Scotiabank Group

Global Views

Weekly commentary on economic and financial market developments

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

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Small Yields, Big Curves

- **What the yield curve in the new 'Fed' age is telling us about U.S. economic prospects.**

We never bought into the double-dip scenario that surfaced last spring and summer as the U.S. recovery began to lose traction. Clearly, there were enough problems warranting a downgrading in growth prospects — in the U.S. and around the world — to below consensus. The contraction in the U.S. housing sector and pressure on prices showed no respite, abetted by a relapse in hiring. Japan's crisis disrupted the globe's manufacturing supply chain. The euro zone sovereign debt credit crisis erupted again, with the contagion spreading to larger and northern nations. The high-growth developing countries began to lose momentum in response to the tightening in domestic credit conditions, in addition to all of the above, underscoring connectivity of globalization. And investor angst took financial markets sharply lower, as expectations of a renewed banking sector rout — this time centred in Europe — took hold.

Some, but not all, of these problems remain. We have been progressively lowering our estimate for global growth, and will probably do it again in our next forecast release. Recessionary forces in Europe are continuing to build, dragging even the 'uber'-competitive German economy close to stalling speed. Predictably, the reduced demand for imports has triggered production cuts in every region around the world, a worrisome development for a global economy in desperate need of rebalancing. (At the same time, however, the slowdown merits some positive feedback if it helps restrain credit bubbles and price pressures.)

Yet, a string of better-than-expected economic reports in the U.S. points to a slightly stronger growth profile and an upgraded forecast for 2012. Since Black Friday, American shoppers have returned to the stores, releasing some of their pent-up demand and savings, taking advantage of hefty discounts, and splurging on tech products. Renewed business hiring helped, as did the slower pace of fiscal drag and layoffs among state & local governments. (Federal budgetary restraint has been postponed and punted into the next administration.) Solid profit gains spurred firms to invest more in productivity-enhancing machinery & equipment. And importantly, ultra-low short- and long-term borrowing costs have spawned an unprecedented amount of refinancing that is sharply reducing the debt servicing burdens of households, businesses and government alike — unlocking cash flow that can either be saved, used to pay down debt or spent.

The latter point was reinforced this week when the Fed indicated that continuing sub-par U.S. growth and low inflation, with downside risks aggravated by global financial market strains, warranted the benchmark funds rate being kept at the rock-bottom level of 0.25% through late 2014. (If this timeline is realized, it would represent an unprecedented five-year period of uninterrupted ultra-low short-term interest rates.) The Fed also reiterated that it would continue to reassess the need for alternative means of boosting its monetary accommodation if the U.S. economy was in need of another kick-start.

By anchoring short-term borrowing costs, and conducting operations to purchase longer-dated government securities that have driven already low economic and inflation sensitive bond yields even lower, the Fed has helped create — and sustain — financial conditions that are very supportive of continued growth. During the turbulent times of last summer, one of the indicators we highlighted that underscored our 'pro-growth' views was the yield curve. A large and positive spread between long- and short-term rates typically coincides with economic expansion and not contraction. The yield curve was very positively sloped then, and it still is. The differential between the yield on a 3-month T-bill and that of a 10-year T-bond was 210bps then and is 190bps today — a spread that is over 30% greater than the roughly 145bp average positive slope over the past 50 years (high of +350bps in 1992 and a low of –63bps in 1979).

In addition to a steep yield curve, other risk measures — including the VIX — have receded since the summer as monetary authorities around the world (the ECB in particular) have taken additional measures to attempt to stabilize the financial system in Europe. While problems remain, investors have become more reassured by these initiatives, and have returned to equity markets across the world, enabling the MSCI Index (a proxy for global equities) to rally by 15% since hitting a bottom in early October. However, even with the

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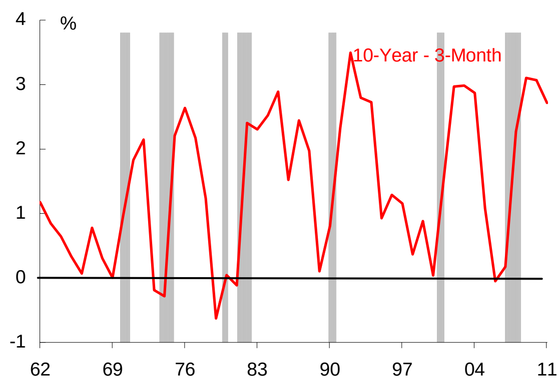
latest rebound in the MSCI index, global equities are still 10% below the high set in early May. The improvement has been stronger in North America, reflecting stronger-than-expected momentum in the U.S. economy late last year. The S&P 500 has rebounded by 20% since early October and is currently only 3% from its post-recession high set last spring. In addition, the VIX has fallen below the average of the past three decades, pointing to an easing in financial strains.

There are a number of potential implications from the shape of the U.S. yield curve and from reduced financial strains. First, the recovery should be sustained, notwithstanding cyclical, structural, and unexpected shocks to the outlook. Second, low-inflation times typically have flatter curves since expectational risk is lower. (This view eventually will be tested in this new era of record-setting monetary pump priming.) And third, with the Fed anchoring the curve at the short end, even allowing spreads to widen at some point in the near future will likely leave 10-year T-bond yields trading in a 2½-3% range in the second half of next year — still low and pro-growth by past standards.

U.S.Yield Curves Remain Steep, Well Above Historical Averages

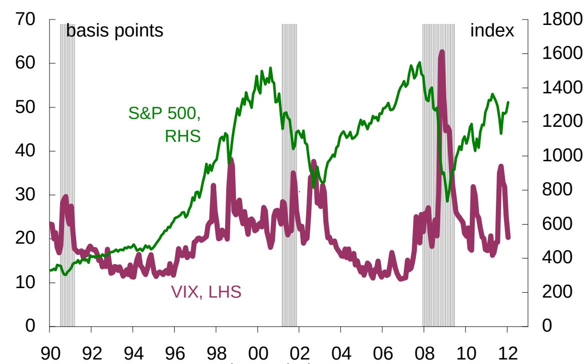
	Yields			Yield Curves	
	3-month	2-year	10-year	10Y - 3M	10Y - 2Y
1962-69	3.98	--	4.84	0.52	--
1970-79	6.29	--	7.50	1.21	--
1980-89	8.97	10.10	10.58	1.61	0.48
1990-99	4.98	5.78	6.65	1.68	0.88
2000-09	2.75	3.26	4.44	1.70	1.19
2010-11	0.08	0.56	2.98	2.89	2.42
1962-2011	5.29	6.21	6.73	1.44	0.89
Current	0.05	0.21	1.92	1.87	1.71

U.S. Yield Curve Remains Pro-Growth...



Bars represent recession periods.
Source: Bloomberg, NBER, Scotia Economics.

… Volatility & Uncertainty Have Receded



Bars represent recession periods.
Source: Bloomberg, NBER, Scotia Economics.

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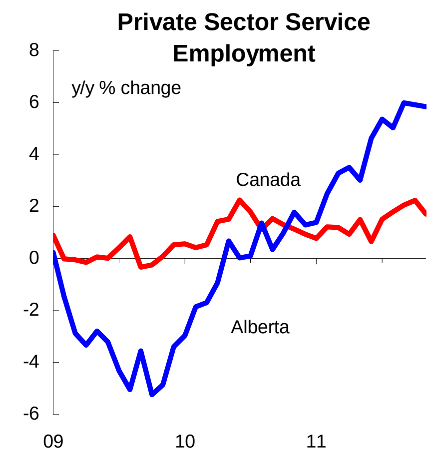
Alberta's Economy Ignited By The Oil Sector

- **Services, manufacturing and demographics expected to play a positive role.**

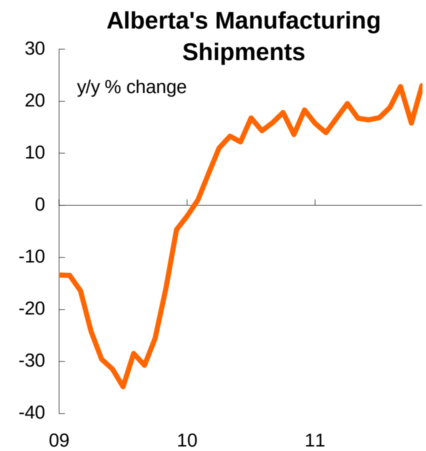
Alberta is expected to outperform in 2012, with strong activity in the energy sector serving as a conduit for growth for the province's diversifying economy. Nonetheless, Alberta will still be affected by moderating global economic activity, with growth in 2012 expected to average just over 3.0%.

While construction and investment in the oil and gas sector will remain relatively flat this year after the completion of a number of oil sands projects, the effect will be counterbalanced by the increased production the projects will provide as well as gains made by tight oil drilling in conventional plays — total output is expected to jump over 10% this year. Drilling and exploration has continued at a strong pace through the winter season and will be supported by our WTI oil forecast averaging US$100/bbl in 2012.



Source: Statistics Canada,Scotia Economics.

The province's labour market has experienced an impressive turnaround after a relatively weak performance in 2010. Employment increased by a hefty 3.8% in 2011, cutting the unemployment rate to 4.9% by year-end. Job growth is expected to surpass the Canadian average once again with an increase of 2.0% doubling the 0.8% pace set by the national average. Unemployment is expected to average 5.0% on the year, as strong migration boosts the number of job seekers. The province's tight labour market is reflected by wage growth showing its strongest performance in over a year in Q4. The province also leads the country in terms of the job vacancy rate, having the most unfilled positions relative to labour demand.



Source: Statistics Canada, Scotia Economics.

Positive migration flows have also rekindled the province's housing market after a middling performance over the past two years. Housing starts and home sales are expected to show a slight pickup this year as a result. A larger consumer base and higher wages also signal a positive outlook for consumer spending. Retail sales jumped an estimated 7.0% in 2011, and will likely continue to outperform. The retail real estate market has heated up, with vacancy rates dropping across the province, particularly in Calgary where they find themselves near full capacity.

One of the more encouraging elements is the wide distribution of employment growth throughout the province outside the public sector. Employment in private-sector services increased by 4.0% last year while manufacturing employment jumped 14%. The province's efforts to diversify its economy have led to an increase in research and development activity and growth in venture capital investment. Professional services, particularly in engineering and technical specializations, have also been fuelled by strong activity in the energy sector — with employment increasing over 8% in 2011. Reports already indicate a need for specialized workers, underlying the anticipated ramp-up in Alberta's skilled labour demand going forward.

Additionally, a fair portion of manufacturing activity is dependent on the oil patch. Beyond the boost provided from petroleum and coal products, machinery and equipment shipments destined for northern mining projects have also been robust — the segment is averaging shipment growth of over 40% y/y in recent months. However, one of the province's largest manufacturing segments, chemicals, may experience mixed results after shipments rose nearly 30% in 2011. While global inventories are very low, a decrease in global manufacturing activity may offset some of the gains made through replenishment.

