for the firm in the near-term. Nevertheless, difficulties in selling assets could also mean eventually lower recoveries for bondholders if Ebitda were to fall much farther, perhaps in the event of a Greece-related shock to Europe.*

### Would anyone buy cement assets now?

Most fundamental analysis of Cemex bonds is premised on the idea of applying historical multiples—whether on Ebitda, on assets, or on aggregate reserves—to Cemex's businesses in order to calculate enterprise value. Nevertheless, one question we think must be looming in the minds of many investors is why would anyone buy cement or construction assets now, considering the state of the industry in many of Cemex's largest geographic markets. Consider for example the tremendous excess capacity in the U.S. According to the USGS, US cement consumption fell by 45% between 2006 and 2010; some of that was absorbed by decreased imports but we also saw significant plant closures and idlings between 2008 and 2010. Similarly, Cemex U.S. volumes in cement and ready-mix are down by 45% and 34%, respectively since 2006, and aggregates volumes have been falling since 2008. That puts into question the relevance of historical multiples and those theoretical valuations in an environment where some fear a long-term world slowdown. Remember that the scenario in which Cemex actually needed to sell assets would be one where its Ebitda was even lower and excess industry capacity even higher.

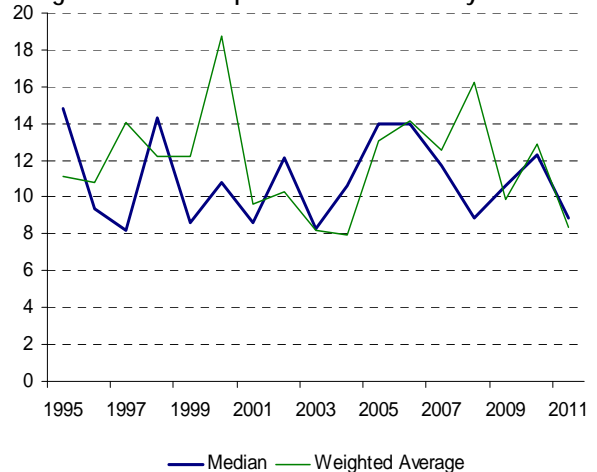
We employed Dealogic's database of acquisitions in the cement and concrete industry to try to understand the recent trends. Dealogic tracked 623 such acquisitions with deal values greater than \$50mn since 1995 globally. The yearly value of acquisitions in the industry has fallen by nearly a factor of six since 2007 (Figure 1), both globally and when looking just at acquired companies in the US. Surprisingly, deal multiples have shown a good amount of stability historically (Figure 2), though data is only available for a subset of the acquisitions covered. Nevertheless, we can only assume that even if multiples are constant, the actual value paid for assets has declined tremendously since Ebitda has fallen. While we do not have such data for the acquisitions in the database, we know for the case of Cemex that Ebitda has fallen by a factor of two globally,

Figure 1. Deal values in cement industry (\$mn)



Source: Dealogic, Scotia Capital.

Figure 2. Deal multiples in cement industry



Source: Dealogic, Scotia Capital.

Graph shows median and weighted average Enterprise Value/Operating profit for all deals which reported such a multiple. For weighted average calculation, we omitted 4 deals with multiples over 100.



Araceli Espinosa (5255) 9179-5237  
[araceli\\_espinosa@scotiacapital.com](mailto:araceli_espinosa@scotiacapital.com)

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

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and that Ebitda in the U.S. is down from 1,207bn in 2006 to about zero today. Thus, we can be sure prices for selling cement assets today would be significantly lower than if they were sold mid-cycle.

Despite the downturn in the industry, we noticed that acquisitions did not dry up completely. While we could not analyze every recent global deal, we did look at a dozen recent deals in the US, with an eye towards understanding what options Cemex would have in selling assets located in troubled markets such as the US or Spain in the future. Since 2008, there were approximately \$4.1bn of such acquisitions, though once we eliminate acquisitions which were essentially intra-company purchases designed to rescue a subsidiary, as well as the put option exercised by Ready Mix against Cemex, that total value falls to \$2.6bn. Of these transactions, two are notable. First, there is the \$760mn acquisition of Lafarge assets in the US by the Colombian company Argos, which is the only transaction in 2011, and for which Argos was able to pay \$600mn in cash. The second is the \$900mn deal by Mitsubishi Materials to take majority control of Robertson's Ready Mix announced in 2008. Thus, the two largest acquisitions in recent years were by foreign financially strong firms betting on a rapid recovery in US construction. While we cannot rule out the possibility of more such acquisitions, the data suggests they will be infrequent.

### ***What are the incentives of the banks?***

Where do the trends in asset sales leave the banks? On one hand, if we apply historical multiples to even the much reduced current rate of Ebitda (half of what the company believes to be the mid-cycle rate and one where some regions have zero Ebitda), we still find that the value of the company exceeds the sum of both bank debt and securitized debt. That is, the value calculated based on an expected 2011 Ebitda of 2.3bn for 2011 and a multiplier of 10x exceeds the \$18.4bn of total debt, of which 41% is covered by the financing agreement on bank debt and almost all of the rest is bonds. On the other hand, that calculation is merely theoretical, since actually realizing that value would involve a magnitude of asset sales equivalent to two years of total deals in the cement industry worldwide. Any attempts at large scale liquidation would be counter-productive, suggesting that the banks and Cemex must work together in the near-term.

Nevertheless, we imagine that negotiations with banks regarding covenant breach would be contentious, whether they occur this year, or perhaps more likely, next year, when the maximum leverage ratio falls from 7.0 to 6.5 in June and to 5.75 in December. The banks would request at least some additional assets sales, to the extent permitted by market conditions, while Cemex would try to resist the disposal of core assets at fire-sale prices. Even within banks, there could be some disagreement regarding the amount of asset sales desired based on their financial situation; looking through the expansive list of banks in the amended financing agreement, we see a large number of banks that have been in the news recently with various problems such as Bank of America, Societe Generale, and BBVA, but many stronger banks as well.

How the company has responded to recent financial troubles provides some lessons. We calculate \$2.8bn in asset sales over the past 3 years, of which the largest was the \$1.7bn sale of Australian assets to the Switzerland-based global cement company Holcim. Less than 10% of assets sales were in the U.S. Thus we would expect that if Cemex were again forced to renegotiate the financing agreement, banks could request additional asset sales in Cemex's more profitable markets.

### ***Can profits decline further?***

Covenant breach is the near-term concern on many debt investors' minds, but we think the banks would grant the necessary concessions. Markets may be pricing even a worse scenario, one in which a long-term global slowdown leads profits to decline even further until Cemex can no longer meet its debt service obligations. If we wanted a fundamentals-based explanation for the distressed yields exceeding 20% we saw earlier this month, it seems that we would have to look in this direction. Could such a scenario materialize?

We think there is some evidence to suggest that construction spending in the US has mostly bottomed out. For example, new housing starts have been at approximately the same level since 2009, albeit at one-quarter of the levels we saw at the peak in 2006. So far, that monthly data has shown resilience both to bad news

Araceli Espinosa (5255) 9179-5237  
[araceli\\_espinosa@scotiacapital.com](mailto:araceli_espinosa@scotiacapital.com)

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

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about the backlog of foreclosures and falling home prices and good news about falling mortgage rates. Those data provide some evidence for the idea that demographic factors like growth in the number of households as well as the need to replace housing made unusable by dilapidation or disasters provides a floor to construction spending, although obviously not a hard floor. Cemex volumes in the US did drop by about 10% in the first half of 2010, but that may have been caused, in part, by Cemex's attempt to raise prices in that period. The ability of Cemex and its competitors to close plants in response to market conditions seems to limit the losses it may sustain in any one region.