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U.S. Exposure To Eurozone Debt Crisis

- **Although Europe and the U.S. share broad ties, a number of factors limit downside risk.**

As Greece negotiates terms of its debt restructuring, it is worthwhile taking another look at economic and financial linkages between Europe and the United States. We focus on five key areas — trade, corporate, banking, financial markets, and domestic demand — finding that while there exist thick ties, a number of factors limit downside exposure.

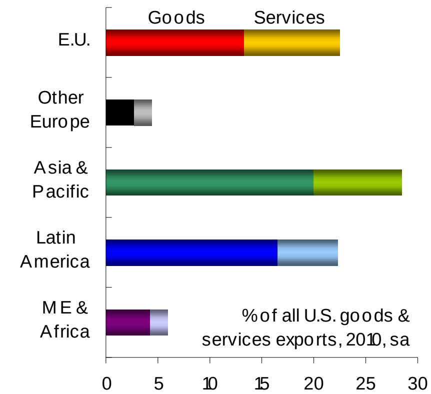
The European Union accounts for over a fifth of the world economy (PPP basis) and a quarter of world exports. Of that, the region represents a fifth of all U.S. merchandise exports, and a third of services, led by machinery, motor vehicles, and travel. While a significant share, its most vulnerable economies — Greece, Ireland, Italy, Portugal, and Spain (GIIPS) — account for less than 5% of all U.S. foreign sales, with Germany and the U.K. at the top. Exports to the EU — which make up about 3% of U.S. GDP — saw a record decline of 15.8% in 2009 (the region's economy contracted 4.3%), shaving 0.6ppt off U.S. GDP. However, an adverse economic shock — amplified by the depreciation of the euro against the dollar — would also affect import demand, reducing the GDP drag through net trade. The growing importance of emerging markets acts as a further offset: Asia & Pacific and Latin America account for 38% of U.S. exports (chart 1), with their economies and appetite expanding at a quicker pace than the eurozone.

About a fifth of S&P500 companies report that at least a quarter of their sales come from Europe, led by transportation, technology, chemicals, and consumer discretionary sectors. No surprise then that the transatlantic economy is estimated to employ 15 million workers on both sides of the Atlantic[1], and represents 38% of all U.S. direct investment abroad (chart 2) — led by manufacturing and finance, with the Netherlands and the U.K. as the most favoured regions — and 62% of all FDI in the United States. While emerging markets also hold a 38% share, faster rates of economic growth translate into a stronger contribution to U.S. earnings.

U.S. banking exposure to foreign claims — comprising of banking, non-banking private and public sectors — amounted to just over 8% of total FDIC bank assets in 2010. The euro area had a 23% (US$733 billion) share of all U.S. foreign claims, down from 34% in 2005 (chart 3). The GIIPS economies stood at 18% (US$135 billion) of that, with Spain, Ireland, and Italy contributing a majority (92%), and Greece a modest 4%. It is important to note that hedges, collateral, and debt restructuring reduce the overall exposure. Finally, as witnessed by the marked volatility over the past year, the eurozone crisis also carries significant implications for financial markets via risk aversion, contagion, credit availability, interbank lending, and credit default swaps. However, instability in the EU is strengthening capital flows into the U.S., providing, at least for now, some counterbalancing effect.

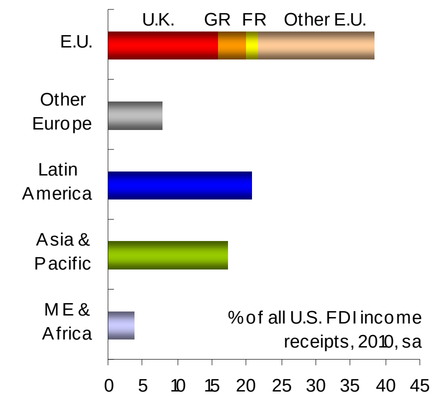
Alongside these transmission channels, the regions' consumer and business confidence have also been reasonably correlated since the 1990s, creating opportunity for further knock-on effects to domestic demand. The eurozone debt crises could net to a weaker U.S. GDP growth and increased cautiousness. Limited fiscal and monetary policy flexibility place hope on a credible resolution in the not so distant future.

Emerging Market Exports Provide Offset To Weaker European Demand



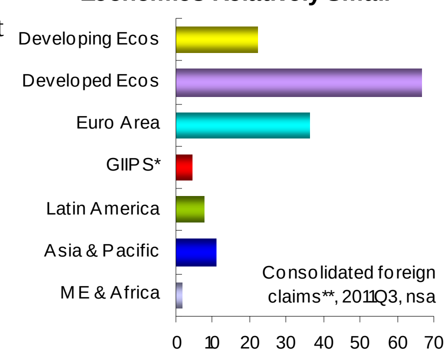
Source: BEA, Scotia Economics.

Europe Accounts For Nearly Half Of U.S. Direct Investment Income



Source: BEA, Scotia Economics.

U.S. Bank Exposure To E.U. Peripheral Economies Relatively Small



* Greece, Italy, Ireland, Portugal, Spain.
** Ultimate risk basis
Source: BIS, FFIEC, Scotia Economics.

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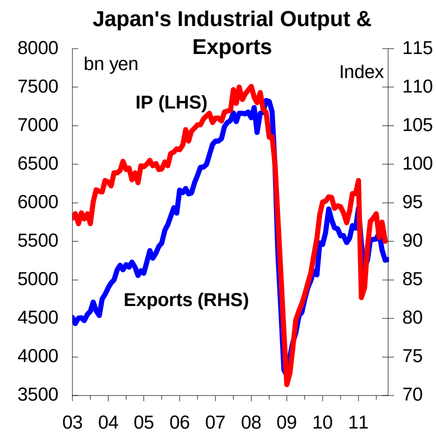
Japan's Industrial Sector, Down But Not Out

- **The country's export machine remains in place and well positioned to continue to benefit from proximity to China.**

The outlook for the Japanese economy in the coming months will remain conditional on the capacity of the country's industrial sector to rebound from the effects of excessive flooding in Thailand. Strong links to export performance implies that the eventual recovery will sow the seeds for an improved GDP performance in Japan in the current year.

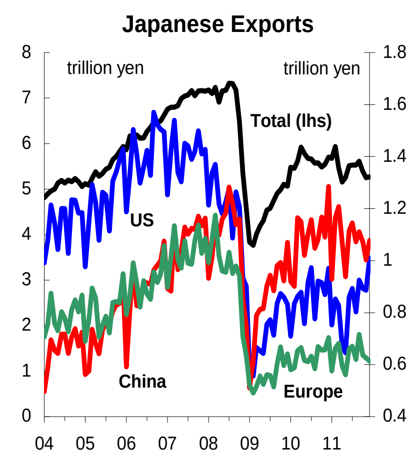
There is a strong correlation between Japan's industrial performance and the country's export sector. Although the economy is not overtly open, as net shipments overseas represent less than 10% of GDP — with the value of two-way trade (exports plus imports) standing at 30% of GDP in 2011, contrasting starkly with Germany's 75% — its most efficient firms are in the manufacturing sector, linked directly or indirectly to foreign trade.



Source: Ministry of Finance and Ministry of Economy, Trade and Industry.

The structure of Japan's exports changed significantly with the advent of the global recession in 2008-09. Between 2007 and 2011, the share of total shipments to China increased from 15% to 20%, with exports to the rest of Asia following a similar pattern, going from 48% to 56% of total foreign sales. This trend occurred at the expense of exports to the US and Europe, which declined from 20% to 15%, and 15% to 11%, respectively.

As can be concluded by examining the second chart, Japanese exports to China followed a strong upward trend until interrupted by the events of March 2011, when the country's manufacturing machine recoiled in the wake of the devastation caused by the earthquake/tsunami. A quick rebound from the shock was then cut short towards the end of last year as excessive flooding derailed input supplies linked to manufacturing plants in Thailand.



Source: Ministry of Finance, Japan.

Another element that seemingly affected export performance was the Japanese yen (JPY), which strengthened from a 82 per dollar level in the first quarter of 2011, to 77 in the final three months of the year, a 6% appreciation. Notwithstanding this, shipments to the US presented an upward trend from mid-year on as can be observed in the chart, with North America being the only region that witnessed no contraction in Japanese shipments during the fourth quarter of 2011.

According to Bank of Japan data, the country's exports in real terms contracted by 0.5% y/y in 2011, following the extraordinary 27% gain in 2010, which as pointed out previously was led by rising shipments to China.

Looking ahead, the trends described above lead us to the belief that — notwithstanding the recent deterioration in sentiment mostly due to the trade deficit for 2011 as a whole (the first since the 1980s) — Japan's privileged geographic location suggests a distinct capability to rebound, at least in terms of the country's industrial sector.

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The View From Europe: Inflation Report Preview

- **The BoE is very likely to embark on another round of quantitative easing at the February MPC meeting. The only question is how much. It is a close call between a further GBP50bn and GBP75bn injection. The best guide to future MPC decisions is to assess how the Bank's new economic projections will look. We expect downward revisions to the Bank's growth and inflation projections. On balance, a GBP50bn addition to QE is looking more likely.**

Getting Inside the MPC's Decision Making

Four times per year, the BoE updates its macroeconomic projections. These typically provide the best basis for decisions on monetary policy. This February's *Inflation Report* is crucial since the GBP75bn of asset purchases announced back in October 2011 will have been completed and a decision will have to be made as to whether to continue with asset purchases.

Recent Bank of England communications have made no secret of the likelihood of further asset purchases — the only question is 'how much'. The best way for an outsider to get inside the MPC's thinking is to guess what the Bank's updated projections will look like. If the Bank's medium term inflation projection is likely to be a margin below the 2% target, more policy loosening is likely (and vice versa). In turn, the main influences on its inflation projection are:

- Whether near term inflation data have surprised relative to the latest forecast;
- Any revisions to the Bank's growth projection;
- Movements in the price of oil;
- Movements in the effective GBP exchange rate;
- The performance of the equity market; and
- Changes in market interest rate expectations.

GDP forecasts likely to be revised slightly lower

In November the BoE revised down its GDP growth projection substantially. However, we believe the Bank remains a little too optimistic. We don't have a huge problem with its 2012 forecast of 0.9% y/y — which is only fractionally above our own forecast (0.7% y/y). However, that is a margin above the consensus forecast of 0.4% y/y — so there is some scope for a downward revision.

Meanwhile, the Bank's projection for GDP growth during 2013 is 2.8% y/y on average. 2.8% y/y GDP growth in 2013 would be an absolute triumph. Unfortunately, we expect growth to be a full percentage point slower than that. We suspect a partial downgrading of the Bank's projection — though not a slashing operation.

Then versus now

Table 1 below shows how the key inputs into the Bank's inflation projection have evolved since the last *Inflation Report* and the likely impact of these on the new forecasts.

Table 1: Evolution in Key Influences on BoE Inflation Projection

		Nov	Feb	% Chg	Impact on BoE Inflation Projection
Oil*	Spot (USD)	111.2	111.8	0.5	0
	Spot (GBP)	71.69	71	-1.0	
GBP*	Effective GBP	79.7	80.6	1.1	-0.1
Near quarter inflation fcast		4.7	4.7		0
GDP forecast	2012	0.9	0.7	-0.2	-0.1
	2013	2.8	2.5	-0.3	
FTSE All-Share*		2853	2923	2.5	+
Market rate expectations			Flat / Slightly down		-
					-0.21
* 15 working day average					

To summarise, at the time of the November *Inflation Report*, the MPC judged that CPI inflation would fall to around 1.3% y/y 2 years ahead — a substantial margin below the 2% target (Chart 1).

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Chart 1: BoE CPI Inflation Projection Nov-11 (Market Rate expectations)

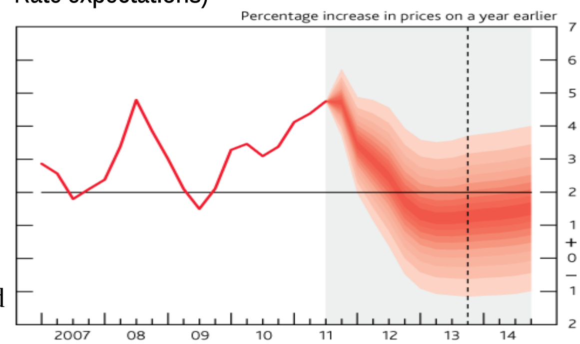
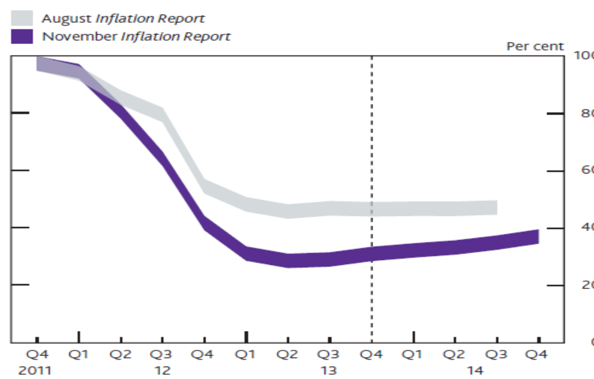


Chart 2: Probability Inflation Will be Above Target



Furthermore, the Bank's 'ribbon' chart that shows the probability that inflation will be above target was substantially below the 50% level (the level at which stable policy is normal — Chart 2). The combination of both projections booted the door wide open to the GBP75bn of asset purchases that were announced in October 2011.

Since then, the effective GBP exchange rate has appreciated slightly and the outlook for GDP growth (both at home and in the Eurozone) has probably shifted lower. In the absence of further policy stimulus, these would be expected to nudge the Bank's medium term inflation projection down by around 0.2 percentage points. In isolation — one could argue that if the MPC was prepared to deliver GBP75bn of asset purchases when its 2-year ahead inflation projection was 1.3% y/y — it should be prepared to deliver at least as much if the projection is likely to be nudged lower.

Smoke signals

Recent MPC commentary has offered precious little in the way of clues on the likely scale of further asset purchases. The latest MPC minutes highlighted that while some members thought that further asset purchases were likely, opinion is divided. Some members questioned whether inflation would indeed fall below the 2% target over the medium term. We agree! Our own forecast is that inflation will stabilise a small margin above 2%. Meanwhile, there is also a more dovish camp that argued that there may be more spare capacity than previously thought, which in turn could bear down more heavily on inflation than the central case forecast.

Recent speeches from MPC members have emphasised the Bank's confidence that inflation will fall in the very near term. However, the speeches have avoided any discussion about why the Bank is so convinced that inflation will fall to close to 1% over the more medium term. This chimes with commentary in the minutes that 'positive developments over the month had moderated the most serious near-term downside risks'. The MPC's inflation projection does factor in an element of judgement as well as mechanical model based inputs. Hence although the exchange rate and growth projections might point to a downward revision — we wouldn't be surprised if the inflation forecast is little changed from last time.

Stock of QE — not pace that matters for the MPC

Recent MPC speakers have reiterated that the Bank cares about the stock of asset purchases rather than the pace. Clearly the latter is a big consideration for the gilt market. Phase one of QE2 saw GBP75bn of gilt purchases over a 4 month period with a 2 week break for Christmas. That equated to roughly GBP5bn of purchases per week. If the MPC announces a GBP50bn expansion in the programme in February that would cover a (shorter) 3 month period, with a 2 week break for Easter. That would maintain the weekly pace of asset purchases at close to GBP5bn.

Conclusion

We are very confident that more QE is on the way from the BoE. The updated inflation projection is likely to reside substantially below the 2% target at the medium term horizon. However, it is a close call on whether a further GBP50bn or GBP75bn of asset purchases will be announced. Against the backdrop of firming Eurozone indicators such as the Ifo and PMI and the MPC's commentary on inflation, we judge that GBP50bn is looking more likely.

Between the February MPC meeting and now, the most crucial data release will be next Friday's services sector CIPS survey. As that survey stands, it too supports the case for a GBP50bn injection. A marked decline could change things.

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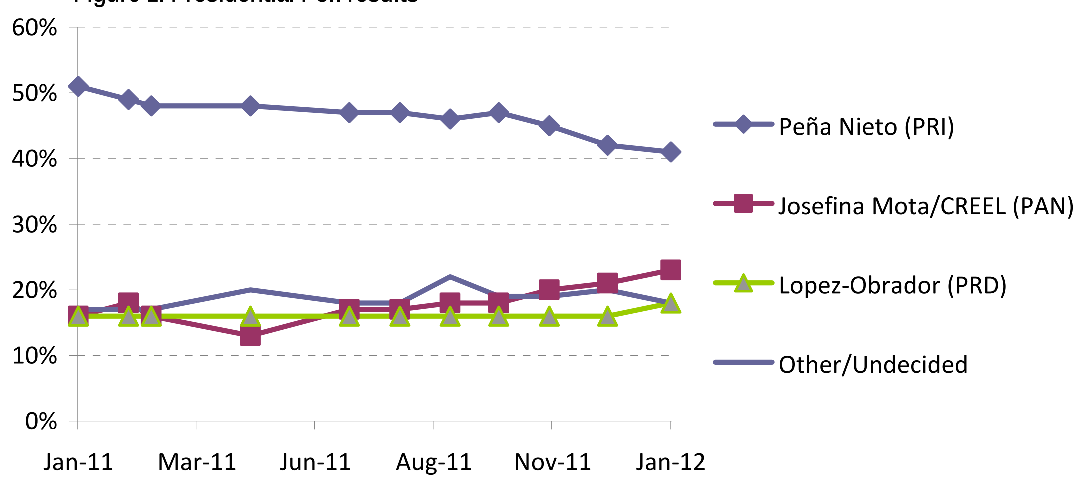
Will Mexican Elections Matter To Markets? A Preliminary Assessment

There are reasons to expect leftist candidate Lopez-Obrador to gain in polls as we approach election time, though not enough to win. While theoretically that should generate noise detrimental to markets, our analysis of the 2006 elections finds no impact on external spreads and limited impact on local bonds and the peso. We expect all potential administrations to be equally supportive of government-linked sectors with corporate bonds outstanding with the exception of Pemex, where a leftist government could threaten recent progress in attracting private investors. More important may be the results in Congress, where a majority could facilitate structural reforms and boost long-term growth.

How much uncertainty is there regarding the outcome?

There are still over five months remaining before Mexican presidential elections on July 1st, and we don't even know for sure who the candidate for the PAN will be. Nevertheless, considering the amount of foreign money in government and corporate bonds in Mexico, the noise that accompanied the Mexican election in 2006, and the surprising election result in Peru last year, we thought we would provide investors who are not yet monitoring developments on a regular basis with an initial assessment.

Figure 1. Presidential Poll results



Source: Mitofsky. Dates correspond to days when poll was conducted rather than when results were released.

The first question of course is whether the elections will be a non-event, considering that the PRI's Peña Nieto has been leading the polls with over twice the votes received by the other two candidates. Lopez-Obrador's potential to rise in electoral intentions appears further capped by his low popularity (net perception among the general population of -9), accompanied by a high recognition by voters (98% know him according to the latest Mitofsky survey). Most analysts believe Lopez-Obrador's failure to accept defeat in 2006 signified a lack of respect for democracy and the country's institutions; the protests he engineered cost him significant support among the population and may continue to plague his candidacy today.[1]

Nevertheless, there are a number of factors that could allow Lopez-Obrador to gain. First, a potential electoral clash between the leading PRI and PAN candidates could end up damaging both their images, allowing the PRD to gain. As the clear front runner, Peña Nieto will be the target for the two laggards as the campaigns get going, and the PAN´s candidate, who is in second place, would probably be the main target for Peña Nieto's counterattacks. Second, Lopez-Obrador has not received much attention on television so far.[2] Once election time approaches, that could change, and he will have more opportunities to restore his image; he is charismatic, he is a good debater, and his message resonates well with the majority of the population. Third, recent surveys do not yet reflect the fractured alliance between the PRI and the PANAL, the teacher´s party, and that event should help the other parties at the expense of the PRI. Fourth, Lopez-Obrador has been

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moderating his image, courting businessmen in northern Mexico and naming a moderate-left cabinet; that strategy worked extremely well for Humala in Peru. Finally, 18% of the electorate has still not expressed a preference towards any of the candidates, which could move the results.

While recent polls do show evidence of volatility and declining support for Peña Nieto, it does not seem that volatility is large enough to change the ultimate result. For example, he probably lost a few percentage points last month when he could not name three books that had influenced him. Yet, the potential for surprises is limited by the fact that Mexico has a stronger party system than Peru. The PRI holds 21 governorships, while the PRD only has one, reducing the potential for indirect support for its candidate. Similarly, President Calderon will support his candidate to whatever extent allowed by law. As one measure of the amount of volatility we could expect, consider that in the 2006 elections, polls showed Lopez-Obrador leading by up to 10 percentage points half a year before the election whereas he ultimately lost by a very slim margin; that gives one data point by which to judge the amount of change we can expect in general, and it would not be enough to alter the winner predicted in today's polls.

Will markets care if Lopez-Obrador gains in polls?