In other countries, we could certainly see further declines in profitability but not by as much as in the US. For example, profits in Mexico and the rest of Latin America only fell by 20% and 25%, respectively, in 2009, in what is arguably the sharpest global downturn we will experience any time soon. Ebitda in Africa and the Middle East actually increased through the crisis. Judging by the current sources of Cemex profits (Figure 3), we would be most worried about a Greece-related shock to Europe, which could significantly impact profitability from Europe in future years.

Figure 3. Ebitda by region (mn USD)

	2004	2005	2006	2007	2008	2009	2010	2011 (EST)
Mexico	1,264	1,280	1,391	1,405	1,453	1,160	1,153	1,151
USA	462	1,015	1,207	1,120	702	143	-45	-94
<b>Northern Europe</b>							<b>271</b>	<b>444</b>
Spain	418	438	555	635	464	204		
United Kingdom	N/A	147	149	93	26	43		
Rest of Europe	N/A	352	390	479	532	349		
South / Central America and Caribbean	497	382	472	679	658	494	454	481
<b>Mediterranean</b>							<b>544</b>	<b>474</b>
Africa and Middle East	87	148	167	175	296	333		
Asia	55	60	75	238	93	116	123	89
Others and intercompany eliminations	-245	-265	-270	-237	-143	-184	-174	-241
<b>Total</b>	<b>2,538</b>	<b>3,557</b>	<b>4,138</b>	<b>4,586</b>	<b>4,080</b>	<b>2,657</b>	<b>2,326</b>	<b>2,304</b>

Source: Company financial reports. 2011 estimates are from Marcos Duran, Scotia Capital equity analyst for Cemex. Cemex changed its geographic breakdown in 2010: Northern Europe (France, UK, Germany, Poland, Latvia, Czech Republic, Austria, Hungary); Mediterranean (Spain, Africa and Middle East)

A related question of course is how much of a further decline in profits could Cemex sustain before having difficulties meeting its debt service obligations. Since, according to bond covenants, proceeds from asset sales must be used to prepay debt within 365 days rather than to make interest payments, this scenario would require Cemex to seek new financing from the banks even as those banks are hoping to reduce their exposure. Interest coverage was 1.87 as of the second quarter, with maintenance capex and taxes using up a significant amount of income left over after interest payments. Free cash flow after maintenance capex was 512mn at the end of 2010. In the first half of 2011, free cash flow after maintenance capex was negative 305mn due to a dramatic increase in accounts receivable; we saw a similar increase in receivables in the first half of 2010, only to fall in the second half, providing some reason to expect that receivables could also be reduced this year. Thus, Cemex probably does have some cushion to sustain a drop in profits, but not a large one.

Recent rapid price movements in the bonds, both the fall and subsequent recovery, occurred largely in line with movements in global indicators such as the S&P, without any negative or positive news about Cemex itself. Market technicals may have been one explanation, but perhaps another explanation was increased market pricing of a Europe-led slowdown. While we do not expect any particularly bad fundamental news from the company in the near term, it seems likely that Cemex could continue to trade with a particularly high beta to world economic developments.

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

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

## Key Data Preview

### CANADA

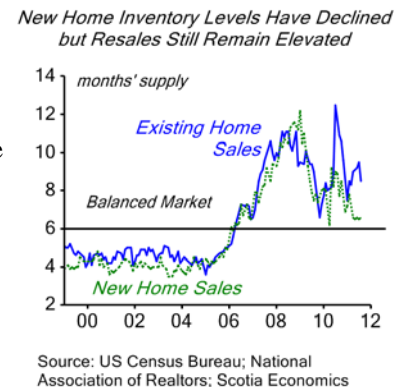
The **Bank of Canada's Business Outlook Future Sales survey** (Monday) starts the week off and indeed is one of only two major indicators next week. While this survey is only released quarterly, only surveys about 100 firms and has thus far had mixed results when compared to the actual data, it is still closely watched by markets given its timing in relation to the BoC's rate announcements and forecast updates, with the next one set for October 25. Indeed, we'll also be watching for any major changes to investment, sales, employment and inflation intentions which have thus far remained supportive of our view that the BoC will remain on hold until the end of Q3. The BoC's **Senior Loan Officer Surveys** will also be released at the same time.

Next week will also bring an update on Canadian inflation via the September **Canadian CPI** (Friday) report. We aren't expecting any major changes to the current trend and certainly nothing that would shift our view on the Bank of Canada. Nonetheless, remember that the numbers coming across your Bloomberg screens at 7am ET Friday morning will reflect non-seasonally adjusted results which will likely be skewed by two factors. First, tuition fees increase every September with Statistics Canada reporting an average 4.3% increase in undergraduate fees and an average 3.7% increase in graduate fees for the 2011/2012 academic year. Second, the price of women's clothes tend to increase every September as the new Fall clothing line is revealed. Indeed, the average monthly gain in clothing prices in September has been about 3% since 2000. Nonetheless, both of these seasonal factors will be smoothed out in the seasonally adjusted series which will likely show only modest gains in both the headline and core print on a monthly basis. On a year-over-year basis, however, headline CPI will likely remain elevated while core inflation may rise for the third consecutive month to 2.0% y/y (see accompanying chart). Nonetheless, as BoC Governor Carney pointed out in a recent speech, the BoC retains considerably flexibility surrounding the inflation noise by altering the horizon over which it evaluates inflation pressures. In fact, over the last two decades, the BoC has varied its desirable forecast horizon from between as little as two quarters and as much as 11 quarters. This has added to sentiment that the BoC is looking through near-term upside risk and expects a substantially softer inflation profile going forward.



### UNITED STATES

Four housing-related indicators will be released next week with mixed results on a month-to-month basis although in general they will all show that the U.S. housing market remains in the doldrums. Indeed, only **housing starts** (Wednesday) should witness a small increase in September after **building permits** (Wednesday) were up 4% m/m in August as new home inventories have fallen close to balanced levels at 8.5 months' supply (see accompanying chart). However, new home sales still remain very weak with no major improvement expected for quite some time, keeping homebuilder confidence at record lows as reflected in the **NAHB Housing Market Index** (Tuesday). **Existing home sales** (Thursday) won't likely fare any better after pending home sales declined for the past two months while resale prices continue to decline on a year-over-year basis, keeping many prospective homebuyers on the sidelines until prices stabilize and the pace of foreclosures slows considerably.



Both the **Empire State** (Monday) and **Philadelphia Fed** (Thursday) manufacturing indices will be released next week, providing the first glimpse into manufacturing activity in October, setting the tone for the other Fed manufacturing indices and the ISM manufacturing index which will be released at the end of the month. While we are expecting to witness an improvement in both reports, they will also likely suggest that the manufacturing sector remains in contractionary territory as economic activity around the globe continues to slow. The **Fed's Beige** (Wednesday) — which is always released two weeks in advance of the Fed's rate meetings — should also provide a fresh anecdotal view of the US economy just ahead of the November 2 FOMC meeting, taking the recent equity market rally into the account and continued developments in Europe's debt situation.

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

Alan Clarke (44 207) 826-5986  
[alan\\_clarke@scotiacapital.com](mailto:alan_clarke@scotiacapital.com)

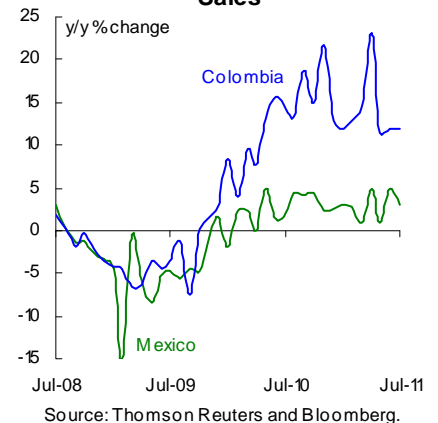
Oscar Sánchez (416) 862-3174  
[oscar\\_sanchez@scotiacapital.com](mailto:oscar_sanchez@scotiacapital.com)

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## MEXICO AND LATIN AMERICA

Mexican and Colombian retail sales for August will be released next week. These indicators are relevant as they provide a measure of the performance of local consumption, which continues to support economic growth in many countries in Latin America. Nevertheless, any slowdown in consumer confidence due to international economic uncertainty is not expected to be reflected in retail sales data until September or October. In Mexico, retail sales increased by 3.1% y/y in July, a slower pace compared to the 4.8% y/y rate posted in June. However, on a monthly basis, retail sales do not show any signs of deceleration, reaching their 2008 pre-crisis level in July. Colombian domestic demand continues to support the country's economic growth. Retail sales grew by 11.8% y/y in July and by 13.8% from January to July, mainly driven by an increase in durable goods. We expect Colombian domestic demand to remain solid, albeit at a slower rate, as economic uncertainty surrounding developed economies may weigh on consumption activity.

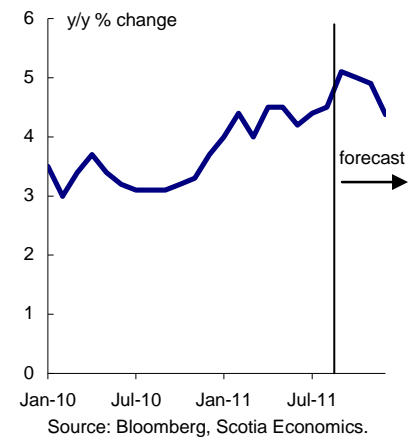
**Mexican and Colombian Retail Sales**



## EUROPE

We expect UK consumer price inflation (CPI) inflation to accelerate sharply in September, rising to 5.1% y/y, with the RPI at 5.6%. The biggest influence by far will be utility bill hikes from three of the main providers (accounting for around 2/3 of the market share). These price hikes ranged from 10 to 20% and in isolation this represents an addition to inflation of almost 0.5 percentage points. In addition, we expect petrol prices to fall slightly, helped by the moderation in the price of oil. Despite the typical 6 - 9 month pass-through from higher agricultural prices into the CPI component for food, the major supermarkets have been engaged in a price war. The effects of this are likely to be more evident in the October print, though early signs are possible in this release. Finally, we expect core inflation to tick up slightly in September from 3.1% y/y to 3.2%. In particular, clothes price inflation is likely to take a breather following two months of above average readings. This is likely to represent the peak in headline inflation before powerful base effects begin to bear down heavily on inflation through next year.

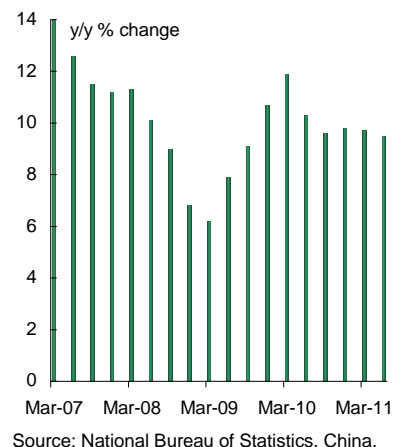
**UK CPI Inflation**



## ASIA

According to China's National Bureau of Statistics, the country's rate of GDP growth this year has tempered from 9.7% y/y in the first quarter to 9.6% in the second. We expect the economic expansion to have slowed to 9% during the third quarter, as a fall in retail sales has been compensated by firm investment outlays and continue support from net-exports. A significant slowdown in foreign sales is expected in the final quarter of the current year and through the next, which would bring the economic momentum down further. Our forecast for China's GDP advance has been adjusted accordingly, and we now expect a 9.1% y/y average advance for 2011, followed by an 8.9% gain in 2012.

**China's GDP Growth**



## Key Indicators for the week of October 17 - 21

North America							
Country	Date	Time	Event	Period	BNS	Consensus	Latest
CA	10/17	08:30	Int'l Securities Transactions (C\$ bns)	AUG	--	--	11.8
US	10/17	08:30	Empire Manufacturing	OCT	-5.0	-4.0	-8.8
US	10/17	09:15	Industrial Production (MoM)	SEP	0.2	0.2	0.2
US	10/17	09:15	Capacity Utilization Rate	SEP	77.5	77.5	77.4
CA	10/17	10:30	Business Outlook Future Sales	3Q	--	--	20.0
CA	10/17	10:30	BoC Senior Loan Officer Survey	3Q	--	--	-49.6
US	10/18	08:30	Producer Price Index (MoM)	SEP	--	0.2	0.0
US	10/18	08:30	PPI Ex Food & Energy (MoM)	SEP	--	0.1	0.1
US	10/18	09:00	Net Long-term TIC Flows (US\$ bns)	AUG	--	--	9.5
US	10/18	09:00	Total Net TIC Flows (US\$ bns)	AUG	--	--	-51.8
MX	10/18	10:00	Central Bank Announces International Reserves for Prev. Week				
US	10/18	10:00	NAHB Housing Market Index	OCT	15.0	15.0	14.0
US	10/19	07:00	MBA Mortgage Applications (WoW)	14-Oct	--	--	1.3
CA	10/19	08:30	Leading Indicators (MoM)	SEP	--	0.0	0.0
US	10/19	08:30	Consumer Price Index (MoM)	SEP	0.3	0.3	0.4
US	10/19	08:30	CPI Ex Food & Energy (MoM)	SEP	0.2	0.2	0.2
US	10/19	08:30	Consumer Price Index (YoY)	SEP	3.9	3.8	3.8
US	10/19	08:30	CPI Ex Food & Energy (YoY)	SEP	2.0	2.1	2.0
US	10/19	08:30	Housing Starts (000s)	SEP	600	595	571
US	10/19	08:30	Housing Starts (MoM)	SEP	5.1	4.1	-5.0
US	10/19	08:30	Building Permits (000s)	SEP	615	610	625
US	10/19	08:30	Building Permits (MoM)	SEP	-1.6	-2.4	4.0
US	10/19	14:00	Fed's Beige Book				
CA	10/20	08:30	Wholesale Sales (MoM)	AUG	--	0.4	0.8
US	10/20	08:30	Initial Jobless Claims (000s)	14-Oct	400	400	404
US	10/20	08:30	Continuing Claims (000s)	8-Oct	3700	--	3670
MX	10/20	09:00	Retail Sales (INEGI) (YoY)	AUG	2.1	2.8	3.1
US	10/20	10:00	Leading Indicators	SEP	--	0.3	0.3
US	10/20	10:00	Philadelphia Fed.	OCT	-10	-9.9	-17.5
US	10/20	10:00	Existing Home Sales (mns)	SEP	4.8	4.9	5.0
US	10/20	10:00	Existing Home Sales (MoM)	SEP	--	-2.6	7.7
CA	10/21	07:00	Consumer Price Index (MoM)	SEP	0.2	0.1	0.3
CA	10/21	07:00	Consumer Price Index (YoY)	SEP	3.1	3.0	3.1
CA	10/21	07:00	Bank Canada CPI Core (MoM)	SEP	0.2	0.2	0.4
CA	10/21	07:00	Bank Canada CPI Core (YoY)	SEP	1.9	1.9	1.9
MX	10/21	09:00	Unemployment Rate	SEP	5.73	--	5.79

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.