The natural starting point for estimating the potential market impact is the 2006 election. Yet, there are several impediments to finding an effect. First, it is unclear when to start looking for an effect. On one hand, elections rise in importance as they approach, but could fly under the radar before. On the other hand, Lopez-Obrador was in the lead for a long-time in 2006 and even back in 2005; thus, we don't know when Mexican markets could have started pricing the election results. Similarly, we don't know when markets should have recovered. Should Calderon's victory, once official, have caused the market to rally, or should Mexican securities have sold off further in light of Lopez-Obrador's street protests and disregard for the country's democratic processes? Second, global factors played a huge role around election time, with the Dow dropping nearly one thousand points in early summer from peak to trough, and US Treasury yields rising 80bp, as central banks started to hike rates. At the same time, Mexico CDS spreads widened by 40bp, local yields rose by 160bp, and the currency depreciated by 9%.

The graphs on the next page suggest that while we saw significant market movements in 2006, most of those were explained by global market factors. The analysis is easiest for CDS since we can compare Mexico with other sovereign CDS of the same spread or we can assume spread movements are proportional to spread and compare with other Latin American names. Either way, we find little evidence of an election effect (Figure 2). In the graph, we have also identified some particular events that should have affected markets, some positive and others negative. We find no relationship between these events and market movements. Thus, we would estimate the net effect on CDS spreads was between 0 and 10bp.

The analysis is more difficult for local markets. What should the beta of Mexican yields to US yields be? Which currency would have been an appropriate comparison for the Mexican peso back in 2006? While we cannot rule out that Mexican local markets were affected over the long-run, we find much stronger correlations with global factors than with the particular major events on the election timeline. Our rough estimate would be that the election effect was at most 30bp in local yields and 3% on the currency, but it may also well have been zero.

Corporate sectors

There a few key sectors in the Mexican economy that are highly dependent on government support or regulatory policy and which fixed income investors have a particular interest in: housing, infrastructure, telecom, and energy.

The first two sectors seem to us resilient to any future administration. Supporting housing, especially among the lower middle class is, of course, tremendously popular. Just this week, Ariel Cano, the director of the National Housing Commission, explained in an interview that there is no political party that does not support

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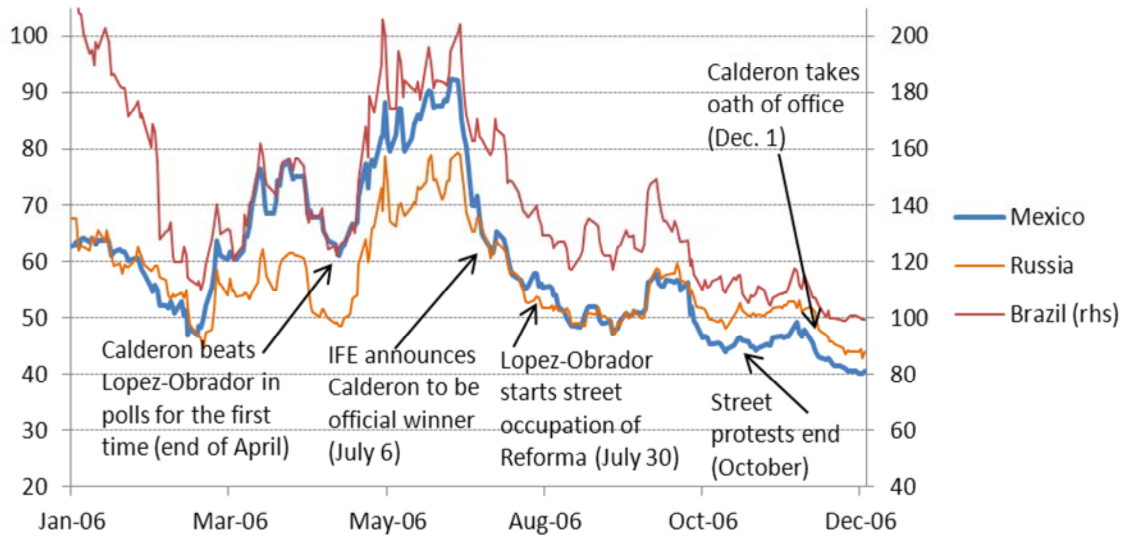
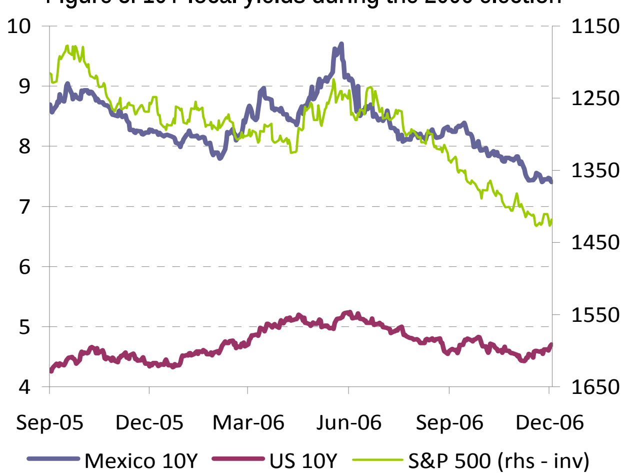
Figure 2. Effect of 2006 election events on CDS spreads



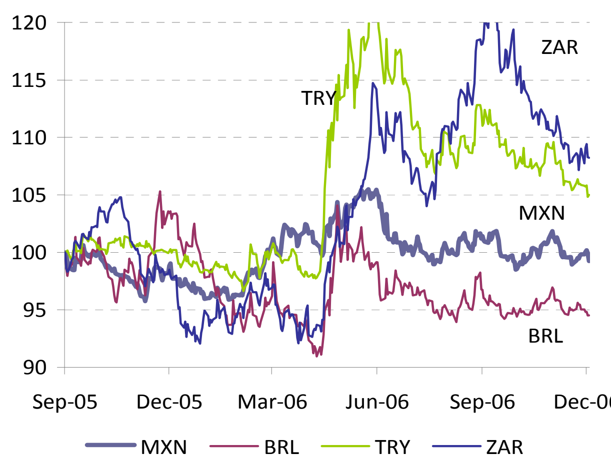
Source: Bloomberg, various news sources, Scotia Capital

Figure 3. 10Y local yields during the 2006 election



Source: Bloomberg

Figure 4. EM Currencies during the 2006 election



Source: Bloomberg

housing, and that while the government could change some of the people making decisions, the institutions and procedures, which have been built up thanks to the PAN's support over the last twelve years, would remain. Infrastructure is similarly a priority for all parties. President Calderon said that 2012 would be the "year of infrastructure," having recognized previously that Mexican infrastructure is lacking in global competitveness. He intends to spend MXN$630bn in infrastructure this year, which is a record. Meanwhile, Peña Nieto focused on infrastructure development while governor, as did Lopez-Obrador while mayor. Thus, bonds of the homebuilders, as well as of Empresas ICA, have nothing to fear from elections.

The telecommunications sector presents an interesting case where the government probably matters a little more. The Calderon administration has aggressively battled America Movil's dominant position, especially in the last three years. Televisa could support the PRI according to some local commentators. Meanwhile, Lopez-Obrador has a relationship with Carlos Slim, having partnered with him as mayor to rebuild parts of Mexico City. Lopez-Obrador has already stated his position that America Movil should be allowed to enter

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television, which is the critical issue for Slim going forwards. Nevertheless, commissioners for regulators Cofetel and Cofeco serve such long terms such that no President could have an immediate impact. More importantly, many reforms, including those that were controversial and thereby difficult to implement, are also hard to reverse. It is hard to see how Lopez-Obrador could justify raising interconnection rates, even if that were politically convenient. High-margins and low leverage for America Movil should limit any election impact; other telecom corporate bond issuers could be affected but not immediately.

We would be most concerned about a detrimental effect on Pemex. Peña Nieto has spoken about privatizing Pemex, though he may have meant just privatizing downstream operations. Judging by President Calderon´s comments last year regarding privatization and comparisons with Petrobras, we imagine that a PAN administration would also be in favor of more private sector involvement. Lopez-Obrador is obviously opposed, but we have serious doubts that either administration could actually accomplish such a task. The fact that it took three years to implement incentive contracts for Pemex, a much milder reform that did not require Constitutional amendments, demonstrates the difficulties. It is Lopez-Obrador's opposition to those incentive contracts[3] that most worries us, as this was one compromise that we thought would provide access to private technology and funding. While the attractiveness of those contracts for deep water exploration is debatable, it did seem a reasonable compromise in light of a difficult political situation, and we would be worried about any reversals in policy on this matter. Lopez-Obrador has also spoken about merging Pemex with CFE, another global issuer of bonds.

Conclusion

It is a positive reflection of Mexico's economic development and the state of its institutions that even a leftist candidate that some suspect of a radical agenda does not immediately impact markets. In Peru, we saw greater impact in 2011 than we would predict for Mexico, though the type of impact was similar. Local yields widened by twice as much as external yields, and the currency also suffered significantly.[4] That ordering of the magnitude of effects could result from the fact that a new administration has a more direct effect on fundamentals driving local markets than on external default risk, but it could also reflect differences in opinion between local and foreign investors. Our impression, both in Peru and Mexico, was that leftist candidates have an easier time winning the benefit of the doubt from foreign investors than from local investors, who tend to be more fearful in such situations. Thus, while we do not expect much of an election effect at all if Lopez-Obrador gains, we would expect any effect to appear first in local markets.

A more likely scenario, and one that could have long-term positive implications for the country, would be if a political party won both the presidency and a majority in the Chamber of Deputies. Some have attributed President Calderon's lack of progress on certain major reforms to the constant fighting between the PAN and the PRI, a problem that may have gotten worse in the 2009 mid-term election, where the PRI gained significant representation. The PRI alliance is currently scoring 49% of the effective vote for Deputies, and thus government control by the PRI seems a realistic scenario. Long-term growth could benefit from the structural-reforms, improving at least partially Mexico's record of lower growth relative to other Latin American countries.

Endnotes:

[1] Chappell Lawson, "How did we get here? Mexican democracy after the 2006 elections," *Political Science and Politics*, January 2007, cites surveys showing the majority of the population did not support Lopez-Obrador's refusal to accept defeat.
[2] By law, time on radio and television is assigned according to the following. 30% distributed equally among the candidates and 70% depends on each parties current share in Congress. Nevertheless, this rule doesn't apply to news broadcasts, where Peña Nieto gets much more attention.
[3] In a speech in January 23rd in the oil-rich area of Tampico, he spoke strongly against any private involvement and specifically mentioned those incentive contracts.
[4] See our article, "Which markets should fear Peru's Humala," May 4, 2011.