## Key Indicators for the week of October 17 - 21

Europe								
Country	Date	Time	Event	Period	BNS	Consensus	Latest	
UK	10/16	19:01	Rightmove House Prices (MoM)	OCT	--	--	0.7	
UK	10/16	19:01	Rightmove House Prices (YoY)	OCT	--	--	1.5	
SW	10/17	03:30	Average House Prices (SEK)	SEP	--	--	2.1	
NO	10/17	04:00	Trade Balance (Krone)	SEP	--	--	32.0	
EC	10/18	02:00	EU 25 New Car Registrations (YoY)	SEP	--	--	7.7	
UK	10/18	04:30	CPI (MoM)	SEP	0.5	0.4	0.6	
UK	10/18	04:30	CPI (YoY)	SEP	5.1	4.9	4.5	
UK	10/18	04:30	Core CPI (YoY)	SEP	3.2	3.2	3.1	
UK	10/18	04:30	RPI (MoM)	SEP	0.8	0.5	0.6	
UK	10/18	04:30	RPI (YoY)	SEP	5.6	5.4	5.2	
GE	10/18	05:00	Zew Survey (Current Situation)	OCT	35	40.0	43.6	
EC	10/18	05:00	ZEW Survey (Econ. Sentiment)	OCT	--	--	-44.6	
GE	10/18	05:00	ZEW Survey (Econ. Sentiment)	OCT	-42	-45.0	-43.3	
IT	10/18	05:00	Current Account (€ mns)	AUG	--	--	1663.0	
SP	10/18		House Price Index (YoY)	3Q	--	--	-5.1	
EC	10/19	04:00	Euro-Zone Current Account nsa (€ bns)	AUG	--	--	-3.2	
EC	10/19	04:00	ECB Euro-Zone Current Account SA (€ bns)	AUG	--	--	-12.9	
IT	10/19	04:00	Industrial Orders n.s.a. (YoY)	AUG	--	--	6.5	
IT	10/19	04:00	Industrial Sales n.s.a. (YoY)	AUG	--	--	7.7	
EC	10/19	05:00	Construction Output SA (MoM)	AUG	--	--	1.4	
NO	10/19	08:00	<b>Norwegian Deposit Rates</b>	19-Oct	<b>2.25</b>	<b>2.25</b>	<b>2.25</b>	
GE	10/20	02:00	Producer Prices (MoM)	SEP	0.2	0.2	-0.3	
GE	10/20	02:00	Producer Prices (YoY)	SEP	5.4	5.5	5.5	
SW	10/20	03:30	Unemployment Rate	SEP	--	7.0	6.6	
UK	10/20	04:30	Retail Sales Ex Auto Fuel (MoM)	SEP	0.3	0.2	-0.1	
UK	10/20	04:30	Retail Sales w/Auto Fuel (MoM)	SEP	0.4	0.0	-0.2	
EC	10/20	10:00	Euro-Zone Consumer Confidence	OCT A	-21	-20.1	-19.1	
PO	10/20		Producer Prices (YoY)	SEP	--	--	5.5	
SP	10/20		Trade Balance (€ mns)	AUG	--	--	-1641.5	
FR	10/21	02:45	Production Outlook Indicator	OCT	--	--	-29.0	
FR	10/21	02:45	Business Confidence Indicator	OCT	96.0	98.0	99.0	
SP	10/21	03:00	Mortgages on Houses (YoY)	AUG	--	--	-47.0	
GE	10/21	04:00	IFO - Business Climate	OCT	106.0	106.2	107.5	
GE	10/21	04:00	IFO - Current Assessment	OCT	115.0	116.4	117.9	
GE	10/21	04:00	IFO - Expectations	OCT	97.0	97.0	98.0	
UK	10/21	04:30	Public Finances (PSNCR) (£ bns)	SEP	--	18.0	11.8	
UK	10/21	04:30	PSNB ex Interventions (£ bns)	SEP	15.4	15.0	15.9	
UK	10/21	04:30	Public Sector Net Borrowing (£ bns)	SEP	13.3	11.8	13.2	
EC	10/21	05:00	Euro-Zone Govt Debt/GDP Ratio	2010	--	--	85.1	

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

## Key Indicators for the week of October 17 - 21

## Asia Pacific

Country	Date	Time	Event	Period	BNS	Consensus	Latest
SK	10/16	17:00	Department Store Sales (YoY)	SEP	--	--	8.3
SK	10/16	17:00	Discount Store Sales (YoY)	SEP	--	--	2.0
AU	10/16	20:30	New Motor Vehicle Sales (MoM)	SEP	--	--	3.3
AU	10/16	20:30	New Motor Vehicle Sales (YoY)	SEP	--	--	4.4
JN	OCT 16-17		Cabinet Office Monthly Economic Report				
ID	OCT 16-21		Total Local Auto Sales	SEP	--	--	73279
ID	OCT 16-21		Total Motorcycle Sales	SEP	--	--	679052
PH	OCT 16-17		Overseas Remittances (YoY)	AUG	--	--	6.1
TH	OCT 16-21		Total Car Sales	SEP	--	--	79043
JN	10/17	00:30	Industrial Production (MoM)	AUG F	--	--	0.8
JN	10/17	00:30	Capacity Utilization (MoM)	AUG F	--	--	0.6
AU	10/17	20:30	Reserve Bank's Board October Minutes				
CH	10/17	22:00	Real GDP YTD (YoY)	3Q	9.4	9.5	9.6
CH	10/17	22:00	Real GDP (QoQ)	3Q	1.9	--	2.2
CH	10/17	22:00	Real GDP (YoY)	3Q	9.0	9.3	9.5
CH	10/17	22:00	Industrial Production YTD (YoY)	SEP	14.0	14.1	14.2
CH	10/17	22:00	Industrial Production (YoY)	SEP	13.1	13.4	13.5
CH	10/17	22:00	Fixed Assets Inv Excl. Rural YTD (YoY)	SEP	24.5	24.8	25.0
CH	10/17	22:00	Retail Sales YTD (YoY)	SEP	--	16.9	16.9
CH	10/17	22:00	Retail Sales (YoY)	SEP	16.5	17.0	17.0
JN	10/18	01:30	Nationwide Dept. Sales (YoY)	SEP	--	--	-1.7
JN	10/18	01:30	Tokyo Dept. Store Sales (YoY)	SEP	--	--	-2.9
JN	10/18	02:00	Machine Tool Orders (YoY)	SEP F	--	--	20.3
HK	10/18	04:30	Unemployment Rate SA	SEP	--	3.3	3.2
AU	10/18	20:00	DEWR Internet Skilled Vacancies (MoM)	SEP	--	--	-0.6
CH	10/18	22:00	Conference Board China August Leading Economic Index				
HK	OCT 18-19		Composite Interest Rate	SEP	--	--	0.33
PH	OCT 18-19		Balance of Payments (US\$ mns)	SEP	--	--	2719
JN	10/19	00:30	All Industry Activity Index (MoM)	AUG	--	-0.4	0.4
TH	10/19	03:30	<b>Benchmark Interest Rate</b>	19-Oct	<b>3.50</b>	<b>3.50</b>	<b>3.50</b>
AU	10/19	20:30	NAB Business Confidence	3Q	--	--	6.0
AU	10/19	20:30	RBA Foreign Exchange Transactions (A\$ mns)	SEP	--	--	367.0
TH	OCT 19-25		Customs Exports (YoY)	SEP	28	21.7	31.1
TH	OCT 19-23		Customs Imports (YoY)	SEP	30	33.0	44.0
TH	OCT 19-25		Customs Trade Balance (US\$ mns)	SEP	5800	2275.0	-1202.8
JN	10/20	01:00	Coincident Index CI	AUG F	--	--	107.4
JN	10/20	01:00	Leading Index CI	AUG F	--	--	103.8
JN	10/20	03:00	Convenience Store Sales (YoY)	SEP	--	--	7.9
PH	10/20	04:00	<b>Overnight Borrowing Rate</b>	20-Oct	<b>4.50</b>	<b>4.50</b>	<b>4.50</b>
TA	10/20	04:00	Export Orders (YoY)	SEP	--	3.5	5.3
NZ	10/20	17:45	Net Migration SA	SEP	--	--	200
AU	10/20	20:30	Import price index (QoQ)	3Q	--	0.5	0.8
AU	10/20	20:30	Export price index (QoQ)	3Q	--	3.6	6.0
CH	10/20	21:35	MNI October Flash Business Sentiment Survey				
NZ	10/20	22:00	Credit Card Spending SA (MoM)	SEP	--	--	-1.0
NZ	10/20	22:00	Credit Card Spending (YoY)	SEP	--	--	4.7
PH	OCT 20-25		Budget Deficit/Surplus (PHP bns)	SEP	--	--	9.2
HK	10/21	04:30	CPI - Composite Index (YoY)	SEP	5.5	5.4	5.7
MA	10/21	05:00	CPI (YoY)	SEP	3.2	3.3	3.3

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

## Key Indicators for the week of October 17 - 21

Latin America							
<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>	<u>Period</u>	<u>BNS</u>	<u>Consensus</u>	<u>Latest</u>
BZ	10/17	09:00	Trade Balance (FOB) - Weekly (US\$ mns)	15-Oct	--	--	572.0
PE	10/17	11:30	Unemployment Rate	SEP	--	7.2	7.0
PE	10/17		GDP NSA (YoY)	AUG	--	7.2	6.5
BZ	10/18	03:00	FIPE CPI - Weekly (% change)	15-Oct	--	0.3	0.2
CO	10/19	17:00	Industrial Production (YoY)	AUG	--	3.6	3.9
CO	10/19	17:00	Retail Sales (YoY)	AUG	--	12.2	11.8
BZ	10/19		<b>SELIC Target - Central Bank</b>	19-Oct	<b>11.50</b>	<b>11.50</b>	<b>12.00</b>
BZ	10/20	07:00	IBGE CPI IPCA-15 (MoM)	OCT	--	0.4	0.5

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

## Global Auctions for the week of October 17 - 21

## North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	10/17	11:00	U.S. Fed to Sell USD1.00-1.50 Bln TIPS
US	10/17	11:30	U.S. to Sell 3-Month Bills
US	10/17	11:30	U.S. to Sell 6-Month Bills
US	10/18	11:00	U.S. Fed to Purchase USD2.25-2.75 Bln Notes/Bonds
US	10/18	11:30	U.S. to Sell 4-Week Bills
US	10/18	11:30	U.S. to Sell 52-Week Bills
US	10/19	11:00	U.S. Fed to Purchase USD4.25-5.00 Bln Notes/Bonds
CA	10/19	12:00	Canada to Sell 2-Year Notes
US	10/20	11:00	U.S. Fed to Sell USD8.00-9.00 Bln Notes
US	10/20	13:00	U.S. to Sell 30-Year TIPS Reopening
US	10/21	11:00	U.S. Fed to Purchase USD4.25-5.00 Bln Notes/Bonds

## Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
HU	10/17	05:30	Hungary to Sell 6-Week Bills
EC	10/17	09:30	ECB Calls for Bids in 7-Day Main Refinancing Tender
SP	10/18	04:30	Spain to Sell 12M and 18M Bills
GR	10/18	05:00	Greece to Sell Bills
EC	10/18	05:15	ECB Announces Allotment in 7-Day Main Refinancing Tender
SZ	10/18	05:30	Switzerland to Sell 3-Month Bills
BE	10/18	05:30	Belgium to Sell Bills
HU	10/18	05:30	Hungary to Sell 3-Month Bills
HU	10/19	04:30	Hungary's Central Bank to Sell 2-Week Bills
GE	10/19	05:15	Germany to Sell Add'l EU5 Bln 10-Year Notes
PD	10/19	06:00	Poland to Sell New Fixed Rate Bonds
CZ	10/19	06:00	Czech Rep. to Sell CZK8 Bln Floating 2023 Bonds
SP	10/20	04:30	Spain to Sell 4.6% 2019 Bonds
SP	10/20	04:30	Spain to Sell 5.5% 2021 Bonds
FR	10/20	05:00	France to Sell Bonds/Notes
UK	10/20	05:30	U.K. to Sell GBP4.75 Bln 1.75% 2017
HU	10/20	05:30	Hungary to Sell Bonds
CZ	10/20	06:00	Czech Republic to Sell CZK8 Bln 182-Day Bills
UK	10/21	06:10	U.K. to Sell Bills

## Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
JN	10/16	23:35	Japan to Sell 1-Year Bills
AU	10/17	20:00	Australia to Sell Treasury Indexed Bonds
JN	10/17	23:45	Japan to Sell 5-Year Bond
CH	10/18	23:00	China to Sell 5 Year Bond
JN	10/18	23:35	Japan to Sell 3-Month Bills
JN	10/19	23:45	Japan to Sell 20-Year Bond

Source: Bloomberg, Scotia Economics.

## Events for the week of October 17 - 21

## North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	10/17	19:30	Fed's Lacker Speaks on Economy in Maryland
US	10/17	20:00	Fed's Evans Speaks in Detroit
US	10/18	08:15	Fed's Rosengren Gives Welcome Remarks at Boston Fed Conference
US	10/18	13:15	Fed's Bernanke Speaks in Boston
US	10/18	18:30	Fed's Lockhart Speaks on economy in Chattanooga, Tennessee
US	10/19	08:30	Fed's Rosengren Speaks at Boston Fed Conference
US	10/19	09:00	Fed's Lockhart Speaks on Latin America in Atlanta
US	10/19	14:00	Fed Releases Beige Book Economic Survey
US	10/19	16:30	Fed's Lockhart Speaks on Leadership in Atlanta
US	10/20	10:15	Fed's Bullard to Speak at St. Louis Economic Policy Conference
US	10/20	12:00	Fed's Lockhart Moderates Panel on Economy in Atlanta
US	10/20	12:50	Fed's Pianalto Speaks in Toledo, Ohio
US	10/20	18:00	Fed's Tarullo Speaks at Columbia University in New York
US	10/20	20:00	Fed's Kocherlakota Speaks on Economic Education in Minneapolis
US	10/21	12:00	Former Fed's Hoenig to Speak in New York
US	10/21	13:00	Fed's Kocherlakota Speaks in Minneapolis
US	10/21	15:00	Fed's Yellen Speaks in Denver

## Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
FR	OCT 14-15		G-20 Finance Ministers, Central Bank Chiefs Meet in Paris
IT	10/15	06:30	Bank of Italy Saccomanni Closes Conference on Italian Economy
EC	10/15		Bundesbank's Weidmann, Finance Minister Schaeuble Brief, Paris
FR	10/16	04:00	Socialist Party Presidential Primaries Vote, 2nd Round
FR	10/17	04:00	French National Assembly to Consider Dexia Plan Oct. 17
EC	10/17	10:35	ECB's Stark Speaks at EU Parliament Committee in Brussels
IT	10/17	18:00	Bank of Italy Draghi Speaks at Conference on Women and Economy
EC	10/18	12:00	ECB's Coene Speaks at Belgian Central Bank Conference in Mons
UK	10/19	04:30	Bank of England Releases Monetary Policy Committee Minutes
NO	10/19	08:00	Norwegian Deposit Rates
EC	10/20	05:00	EU's Van Daele Takes Part in Think Tank Debate
EC	10/21	03:40	ECB's Trichet Speaks in Warsaw
EC	10/21	04:00	ECB's Stark Speaks in Warsaw
PO	10/21	06:30	ECB's Carlos Costa Speaks at Conference in Lisbon
PD	10/21	09:45	ECB's Praet Speaks in Warsaw
AS	10/21	11:00	ECB's Nowotny Speaks at Gewinn Trade Fair in Vienna

## Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
JN	OCT 16-17		Cabinet Office Monthly Economic Report
AU	10/17	20:30	Reserve Bank's Board October Minutes
AU	10/18	17:45	RBA's Debelle Delivers Speech to Finance Conference in Sydney
TH	10/19	03:30	Benchmark Interest Rate
AU	10/19	18:30	RBA's Edey Speaks at ISDA Conference in Sydney
PH	10/20	04:00	Overnight Borrowing Rate

## Latin America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
BZ	10/19		SELIC Target - Central Bank

Source: Bloomberg, Scotia Economics.



## Global Central Bank Watch

## North America

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

The Bank of Canada will release its quarterly Business Outlook Future Sales and Senior Loan Officer Surveys next Monday, one week ahead of the next Bank of Canada meeting on October 25. Recent surveys have remained supportive of our view that the BoC will remain on hold until the end of Q3 and we don't expect either survey to alter that view. We also don't expect next week's Canadian CPI report to alter our view despite the fact that headline CPI will likely remain elevated as recent comments by BoC Governor Carney suggest that the BoC retains considerable flexibility over the inflation horizon as it evaluates both temporary and permanent pressures. In the U.S., the minutes to the September 20-21 FOMC meeting were released this week, suggesting that two voting members would have liked to have seen stronger policy action with the possibility that the Fed could engage in "additional steps at future meetings". While there is still a risk that the Fed could engage in further unconventional policy measures, we still don't expect the Fed to start raising the Fed funds rate until at least Q3 2012.

## Europe

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
European Central Bank – Refinancing Rate	1.50	November 3, 2011	1.50	--
Bank of England – Bank Rate	0.50	November 10, 2011	0.50	0.50
Swiss National Bank – Libor Target Rate	0.00	December 15, 2011	0.00	--
Central Bank of Russia – Refinancing Rate	8.25	October 21, 2011	8.25	--
Hungarian National Bank – Base Rate	6.00	October 25, 2011	6.00	6.00
Central Bank of the Republic of Turkey – 1 Week Repo Rate	5.75	October 20, 2011	5.75	5.75

The Russian Central Bank is likely to leave the benchmark refinancing rate unchanged at 8.25% next week. Recent headline disinflation - the yearly inflation rate decelerated from 9.6% y/y in May to 7.2% in September - is due to a weather-related decline in food prices, while non-food prices continue to advance. Moreover, amid the deterioration of global growth prospects and the ongoing financial turmoil in the euro zone, domestic demand remains relatively robust. We also estimate that Turkey's central bank will maintain its key monetary policy rate unchanged at a record-low 5.75%. Heightened external risks provide a counterbalance to the weakened currency and mounting core inflationary pressures.

## Asia Pacific

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
Bank of Japan – Target Rate	0.10	October 27, 2011	0.10	--
Reserve Bank of Australia – Cash Target Rate	4.75	October 31, 2011	4.75	4.75
Reserve Bank of New Zealand – Cash Rate	2.50	October 26, 2011	2.50	2.50
People's Bank of China – Lending Rate	6.56	TBA	--	--
Reserve Bank of India – Repo Rate	8.25	October 25, 2011	8.25	--
Hong Kong Monetary Authority – Base Rate	0.50	TBA	0.50	--
Central Bank of China Taiwan – Discount Rate	1.88	December 30, 2011	1.88	--
Bank Negara Malaysia – Overnight Policy Rate	3.00	November 11, 2011	3.00	--
Bank of Korea – Bank Rate	3.25	November 10, 2011	3.25	--
Bank of Thailand – Repo Rate	3.50	October 19, 2011	3.50	3.50
Bank Indonesia – Reference Interest Rate	6.50	November 10, 2011	6.75	--
Central Bank of the Philippines – Overnight Policy Rate	4.50	October 20, 2011	4.50	4.50

In the midst of excessive flooding in Thailand inflation has remained contained. Rising food costs have been offset by falling fuel costs, which have a heavier weight in the consumer basket. Core inflation, however, still increased in September, evidencing persistent underlying price pressures. Therefore, we expect the Thai central bank to leave monetary conditions unchanged after next week's policy meeting. Core inflation increased as well in the Philippines leading us to anticipate a stand-still in financing conditions there as well.

## Latin America

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
Banco Central do Brasil – Selic Rate	12.00	October 19, 2011	11.50	11.50
Banco Central de Chile – Overnight Rate	5.25	November 15, 2011	5.25	--
Banco de la República de Colombia – Lending Rate	4.50	October 28, 2011	4.50	4.50
Banco Central de Reserva del Perú – Reference Rate	4.25	November 10, 2011	4.25	--

After the central bank of Brazil surprised the markets by cutting the reference interest rate in August for the first time in almost two years, the authorities set the tone for an expansionary monetary policy stance on the back of a significant slowdown in economic activity. We anticipate that the central bank will cut the reference SELIC target rate by another 50 basis points to 11.50% at the October 19th meeting.

## Africa

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
South African Reserve Bank – Repo Rate	5.50	November 10, 2011	5.50	--