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Key Data Preview

CANADA

While the week of January 30 will not be the busiest one in terms of Canadian data, it will feature two headline-grabbers. First off, **November monthly GDP** will be released on January 31. Canadians are understandably concerned that the economy might be cooling off in light of negative developments in Europe and worries that rapid growth in real estate prices can't last forever (home prices in Canada's 11 major markets fell moderately in October and November). In spite of these concerns, however, it appears as though the economy chugged along in November. Scotia is expecting 0.3% GDP growth in November after growth was flat in October. Our forecast is driven by strong gains in manufacturing shipments (+2.0% M/M) and retail sales (+0.3% M/M). That good news is mitigated by slower wholesale trade (-0.4% M/M) and a drop-off in housing starts. What does that imply for quarterly GDP? GDP for the final quarter of 2011 and the first half of 2012 has been a subject of debate since this past October, when the Bank of Canada forecast that Q4 GDP would decelerate and grow at an 0.8% annualized pace (a reduction from 2.8% growth in the previous Bank of Canada forecast — issued just three months prior). The basis for the prediction was that an unfavourable global economy would spook Canadians and dampen their consumption. Explicitly, the rationale for the BoC's pessimism was: a) commodity prices would fall due to a "less favourable external environment" and reduce Canada's export income, b) personal disposable income would tail off, and c) market volatility would dampen consumer confidence and reduce spending. November data showed that the economy defied very pessimistic expectations on all three of those metrics (though some did weaken), and Scotia is holding to its prediction of 2.0% growth for the full quarter — not a great number but not flirting with a recession either. The Bank of Canada upgraded its forecast for Q4 GDP to 2.0% last week and we think that the November monthly GDP report will reinforce the logic behind the upgrade.

The other major release is the **January labour force survey**, i.e. jobs report. After getting as high as 8.7% in August 2009, Canada's unemployment rate has fallen fairly consistently (albeit with a few rough patches during the late summer of 2010 and winter 2011). Alas, after reaching a post-recession low of 7.2% in September (largely as a result of distortions in the data to do with the fashion in which education workers are accounted for), the unemployment rate has returned to the 7.5% area and stalled there for the past two months. In a comparative perspective, Canada has fared decently since 2009: unemployment has fallen faster than in economies undergoing structural adjustment (the United States and the U.K.) but not as rapidly as in Germany. We're expecting the net change in employment to be positive (+25K with the possibility that distortions from seasonal adjustment might push it further) but not enough so to nudge the unemployment rate down from its current 7.5% level. One of the reasons that the unemployment rate didn't fall last month, when the ranks of the employed grew by 22K, was that more participants entered the labour force, i.e. more people looked for work. That's positive in our view.

UNITED STATES

While it will be a fairly busy week for U.S. data releases, we don't expect any will leave much of a mark save for the **BLS's January employment situation report**. Initial jobless claims trended down substantially during the second week of January, falling to the lowest level since April 2008. The slowing momentum of growth in the ranks of the U.S. new claims is a positive development and we're hopeful that it will map onto the January employment report because continuing claims (which measure how many people continue to seek unemployment benefits) also fell substantially — 4.9% from the last week of December to the first week of January. While that type of step change in high frequency data from one month to another typically leaves us suspecting exaggerations due to seasonal adjustment factors, we're none the less hopeful as changes in claims have typically correlated with improvement in the unemployment rate. This puts us in the camp that sees the U.S. jobs situation improving in January. Our forecast is for private payrolls to expand by 180,000 and the unemployment rate to nudge to 8.4%. We expect the contraction in the unemployment rate will be mitigated by the amount of new job seekers — also a positive development.

Other data due out from the U.S. include December **personal income**, **construction spending** and **factory orders**. January data due out are the **Case Shiller home index**, the **Chicago PMI**, **vehicle sales**, **chain store sales**, and **ISM manufacturing** and **services**.

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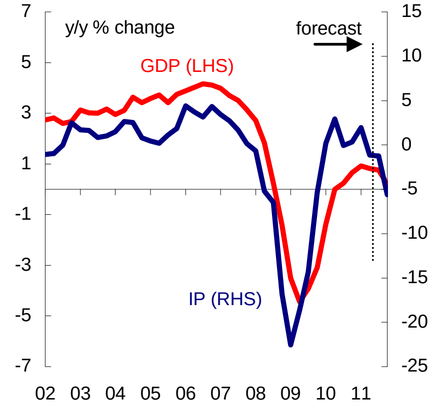
EUROPE

We expect the advance fourth-quarter GDP estimate for Spain (January 30th) to show a contraction in output on a quarterly basis of 0.3% q/q, implying a slowdown in the annual growth pace from 0.8% y/y in the third quarter to 0.2%. The overall performance for 2011 would in this case measure only 0.7%, a scant improvement from the 0.1% decline in 2010, a year when (most of) the rest of the euro zone posted rebounds from the 2008-09 recession. Private and public expenditures were likely the main drags on growth in the fourth quarter, with both sectors facing a prolonged period of deleveraging, compounded by high unemployment (near 25%), a crisis of confidence, a collapsed housing bubble and an ongoing contraction in credit. Industrial production worsened in Spain more than in the other major euro zone nations in the fourth quarter, while the nation's manufacturing PMI was the only one that did not improve in December. Net exports may have provided a partial offset to the output loss, simply because imports deteriorated to a greater extent than exports. We expect the economy to continue to contract on a quarterly basis through most of 2012, followed by a very subdued recovery in 2013. Spain will register annual GDP declines in both 2012 and 2013, with a peak-to-trough loss of roughly 2.3%.

Spanish GDP and Industrial Production

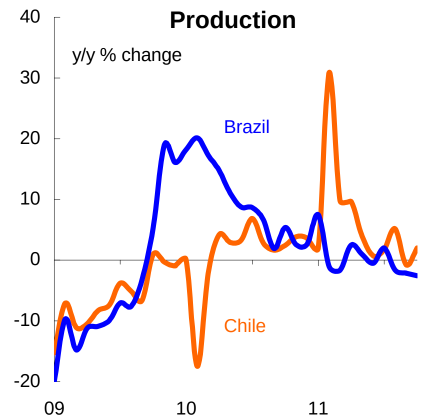


Source: Bloomberg, Scotia Economics.

LATIN AMERICA

With uneven signs of an economic slowdown in Latin America, Chilean and Brazilian industrial production data will be released next week, which will attract investors' attention. Both central banks had warned about the spillover effects from the European crisis, which could drag their industrialized and export-intensive economies into a deeper slowdown. Based on these concerns and material signs of economic deceleration, both central banks have initiated a monetary easing cycle. Industrial production in Brazil fell by 2.5% y/y in November, its third consecutive decrease and the biggest since the end of 2009. Brazilian industry has been affected by Chinese imports, a stronger currency and slower demand from Europe. Falling consumer confidence has also trimmed domestic demand. The signs for Chile have been less clear. After falling by 0.8% y/y in October, industrial production for November increased by 2.0% y/y with retail sales growing at a strong 8.5% y/y rate, but with durable goods decreasing significantly compared to the previous month. We expect both economies to have continued to cool in the fourth quarter of 2011 and the first quarter of 2012.

Chilean and Brazilian Industrial Production

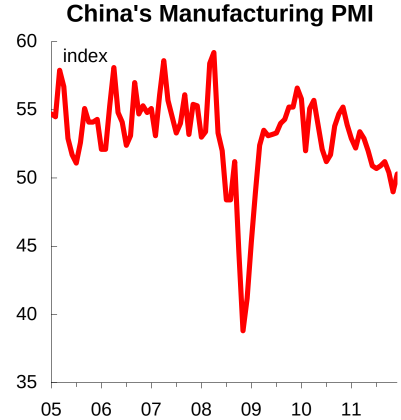


Source: Thomson Reuters.

ASIA

China's official manufacturing PMI for January will be published in the coming week. Seasonal factors likely played a role in this month's reading given the ongoing Lunar New Year celebrations. Deteriorating conditions in the euro zone also influenced what we expect to be a generally weak reading. A fall to 49.2 is expected from the December 50.3 reading. While this latest observation indicated an improvement in conditions on the back of export orders, we expect the exports sub-index (currently at 48.4, with a below-50 print implying a contraction) to continue to indicate falling orders. Our perception is that while shipments of Chinese goods to the rest of Asia continue unabated, sales to some countries in Europe (i.e., Italy, Spain and the UK) have been deteriorating. We expect such weakness to persist in the coming months.

China's Manufacturing PMI



Source: China's Federation of Logistics & Purchasing.

Key Indicators for the week of January 30 - February 3

North America

Country	Date	Time	Event	Period	BNS	Consensus	Latest
US	01/30	08:30	Personal Income (MoM)	DEC	0.4	0.4	0.1
US	01/30	08:30	Personal Spending (MoM)	DEC	0.1	0.1	0.1
US	01/30	08:30	PCE Deflator (YoY)	DEC	--	--	2.5
US	01/30	08:30	PCE Core (MoM)	DEC	--	0.1	0.1
US	01/30	08:30	PCE Core (YoY)	DEC	--	1.7	1.7
US	01/30	10:30	Dallas Fed Manf. Activity	JAN	--	--	-3.0
MX	01/30	15:30	Budget Balance (MXD bns, ytd)	DEC	--	--	-213
CA	01/31	08:30	Industrial Product Price (MoM)	DEC	--	--	0
CA	01/31	08:30	Gross Domestic Product (MoM)	NOV	0.3	0.2	0.0
CA	01/31	08:30	Gross Domestic Product (YoY)	NOV	--	--	2.7
US	01/31	09:00	S&P/CS 20 City (MoM) SA	NOV	--	-0.4	-0.6
US	01/31	09:00	S&P/CS Composite-20 (YoY)	NOV	--	-3.2	-3.4
US	01/31	09:45	Chicago Purchasing Manager	JAN	62.0	63.0	62.5
US	01/31	10:00	Consumer Confidence	JAN	68.0	68.0	64.5
US	02/01	07:00	MBA Mortgage Applications (WoW)	27-Jan	--	--	-5.0
US	02/01	08:15	ADP Employment Change (000s)	JAN	--	185.0	325.0
US	02/01	10:00	Construction Spending (MoM)	DEC	0.7	0.5	1.2
MX	02/01	10:00	Remittances (USD)	DEC	--	--	1773.6
US	02/01	10:00	ISM Manufacturing	JAN	54.6	54.5	53.9
US	02/01	10:00	ISM Prices Paid	JAN	--	49.8	47.5
US	02/01	17:00	Domestic Vehicle Sales (mns)	JAN	--	10.50	10.45
US	02/01	17:00	Total Vehicle Sales (mns)	JAN	13.6	13.55	13.48
US	02/02	07:30	Challenger Job Cuts (YoY)	JAN	--	--	30.6
US	02/02	08:30	Unit Labor Costs (QoQ)	4Q P	--	0.8	-2.5
US	02/02	08:30	Nonfarm Productivity (QoQ)	4Q P	--	1.0	2.3
US	02/02	08:30	Initial Jobless Claims (000s)	28-Jan	370.0	375.0	377.0
US	02/02	08:30	Continuing Claims (000s)	21-Jan	--	--	3554.0
US	02/02		ICSC Chain Store Sales (YoY)	JAN	--	--	3.5
CA	02/03	07:00	Unemployment Rate (%)	JAN	7.5	7.5	7.5
CA	02/03	07:00	Net Change in Employment (000s)	JAN	25.0	22.3	21.7
CA	02/03	07:00	Full Time Employment Change (000s)	JAN	--	--	-21.7
CA	02/03	07:00	Part Time Employment Change (000s)	JAN	--	--	43.3
CA	02/03	07:00	Participation Rate (%)	JAN	--	--	66.7
US	02/03	08:30	Revisions: Establishment Employment Survey Annual Revisions				
US	02/03	08:30	Avg Hourly Earning (MoM) All Emp	JAN	0.2	0.2	0.2
US	02/03	08:30	Avg Hourly Earning (YoY) All Emp	JAN	--	2.0	2.1
US	02/03	08:30	Avg Weekly Hours All Employees	JAN	34.4	34.4	34.4
US	02/03	08:30	Change in Private Payrolls (000s)	JAN	180	168	212
US	02/03	08:30	Change in Nonfarm Payrolls (000s)	JAN	160	150	200
US	02/03	08:30	Chg in Household Survey Emply (000s)	JAN	--	--	176.0
US	02/03	08:30	Change in Manufact. Payrolls (000s)	JAN	10.0	10.0	23.0
US	02/03	08:30	Underemployment Rate (%, U6)	JAN	--	--	15.2
US	02/03	08:30	Unemployment Rate (%)	JAN	8.4	8.5	8.5
MX	02/03	09:00	Consumer Confidence	JAN	--	--	90.8
US	02/03	10:00	ISM Non-Manf. Composite	JAN	--	53.3	52.6
US	02/03	10:00	Factory Orders (MoM)	DEC	1.6	1.5	1.8