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

## Forecasts as at October 7, 2011\*

	2000-09	2010	2011f	2012f	2000-09	2010	2011f	2012f
<b>Output and Inflation (annual % change)</b>								
<b>Real GDP</b>								
<b>Consumer Prices<sup>2</sup></b>								
World <sup>1</sup>	3.6	5.2	3.8	3.8				
Canada	2.1	3.2	2.1	1.7	2.1	1.8	2.9	2.0
United States	1.7	3.0	1.7	1.5	2.6	1.6	2.8	1.9
Mexico	1.7	5.4	3.7	2.9	4.9	4.4	3.4	4.0
United Kingdom	1.9	1.8	0.7	0.7	1.9	3.7	4.4	2.1
Euro zone	1.4	1.8	1.6	1.1	2.0	2.2	2.6	1.5
Japan	0.6	4.0	0.3	3.2	-0.3	-0.4	1.1	1.3
Australia	3.1	2.7	2.9	3.0	3.2	2.7	2.8	2.5
China	9.4	10.4	9.1	8.9	2.0	4.6	5.0	4.5
India	7.4	9.0	7.9	8.3	22.5	32.2	7.5	6.0
Korea	4.4	6.2	4.7	5.0	3.1	3.5	3.7	3.3
Thailand	4.1	7.9	4.5	4.8	2.6	3.0	3.5	2.8
Brazil	3.3	7.5	3.5	4.0	6.7	5.9	6.5	6.0
Chile	3.7	5.2	6.5	4.8	3.5	1.4	3.5	3.3
Peru	5.2	8.8	6.2	5.6	2.5	2.1	3.8	2.7
<b>Central Bank Rates (% end of period)</b>	<b>11Q1</b>	<b>11Q2</b>	<b>11Q3f</b>	<b>11Q4f</b>	<b>12Q1f</b>	<b>12Q2f</b>	<b>12Q3f</b>	<b>12Q4f</b>
Bank of Canada	1.00	1.00	1.00	1.00	1.00	1.00	1.25	1.75
Federal Reserve	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
European Central Bank	1.00	1.25	1.50	1.50	1.50	1.50	1.50	1.50
Bank of England	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Swiss National Bank	0.25	0.25	0.00	0.00	0.00	0.00	0.25	0.25
Bank of Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Reserve Bank of Australia	4.75	4.75	4.75	4.75	4.75	5.00	5.00	5.00
<b>Exchange Rates (end of period)</b>								
Canadian Dollar (USDCAD)	0.97	0.96	1.05	1.02	1.00	0.99	0.98	0.98
Canadian Dollar (CADUSD)	1.03	1.04	0.95	0.99	1.00	1.01	1.02	1.02
Euro (EURUSD)	1.42	1.45	1.34	1.40	1.42	1.42	1.40	1.40
Sterling (GBPUSD)	1.60	1.61	1.56	1.60	1.61	1.62	1.63	1.64
Yen (USDJPY)	83	81	77	80	82	83	84	85
Australian Dollar (AUDUSD)	1.03	1.07	0.97	1.00	1.02	1.04	1.06	1.08
Chinese Yuan (USDCNY)	6.5	6.5	6.4	6.3	6.2	6.1	6.0	5.9
Mexican Peso (USDMXN)	11.9	11.7	13.9	12.9	12.9	12.7	12.7	12.7
Brazilian Real (USDBRL)	1.63	1.56	1.88	1.80	1.79	1.77	1.76	1.75
<b>Commodities (annual average)</b>	<b>2000-09</b>	<b>2010</b>	<b>2011f</b>	<b>2012f</b>				
WTI Oil (US\$/bbl)	51	79	92	92				
Brent Oil (US\$/bbl)	50	80	108	104				
Nymex Natural Gas (US\$/mmbtu)	5.95	4.40	4.25	4.50				
Copper (US\$/lb)	1.78	3.42	4.05	4.05				
Zinc (US\$/lb)	0.73	0.98	1.00	1.01				
Nickel (US\$/lb)	7.11	9.89	10.50	9.00				
Gold, London PM Fix (US\$/oz)	522	1,225	1,565	1,675				
Pulp (US\$/tonne)	668	960	980	1,000				
Newsprint (US\$/tonne)	572	607	643	690				
Lumber (US\$/mfbm)	275	254	255	260				

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

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

\* See Scotia Economics 'Global Forecast Update' ([www.scotiacapital.com/English/bns\\_econ/forecast.pdf](http://www.scotiacapital.com/English/bns_econ/forecast.pdf)) for additional forecasts & commentary.

Canada	2010	11Q1	11Q2	Latest	United States	2010	11Q1	11Q2	Latest
Real GDP (annual rates)	3.2	3.6	-0.4		Real GDP (annual rates)	3.0	0.4	1.3	
Current Acc. Bal. (C\$B, ar)	-50.9	-40.3	-61.3		Current Acc. Bal. (US\$B, ar)	-471	-478	-472	
Merch. Trade Bal. (C\$B, ar)	-9.0	5.8	-14.3	-7.5 (Aug)	Merch. Trade Bal. (US\$B, ar)	-646	-729	-762	-737 (Aug)
Industrial Production	4.9	5.7	2.3	1.5 (Jul)	Industrial Production	5.3	5.3	3.8	3.3 (Aug)
Housing Starts (000s)	192	178	192	206 (Sep)	Housing Starts (millions)	0.58	0.58	0.57	0.57 (Aug)
Employment	1.4	1.9	1.6	1.8 (Sep)	Employment	-0.8	0.9	0.9	1.1 (Sep)
Unemployment Rate (%)	8.0	7.8	7.5	7.1 (Sep)	Unemployment Rate (%)	9.6	8.9	9.1	9.1 (Sep)
Retail Sales	5.5	2.5	4.0	3.9 (Jul)	Retail Sales	6.8	8.6	8.1	8.1 (Sep)
Auto Sales (000s)	1561	1573	1572	1584 (Jul)	Auto Sales (millions)	11.6	13.0	12.1	13.0 (Sep)
CPI	1.8	2.6	3.4	3.1 (Aug)	CPI	1.6	2.1	3.4	3.8 (Aug)
IPPI	1.0	4.1	5.0	-5.2 (Aug)	PPI	4.2	4.9	7.0	6.5 (Aug)
Pre-tax Corp. Profits	21.2	12.9	14.8		Pre-tax Corp. Profits	25.0	2.8	1.3	
<b>Mexico</b>					<b>Brazil</b>				
Real GDP	5.4	4.6	3.3		Real GDP	6.7	3.8	2.7	
Current Acc. Bal. (US\$B, ar)	-5.7	-4.2	-10.4		Current Acc. Bal. (US\$B, ar)	-47.4	-58.3	-43.4	
Merch. Trade Bal. (US\$B, ar)	-3.0	7.6	5.7	-9.7 (Aug)	Merch. Trade Bal. (US\$B, ar)	20.2	12.7	39.3	36.9 (Sep)
Industrial Production	6.0	5.2	3.4	3.1 (Aug)	Industrial Production	10.5	2.6	0.6	1.0 (Aug)
CPI	4.2	3.5	3.3	3.1 (Sep)	CPI	5.1	6.8	6.5	7.2 (Sep)
<b>Chile</b>					<b>Italy</b>				
Real GDP	5.2	10.0	6.8		Real GDP	1.2	1.0	0.8	
Current Acc. Bal. (US\$B, ar)	3.0	0.7	0.1		Current Acc. Bal. (US\$B, ar)	-0.07	-0.12	-0.08	0.03 (Jul)
Merch. Trade Bal. (US\$B, ar)	11.6	16.5	15.5	3.9 (Sep)	Merch. Trade Bal. (US\$B, ar)	-39.1	-77.2	-45.6	-54.2 (Aug)
Industrial Production	0.5	11.7	7.8	1.7 (Aug)	Industrial Production	6.5	2.3	2.1	3.8 (Aug)
CPI	1.4	2.9	3.3	3.3 (Sep)	CPI	1.6	2.3	2.7	3.1 (Sep)
<b>Germany</b>					<b>France</b>				
Real GDP	3.6	4.6	2.8		Real GDP	1.4	2.2	1.7	
Current Acc. Bal. (US\$B, ar)	187.6	194.8	156.6	120.8 (Aug)	Current Acc. Bal. (US\$B, ar)	-44.5	-51.5	-81.9	-50.8 (Aug)
Merch. Trade Bal. (US\$B, ar)	201.2	208.5	209.3	237.2 (Aug)	Merch. Trade Bal. (US\$B, ar)	-39.0	-54.2	-52.0	-41.6 (Aug)
Industrial Production	10.1	12.8	8.0	7.9 (Aug)	Industrial Production	5.1	4.7	2.1	4.4 (Aug)
Unemployment Rate (%)	7.7	7.3	7.1	6.9 (Sep)	Unemployment Rate (%)	9.8	9.7	9.7	9.9 (Aug)
CPI	1.1	2.1	2.3	2.6 (Sep)	CPI	1.5	1.8	2.1	2.2 (Sep)
<b>Euro Zone</b>					<b>United Kingdom</b>				
Real GDP	1.7	2.4	1.6		Real GDP	1.8	1.6	0.6	
Current Acc. Bal. (US\$B, ar)	-77	-169	-163	-54 (Jul)	Current Acc. Bal. (US\$B, ar)	-71.6	-74.0		
Merch. Trade Bal. (US\$B, ar)	32.0	-68.5	-9.1	56.8 (Jul)	Merch. Trade Bal. (US\$B, ar)	-152.4	-146.1	-160.0	-152.6 (Aug)
Industrial Production	7.4	6.5	4.2	5.1 (Aug)	Industrial Production	1.9	1.6	-0.8	-1.0 (Aug)
Unemployment Rate (%)	10.1	9.9	9.9	9.9 (Aug)	Unemployment Rate (%)	7.9	7.7	7.8	8.1 (Jul)
CPI	1.6	2.5	2.8	3.0 (Sep)	CPI	3.3	4.1	4.4	4.5 (Aug)
<b>Japan</b>					<b>Australia</b>				
Real GDP	4.0	-0.7	-1.1		Real GDP	2.7	1.0	1.4	
Current Acc. Bal. (US\$B, ar)	195.9	193.9	75.4	63.3 (Aug)	Current Acc. Bal. (US\$B, ar)	-32.9	-41.7	-22.4	
Merch. Trade Bal. (US\$B, ar)	74.8	31.8	-55.0	-45.7 (Aug)	Merch. Trade Bal. (US\$B, ar)	19.3	22.0	49.5	45.7 (Aug)
Industrial Production	16.6	-2.5	-7.0	-0.8 (Aug)	Industrial Production	4.5	-4.7	-3.3	
Unemployment Rate (%)	5.1	4.7	4.6	4.3 (Aug)	Unemployment Rate (%)	5.2	5.0	4.9	5.2 (Sep)
CPI	-0.7	-0.5	-0.4	0.2 (Aug)	CPI	2.8	3.3	3.6	
<b>China</b>					<b>South Korea</b>				
Real GDP	10.3	9.7	9.5		Real GDP	6.2	4.2	3.4	
Current Acc. Bal. (US\$B, ar)	305.4				Current Acc. Bal. (US\$B, ar)	28.2	10.4	22.0	4.8 (Aug)
Merch. Trade Bal. (US\$B, ar)	181.5	-8.2	186.0	174.2 (Sep)	Merch. Trade Bal. (US\$B, ar)	41.2	29.1	33.4	17.2 (Sep)
Industrial Production	13.5	14.8	15.1	13.5 (Aug)	Industrial Production	16.6	11.2	6.7	5.1 (Aug)
CPI	4.6	5.4	6.4	6.2 (Aug)	CPI	3.0	4.5	4.2	4.3 (Sep)

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

Source: Bloomberg, Scotia Economics.

## Interest Rates (% , end of period)

Canada	11Q2	11Q3	Oct/07	Oct/14*	United States	11Q2	11Q3	Oct/07	Oct/14*
BoC Overnight Rate	1.00	1.00	1.00	1.00	Fed Funds Target Rate	0.25	0.25	0.25	0.25
3-mo. T-bill	0.83	0.82	0.84	0.81	3-mo. T-bill	0.01	0.02	0.01	0.02
10-yr Gov't Bond	3.11	2.16	2.22	2.39	10-yr Gov't Bond	3.16	1.92	2.08	2.25
30-yr Gov't Bond	3.55	2.77	2.80	2.96	30-yr Gov't Bond	4.37	2.91	3.02	3.23
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US\$B)	60.4	62.3	64.3	(Aug)	FX Reserves (US\$B)	128.3	136.6	138.7	(Jul)
<b>Germany</b>					<b>France</b>				
3-mo. Interbank	1.51	1.51	1.51	1.52	3-mo. T-bill	1.18	0.38	0.48	0.40
10-yr Gov't Bond	3.03	1.89	2.00	2.21	10-yr Gov't Bond	3.41	2.60	2.75	3.14
FX Reserves (US\$B)	64.8	66.0	67.2	(Aug)	FX Reserves (US\$B)	61.0	60.3	56.5	(Aug)
<b>Euro-Zone</b>					<b>United Kingdom</b>				
Refinancing Rate	1.25	1.50	1.50	1.50	Repo Rate	0.50	0.50	0.50	0.50
Overnight Rate	1.72	1.46	0.95	0.96	3-mo. T-bill	4.85	4.85	4.85	4.85
FX Reserves (US\$B)	319.9	317.2	319.3	(Aug)	10-yr Gov't Bond	3.38	2.43	2.47	2.59
<b>Japan</b>					FX Reserves (US\$B)	75.3	79.7	82.5	(Aug)
Discount Rate	0.30	0.30	0.30	0.30	<b>Australia</b>				
3-mo. Libor	0.13	0.13	0.13	0.13	Cash Rate	4.75	4.75	4.75	4.75
10-yr Gov't Bond	1.14	1.03	0.98	1.02	10-yr Gov't Bond	5.21	4.22	4.24	4.44
FX Reserves (US\$B)	1080.6	1100.8	1173.9	(Aug)	FX Reserves (US\$B)	33.3	40.3	42.1	(Aug)

## Exchange Rates (end of period)

USDCAD	0.96	1.05	1.04	1.01	¥/US\$	80.56	77.06	76.73	77.31
CADUSD	1.04	0.95	0.96	0.99	US\$/Australian\$	107.22	96.62	97.68	103.10
GBPUSD	1.605	1.558	1.556	1.580	Chinese Yuan/US\$	6.46	6.38	6.36	6.38
EURUSD	1.450	1.339	1.338	1.386	South Korean Won/US\$	1068	1178	1178	1156
JPYEUR	0.86	0.97	0.97	0.93	Mexican Peso/US\$	11.714	13.897	13.460	13.264
USDCHF	0.84	0.91	0.93	0.89	Brazilian Real/US\$	1.563	1.879	1.772	1.739

## Equity Markets (index, end of period)

United States (DJIA)	12414	10913	11103	11573	U.K. (FT100)	5946	5128	5303	5470
United States (S&P500)	1321	1131	1155	1216	Germany (Dax)	7376	5502	5676	5983
Canada (S&P/TSX)	13301	11624	11780	11992	France (CAC40)	3982	2982	3096	3223
Mexico (Bolsa)	36558	33503	33005	34873	Japan (Nikkei)	9816	8700	8522	8748
Brazil (Bovespa)	62404	52324	52290	54607	Hong Kong (Hang Seng)	22398	17592	17707	18502
Italy (BCI)	1039	796	808	857	South Korea (Composite)	2101	1770	1760	1835

## Commodity Prices (end of period)

Pulp (US\$/tonne)	1035	990	990	990	Copper (US\$/lb)	4.22	3.23	3.29	3.40
Newsprint (US\$/tonne)	640	640	640	640	Zinc (US\$/lb)	1.05	0.86	0.84	0.86
Lumber (US\$/mfbm)	237	240	239	241	Gold (US\$/oz)	1505.50	1620.00	1652.00	1678.00
WTI Oil (US\$/bbl)	95.42	79.20	82.98	86.70	Silver (US\$/oz)	35.02	30.45	31.98	31.82
Natural Gas (US\$/mmbtu)	4.37	3.67	3.48	3.59	CRB (index)	338.05	298.15	303.52	316.58

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

Emerging Markets Strategy

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

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