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

Key Indicators for the week of January 30 - February 3

Europe

Country	Date	Time	Event	Period	BNS	Consensus	Latest
UK	01/29	19:01	Hometrack Housing Survey (YoY)	JAN	--	--	-2.1
GE	01/30	03:00	CPI - Saxony (YoY)	JAN	--	--	2.2
SP	01/30	03:00	GDP (Constant SA) (QoQ)	4Q P	-0.3	-0.3	0.0
SP	01/30	03:00	GDP (Constant SA) (YoY)	4Q P	0.2	0.2	0.8
SW	01/30	03:30	Wages - Non-Manual Workers (YoY)	NOV	--	--	2.3
GE	01/30	04:00	CPI - Brandenburg (YoY)	JAN	--	--	2.1
GE	01/30	04:00	CPI - Hesse (YoY)	JAN	--	--	1.9
IT	01/30	04:00	Business Confidence	JAN	--	92.3	92.5
EC	01/30	05:00	Business Climate Indicator	JAN	--	-0.2	-0.3
EC	01/30	05:00	Euro-Zone Consumer Confidence	JAN F	-20.6	-20.6	-20.6
EC	01/30	05:00	Euro-Zone Economic Confidence	JAN	93.9	93.8	93.3
EC	01/30	05:00	Euro-Zone Indust. Confidence	JAN	-6.5	-6.7	-7.1
EC	01/30	05:00	Euro-zone Services Confidence	JAN	-2.0	-1.6	-2.1
PO	01/30	05:00	Consumer Confidence	JAN	--	--	-56.8
PO	01/30	05:00	Economic Climate Indicator	JAN	--	--	-4.4
GE	01/30	06:00	CPI - Bavaria (YoY)	JAN	--	--	2.4
UK	01/30	19:01	GfK Consumer Confidence Survey	JAN	-30	-32	-33
GE	01/30		Consumer Price Index (MoM)	JAN P	-0.4	-0.4	0.7
GE	01/30		Consumer Price Index (YoY)	JAN P	2.1	2.0	2.1
GE	01/30		CPI - Baden Wuerttemberg (YoY)	JAN	--	--	2.2
GE	01/30		CPI - EU Harmonised (MoM)	JAN P	-0.4	-0.4	0.7
GE	01/30		CPI - EU Harmonised (YoY)	JAN P	2.4	2.4	2.3
GE	01/30		CPI - North Rhine-West. (YoY)	JAN	--	--	1.7
GE	01/30		Retail Sales (MoM)	DEC	1.2	0.8	-1.0
IR	01/30		Consumer Confidence	JAN	--	--	49.2
FR	01/31	02:45	Producer Prices (YoY)	DEC	--	4.7	5.6
FR	01/31	02:45	Consumer Spending (MoM)	DEC	0.2	0.2	-0.1
SP	01/31	03:00	Total Housing Permits (YoY)	NOV	--	--	-2.9
SP	01/31	03:00	CPI (EU Harmonised) (YoY)	JAN P	2.3	2.2	2.4
SP	01/31	03:00	Consumer Price Index (YoY)	JAN P	--	2.3	2.4
GE	01/31	03:55	Unemployment Change (000's)	JAN	-20.0	-10.0	-22.0
GE	01/31	03:55	Unemployment Rate (%, s.a)	JAN	6.8	6.8	6.8
IT	01/31	04:00	Unemployment Rate (%, s.a)	DEC P	8.7	8.7	8.6
NO	01/31	04:00	Credit Indicator Growth (YoY)	DEC	--	6.5	6.6
NO	01/31	04:00	Retail Sales Vol. nsa. (YoY)	DEC	--	2.3	0.9
UK	01/31	04:30	Net Consumer Credit (GBP mns)	DEC	--	0.4	0.4
UK	01/31	04:30	Mortgage Approvals (000s)	DEC	52.0	54.0	52.9
UK	01/31	04:30	M4 Money Supply (YoY)	DEC	--	--	-2.6
IT	01/31	05:00	PPI (YoY)	DEC	--	3.7	4.5
EC	01/31	05:00	Euro-Zone Unemployment Rate (%)	DEC	--	10.4	10.3
PO	01/31	06:00	Industrial Production (YoY)	DEC	--	--	-2.1
PO	01/31	06:00	Retail Sales (YoY)	DEC	--	--	-9.2
SP	01/31		Current Account (EUR bns)	NOV	--	--	0.5
IR	02/01	02:00	Ireland NCB Manufacturing PMI				
SW	02/01	02:30	Swedbank PMI Survey	JAN	--	49.3	48.9
NO	02/01	03:00	Norway PMI SA	JAN	--	48.0	46.6
SP	02/01	03:15	Spain Manufacturing PMI				
IT	02/01	03:45	PMI Manufacturing	JAN	44.9	45.3	44.3
FR	02/01	03:50	PMI Manufacturing	JAN F	48.5	48.5	48.5
GE	02/01	03:55	PMI Manufacturing	JAN F	50.9	50.9	50.9
NO	02/01	04:00	Unemployment rate (%, AKU)	NOV	--	3.3	3.3
EC	02/01	04:00	PMI Manufacturing	JAN F	48.7	48.7	48.7
UK	02/01	04:30	PMI Manufacturing	JAN	50.0	50.0	49.6

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

Key Indicators for the week of January 30 - February 3

Europe *(continued from previous page)*

Country	Date	Time	Event	Period	BNS	Consensus	Latest
EC	02/01	05:00	Euro-Zone CPI Estimate (YoY)	JAN	2.7	2.7	2.8
IR	02/01	06:00	Unemployment Rate (%)	JAN	--	--	14.3
IT	02/01	12:00	New Car Registrations (YoY)	JAN	--	--	-15.3
IT	02/01	13:00	Budget Balance (EUR bns)	JAN	--	--	8.0
UK	FEB 01-08		Halifax House Prices sa (MoM)	JAN	0.2	--	-0.9
UK	FEB 01-08		Halifax House Price 3Mths/Year	JAN	-2.0	--	-1.3
SP	02/02	03:00	Unemployment (MoM) Net ('000s)	JAN	--	--	1.9
NO	02/02	04:00	Unemployment Rate (%)	JAN	--	2.8	2.4
UK	02/02	04:30	PMI Construction	JAN	--	52.5	53.2
EC	02/02	05:00	Euro-Zone PPI (YoY)	DEC	--	4.3	5.3
UK	02/02	19:01	Lloyds Business Barometer	JAN	--	--	-23.0
IR	02/03	02:00	Ireland NCB Services PMI				
SP	02/03	03:15	Spain Services PMI				
IT	02/03	03:45	PMI Services	JAN	45.1	45.4	44.5
FR	02/03	03:50	PMI Services	JAN F	51.7	51.7	51.7
GE	02/03	03:55	PMI Services	JAN F	50.4	54.5	54.5
EC	02/03	04:00	PMI Composite	JAN F	50.4	50.4	50.4
EC	02/03	04:00	PMI Services	JAN F	50.5	50.5	50.5
UK	02/03	04:30	PMI Services	JAN	52.0	53.4	54.0
UK	02/03	04:30	Official Reserves (GBP mns, changes)	JAN	--	--	-1943.0
EC	02/03	05:00	Euro-Zone Retail Sales (YoY)	DEC	-1.2	-1.3	-2.4
IT	02/03	05:00	CPI (NIC incl. tobacco) (YoY)	JAN P	--	3.2	3.3
IT	02/03	05:00	CPI - EU Harmonized (MoM)	JAN P	-1.8	-1.7	0.3
IT	02/03	05:00	CPI - EU Harmonized (YoY)	JAN P	3.4	3.6	3.7

Asia Pacific

Country	Date	Time	Event	Period	BNS	Consensus	Latest
SK	01/29	18:00	Current Account in (USD mns)	DEC	--	--	5045.9
SK	01/29	18:00	Goods Balance in (USD mns)	DEC	--	--	4486.6
TA	01/30	03:00	Unemployment Rate - (%, sa)	DEC	--	4.3	4.3
SK	01/30	18:00	Industrial Production (MoM)	DEC	-0.9	1.1	-0.4
SK	01/30	18:00	Industrial Production (YoY)	DEC	1.8	4.1	5.6
SK	01/30	18:00	Industrial Production Mfg (YoY)	DEC	--	--	5.9
SK	01/30	18:00	Service Industry Output (YoY)	DEC	--	--	2.6
JN	01/30	18:15	Markit/JMMA Manufacturing PMI	JAN	--	--	50.2
JN	01/30	18:30	Overall Hhold Spending (YoY)	DEC	--	-0.1	-3.2
JN	01/30	18:30	Jobless Rate	DEC	--	4.5	4.5
JN	01/30	18:50	Industrial Production (MoM)	DEC P	3.2	2.9	-2.7
JN	01/30	18:50	Industrial Production (YoY)	DEC P	-3.4	-5.0	-4.2
AU	01/30	19:30	NAB Business Conditions	DEC	--	--	1.0
AU	01/30	19:30	NAB Business Confidence	DEC	--	--	2.0
AU	01/30	19:30	Private Sector Credit (MoM)	DEC	--	0.3	0.3
AU	01/30	19:30	Private Sector Credit (YoY)	DEC	--	3.6	3.5
JN	01/30	23:00	Vehicle Production (YoY)	DEC	--	--	4.5
JN	01/31	00:00	Construction Orders (YoY)	DEC	--	--	21.0
JN	01/31	00:00	Annualized Housing Starts (mns)	DEC	--	0.8	0.845
JN	01/31	00:00	Housing Starts (YoY)	DEC	--	-2	0
JN	01/31	00:00	Small Business Confidence	JAN	--	--	45.6
IN	01/31	00:35	FY12 Annual GDP Constant (YoY)	1Q Q	--	--	8.6

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

Key Indicators for the week of January 30 - February 3

Asia Pacific *(continued from previous page)*

Country	Date	Time	Event	Period	BNS	Consensus	Latest
TH	01/31	02:30	Business Sentiment Index	DEC	--	--	39
TH	01/31	02:30	Current Account Balance (USD)	DEC	--	-1000	-136
TH	01/31	02:30	Total Exports in (USD mns)	DEC	--	--	15287.0
TH	01/31	02:30	Total Exports (YoY)%	DEC	--	--	-13.1
TH	01/31	02:30	Total Imports in (USD mns)	DEC	--	--	15068.0
TH	01/31	02:30	Total Imports (YoY)%	DEC	--	--	-1.9
TH	01/31	02:30	Total Trade Balance	DEC	--	--	218.0
TH	01/31	02:30	Overall Balance in (USD mns)	DEC	--	--	-1505.8
TA	01/31	03:10	GDP - Constant Prices (YoY)	4Q P	3.0	2.8	3.4
SK	01/31	18:00	Consumer Price Index (MoM)	JAN	--	0.6	0.4
SK	01/31	18:00	Consumer Price Index (YoY)	JAN	--	3.6	4.2
SK	01/31	18:00	Core Consumer Price Index (YoY)	JAN	--	--	3.6
SK	01/31	19:00	HSBC Manufacturing PMI	JAN	--	--	46.4
AU	01/31	19:30	House Price Index QoQ	4Q	--	-0.6	-1.2
AU	01/31	19:30	House Price Index (YoY)	4Q	--	-3.3	-2.2
CH	01/31	20:00	PMI Manufacturing	JAN	49.2	49.6	50.3
SK	01/31	20:00	Ext Trade - Export in (USD mns)	JAN	--	--	48922.8
SK	01/31	20:00	Ext Trade - Export (YoY)	JAN	--	1.2	10.8
SK	01/31	20:00	Ext Trade - Import in (USD mns)	JAN	--	--	45518.2
SK	01/31	20:00	Ext Trade - Imports (YoY)	JAN	--	5.5	13.6
SK	01/31	20:00	Ext Trade - Balance in (USD mns)	JAN	--	560.0	3405.0
TA	01/31	21:00	HSBC Manufacturing PMI	JAN	--	--	47.1
CH	01/31	21:30	HSBC Manufacturing PMI	JAN	--	--	48.7
ID	01/31	23:00	Total Trade Balance (USD mns)	DEC	--	1750.0	1526.3
ID	01/31	23:00	Inflation NSA (MoM)	JAN	--	0.8	0.6
ID	01/31	23:00	Inflation (YoY)	JAN	--	3.6	3.8
ID	01/31	23:00	Exports (YoY)	DEC	--	4.1	8.3
ID	01/31	23:00	Core Inflation (YoY)	JAN	--	4.2	4.3
TH	01/31	23:00	Core CPI (YoY)	JAN	--	2.7	2.7
TH	01/31	23:00	Consumer Price Index NSA (MoM)	JAN	--	0.4	-0.5
TH	01/31	23:00	Consumer Price Index (YoY)	JAN	--	3.4	3.5
ID	01/31	23:00	Total Imports (YoY)	DEC	--	17.9	18.4
IN	01/31	00:00	India January Markit Manufacturing PMI				
ID	01/31	00:00	Annual GDP (YoY)	2011	6.5	6.5	6.1
JN	02/01	00:00	Vehicle Sales (YoY)	JAN	--	--	23.5
AU	02/01	00:30	RBA Commodity Price Index Au	JAN	--	--	104.5
AU	02/01	00:30	RBA Commodity Index SDR (YoY)	JAN	--	--	10.9
IN	02/01	00:30	Exports (YoY)	DEC	--	--	3.9
IN	02/01	00:30	Imports (YoY)	DEC	--	--	24.6
NZ	02/01	19:00	ANZ Commodity Price (MoM)	JAN	--	--	-0.8
AU	02/01	19:30	Trade Balance (AUD mns)	DEC	--	1200.0	1380.0
HK	02/02	03:30	Retail Sales - Value (YoY)	DEC	--	20.5	23.5
HK	02/02	03:30	Retail Sales - Volume (YoY)	DEC	--	14.9	16.9
CH	02/02	20:00	China Non-manufacturing PMI	JAN	--	--	56.0
CH	02/02	21:30	China HSBC Services PMI	JAN	--	--	52.5
IN	FEB 02-06		India January Markit Services PMI				

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

Key Indicators for the week of January 30 - February 3

Latin America

Country	Date	Time	Event	Period	BNS	Consensus	Latest
BZ	01/30	05:00	FGV Inflation IGP-M (MoM)	JAN	--	0.3	-0.1
BZ	01/30	05:00	FGV Inflation IGP-M (YoY)	JAN	--	4.6	5.1
CL	01/30	07:00	Industrial Production (YoY)	DEC	--	1.3	2.0
CL	01/30	07:00	Industrial Sales (YoY)	DEC	--	--	4.5
CL	01/30	07:00	Copper Production Total (tons)	DEC	--	--	457981.0
CL	01/30	07:00	Retail Sales (YoY)	DEC	--	8.0	8.5
CO	01/30		**Overnight Lending Rate**		**4.75**	**4.75**	**4.75**
BZ	01/31	06:00	Industrial Production sa (MoM)	DEC	--	0.9	0.27
BZ	01/31	06:00	Industrial Production (YoY)	DEC	--	-0.94	-2.54
CL	01/31	07:00	Unemployment Rate (%)	DEC	--	7.1	7.1
CO	01/31	11:00	Urban Unemployment Rate (%)	DEC	--	10.25	10.3
BZ	02/01	07:00	PMI Manufacturing	JAN	--	--	49.1
BZ	02/01	12:00	EXPORTS - (USD mns)	JAN	--	--	22129
BZ	02/01	12:00	IMPORTS - (USD mns)	JAN	--	--	18312
PE	02/01		Consumer Price Index (MoM)	JAN	--	0	0.27
PE	02/01		Consumer Price Index (YoY)	JAN	--	4.3	4.74
CO	02/03	16:00	Producer Price Index (MoM)	JAN	--	--	0.091
CO	02/03	16:00	Producer Price Index (YoY)	JAN	--	--	5.202

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

Global Auctions for the week of January 30 - February 3

North America

Country	Date	Time	Event
US	01/30	11:00	U.S. Fed to Purchase USD4.25-5 Bln Notes
US	01/30	11:30	U.S. to Sell 3-Month Bills
US	01/30	11:30	U.S. to Sell 6-Month Bills
CA	01/31	10:30	Canada to Sell CAD5.1 Bln 98-Day Bills
CA	01/31	10:30	Canada to Sell CAD1.95 Bln 168-Day Bills
CA	01/31	10:30	Canada to Sell CAD1.95 Bln 364-Day Bills
US	01/31	11:00	U.S. Fed to Purchase USD2.25-2.75 Bln Notes
US	01/31	11:30	U.S. to Sell 4-Week Bills

Europe

Country	Date	Time	Event
IT	01/30	05:00	Italy to Sell Bonds/Floating Rate Notes
NO	01/30	05:10	Norway to Sell NOK4 Bln 5% 2015 Bonds
FR	01/30	09:00	France to Sell Bills (BTF)
EC	01/30	09:30	ECB Announces Bond Purchases
BE	01/31	05:30	Belgium to Sell Bills
GE	02/01	05:15	Germany to Sell Add'l EU5 Bln 10-Year Notes
UK	02/01	05:30	U.K. to Sell GBP2.5 Bln 5% 2025 Bonds
FR	02/02	05:00	France to Sell Bonds
UK	02/02	05:30	U.K. to Sell GBP1.25 Bln 0.125% I/L 2029 Bonds
UK	02/03	06:10	U.K. to Sell Bills

Asia Pacific

Country	Date	Time	Event
JN	01/30	22:45	Japan to Sell 2-Year Bonds
AU	01/31	19:00	Australia Plans to Sell Government Bond
JN	01/31	22:35	Japan to Sell 3-Month Bills
AU	02/01	18:30	Australia Plans to Sell T-bills
NZ	02/01	20:30	New Zealand Plans to Sell Government Bonds
JN	02/01	22:45	Japan to Sell 10-Year Bonds

Source: Bloomberg, Scotia Economics.

Events for the week of January 30 - February 3

North America

Country	Date	Time	Event
US	02/01	08:30	Fed's Plosser Speaks on Economy in Gladwyne, Pa.
US	02/02	09:00	Fed's Evans Speaks to Reporters in Chicago
US	02/02	10:00	Fed's Bernanke Testifies Before House Budget Committee
US	02/02	19:15	Fed's Fisher Speaks in Austin, Texas
MX	02/03	10:00	Central Bank Monetary Policy Minutes

Europe

Country	Date	Time	Event
EC	01/30	09:00	EU Leaders Hold Summit in Brussels
EC	01/30	09:30	ECB Announces Bond Purchases
EC	01/31	03:30	EU's Barroso Speaks at Think Tank Conference in Brussels
EC	01/31	18:00	ECB Publishes Bank Lending Survey
EC	02/01	11:20	ECB's Weidmann Speaks in Dusseldorf
EC	02/01	12:00	EU's Reding Speaks in Brussels
PO	02/01	13:30	Portuguese Finance Minister Gaspar Speaks at LSE Event
EC	02/02	03:00	EU's Barroso Speaks at Competition Conference in Brussels
EC	FEB 02-03		NATO Defense Ministers Meet in Brussels
PO	02/03	04:00	Bank of Portugal's Costa, Finance Minister Speak at Conference

Latin America

Country	Date	Time	Event
CO	01/30		**Overnight Lending Rate**

Source: Bloomberg, Scotia Economics.

Global Central Bank Watch

North America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Canada – Overnight Target Rate	1.00	March 8, 2012	1.00	--
Federal Reserve – Federal Funds Target Rate	0.25	March 13, 2012	0.25	--
Banco de México – Overnight Rate	4.50	March 16, 2012	4.50	--

Scotia sees very strong likelihood that the Fed will hold the Fed Funds rate at 0.25% through 2014. There is increasing risk that the Fed will expand its balance sheet later in 2012. Scotia expects the BoC to hold its overnight rate at 1.00% through mid-2013. We expect that the Fed's projection that the Fed Funds rate will be held constant through 2014 will condition the flexibility of Canadian monetary policy. Scotia expects the Banco de Mexico to hold its overnight rate at 4.50% at its March 16 meeting.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	1.00	February 9, 2012	1.00	--
Bank of England – Bank Rate	0.50	February 9, 2012	0.50	0.50
Swiss National Bank – Libor Target Rate	0.00	March 15, 2012	0.00	--
Central Bank of Russia – Refinancing Rate	8.00	February 1, 2012	8.00	--
Hungarian National Bank – Base Rate	7.00	February 28, 2012	7.00	--
Central Bank of the Republic of Turkey – 1 Week Repo Rate	5.75	February 21, 2012	5.75	--

Policymakers at the central bank of Russia have indicated that further monetary loosening is unlikely in the near term. With the upside pressure on inflation over the medium term currently seen to outweigh the downside risk from slowing growth, the central bank will likely opt for no policy change next week. The benchmark refinancing rate was lowered from 8.25% to 8.00% in late December on economic growth and global uncertainty concerns. The annual rate of inflation continued to decelerate in December, falling to 6.1% y/y from 6.8% in the previous month, and this downward trend should continue for the first few months of this year. However, the slower pace of inflation is expected to be temporary, and the rate will likely accelerate again later in the year (surpassing the central bank's 6% 2012 target before year-end).

Asia Pacific

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Japan – Target Rate	0.10	February 14, 2012	0.10	--
Reserve Bank of Australia – Cash Target Rate	4.25	February 6, 2012	4.25	--
Reserve Bank of New Zealand – Cash Rate	2.50	March 7, 2012	2.25	--
People's Bank of China – Lending Rate	6.56	TBA	--	--
Reserve Bank of India – Repo Rate	8.50	March 15, 2012	8.50	--
Bank of Korea – Bank Rate	3.25	February 8, 2012	3.25	--
Bank of Thailand – Repo Rate	3.00	March 21, 2012	3.00	--
Bank Indonesia – Reference Interest Rate	6.00	February 9, 2012	6.00	6.00

Latin America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	10.50	March 7, 2012	10.00	--
Banco Central de Chile – Overnight Rate	5.00	February 14, 2012	5.00	--
Banco de la República de Colombia – Lending Rate	4.75	January 30, 2012	4.75	4.75
Banco Central de Reserva del Perú – Reference Rate	4.25	February 9, 2012	4.25	--

We expect the central bank of Colombia to maintain its reference rate unchanged at 4.75% at the next policy meeting on January 30th. The monetary authorities increased the reference rate in November as a result of continued strong local demand and high inflation. In December, inflation decreased to 3.73% y/y from almost 4.0% y/y the previous month, allowing the central bank to remain on the sidelines.

Africa

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
South African Reserve Bank – Repo Rate	5.50	March 29, 2012	5.50	--

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

Forecasts as at January 3, 2012*	2000-10	2011e	2012f	2013f	2000-10	2011e	2012f	2013f
Output and Inflation (annual % change)		Real GDP				Consumer Prices[2]		
World[1]	3.7	3.7	3.6	3.9				
Canada	2.2	2.3	1.8	2.4	2.1	2.9	1.8	2.0
United States	1.8	1.7	1.8	2.2	2.5	3.1	1.7	2.1
Mexico	2.1	3.9	3.0	3.7	4.9	3.6	4.0	4.1
United Kingdom	2.0	0.9	0.7	1.8	2.1	4.4	2.1	2.5
Euro zone	1.4	1.6	0.0	1.3	2.1	2.6	1.5	1.8
Japan	1.0	-0.4	3.3	1.8	-0.3	0.2	0.4	0.5
Australia	3.1	2.1	4.2	3.3	3.1	3.0	2.8	2.5
China	9.5	9.1	8.9	8.5	2.3	4.7	4.5	4.3
India	7.5	7.2	7.5	8.0	6.4	8.1	6.5	6.0
Korea	4.6	3.8	4.3	4.5	3.1	3.7	3.3	3.0
Thailand	4.1	2.8	3.5	4.5	2.6	3.5	3.0	2.8
Brazil	3.7	2.8	3.8	4.5	6.6	6.5	5.5	5.0
Chile	3.8	6.2	3.9	5.5	3.3	3.8	2.8	3.5
Peru	5.5	6.9	5.5	5.6	2.4	4.8	3.0	2.5
Central Bank Rates (%, end of period)	11Q4	12Q1f	12Q2f	12Q3f	12Q4f	13Q1f	13Q2f	13Q3f
Bank of Canada	1.00	1.00	1.00	1.00	1.00	1.00	1.50	2.00
Federal Reserve	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.75
European Central Bank	1.00	0.50	0.50	0.50	0.50	0.50	0.50	0.75
Bank of England	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75
Swiss National Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25
Bank of Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.25
Reserve Bank of Australia	4.50	4.25	4.25	4.25	4.25	4.25	4.50	4.50
Exchange Rates (end of period)								
Canadian Dollar (USDCAD)	1.02	1.02	1.01	0.99	0.98	0.98	0.97	0.97
Canadian Dollar (CADUSD)	0.98	0.98	0.99	1.01	1.02	1.02	1.03	1.03
Euro (EURUSD)	1.30	1.29	1.28	1.27	1.25	1.25	1.26	1.28
Sterling (GBPUSD)	1.55	1.56	1.59	1.62	1.63	1.65	1.66	1.67
Yen (USDJPY)	77	78	80	80	82	83	83	84
Australian Dollar (AUDUSD)	1.02	1.02	1.04	1.06	1.08	1.09	1.09	1.10
Chinese Yuan (USDCNY)	6.3	6.2	6.2	6.1	6.1	6.0	6.0	5.9
Mexican Peso (USDMXN)	13.9	13.5	13.2	13.0	13.0	13.1	13.2	13.3
Brazilian Real (USDBRL)	1.87	1.84	1.81	1.78	1.75	1.77	1.80	1.82
Commodities (annual average)	2000-10	2011e	2012f	2013f				
WTI Oil (US$/bbl)	54	95	100	105				
Brent Oil (US$/bbl)	52	111	110	110				
Nymex Natural Gas (US$/mmbtu)	5.81	4.05	3.50	4.25				
Copper (US$/lb)	1.93	4.00	3.90	3.90				
Zinc (US$/lb)	0.75	0.99	0.94	1.10				
Nickel (US$/lb)	7.36	10.39	9.00	8.00				
Gold, London PM Fix (US$/oz)	586	1,569	1,675	1,600				
Pulp (US$/tonne)	694	977	912	950				
Newsprint (US$/tonne)	575	640	680	725				
Lumber (US$/mfbm)	273	255	260	300				

[1] World GDP for 2000-10 are IMF PPP estimates; 2011-13f are Scotia Economics' estimates based on a 2010 PPP-weighted sample of 38 countries.

[2] 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) for additional forecasts & commentary.

Canada	2010	11Q2	11Q3	Latest	
Real GDP (annual rates)	3.2	-0.5	3.5		
Current Acc. Bal. (C$B, ar)	-50.9	-64.5	-48.5		
Merch. Trade Bal. (C$B, ar)	-9.0	-14.3	1.1	12.9	(Nov)
Industrial Production	4.9	2.3	3.5	4.6	(Oct)
Housing Starts (000s)	191	192	205	200	(Dec)
Employment	1.4	1.6	1.5	1.1	(Dec)
Unemployment Rate (%)	8.0	7.5	7.3	7.5	(Dec)
Retail Sales	5.5	4.1	4.2	9.1	(Nov)
Auto Sales (000s)	1561	1574	1604	1606	(Nov)
CPI	1.8	3.4	3.0	2.3	(Dec)
IPPI	1.0	5.1	5.3	-6.6	(Nov)
Pre-tax Corp. Profits	21.2	15.1	17.0		
Mexico					
Real GDP	5.4	3.2	4.5		
Current Acc. Bal. (US$B, ar)	-5.7	-11.9	-14.9		
Merch. Trade Bal. (US$B, ar)	-3.0	5.7	-15.3	0.1	(Dec)
Industrial Production	6.0	3.5	3.4	9.9	(Nov)
CPI	4.2	3.3	3.4	3.8	(Dec)
Chile					
Real GDP	5.2	6.6	4.8		
Current Acc. Bal. (US$B, ar)	2.9	1.0	-11.6		
Merch. Trade Bal. (US$B, ar)	11.6	14.8	3.6	4.7	(Dec)
Industrial Production	0.5	7.8	2.4	3.6	(Nov)
CPI	1.4	3.3	3.1	4.4	(Dec)
Germany					
Real GDP	3.6	2.9	2.6		
Current Acc. Bal. (US$B, ar)	188.2	156.6	169.8	233.0	(Nov)
Merch. Trade Bal. (US$B, ar)	201.8	213.0	226.3	242.7	(Nov)
Industrial Production	10.1	8.2	8.2	16.4	(Nov)
Unemployment Rate (%)	7.7	7.1	7.0	6.8	(Dec)
CPI	1.1	2.3	2.5	2.1	(Dec)
Euro Zone					
Real GDP	1.8	1.6	1.3		
Current Acc. Bal. (US$B, ar)	-77	-121	-7	16	(Nov)
Merch. Trade Bal. (US$B, ar)	32.0	-17.4	17.7	104.6	(Nov)
Industrial Production	7.4	4.2	4.0	8.7	(Nov)
Unemployment Rate (%)	10.1	9.9	10.1	10.3	(Nov)
CPI	1.6	2.8	2.7	2.7	(Dec)
Japan					
Real GDP	4.5	-1.7	-0.8		
Current Acc. Bal. (US$B, ar)	195.9	75.4	159.5	21.4	(Nov)
Merch. Trade Bal. (US$B, ar)	74.5	-53.6	-31.9	-87.5	(Dec)
Industrial Production	16.6	-7.0	-2.0	-0.4	(Nov)
Unemployment Rate (%)	5.1	4.6	4.4	4.5	(Nov)
CPI	-0.7	-0.4	0.1	-0.2	(Dec)
China					
Real GDP	10.4	9.5	9.1		
Current Acc. Bal. (US$B, ar)	305.4				
Merch. Trade Bal. (US$B, ar)	181.5	185.8	250.2	198.2	(Dec)
Industrial Production	13.5	15.1	13.8	12.8	(Dec)
CPI	4.6	6.4	6.1	4.1	(Dec)

United States	2010	11Q2	11Q3	Latest	
Real GDP (annual rates)	3.0	1.3	1.8	2.8	(Q4-A)
Current Acc. Bal. (US$B, ar)	-471	-499	-441		
Merch. Trade Bal. (US$B, ar)	-646	-762	-727	-758	(Nov)
Industrial Production	5.3	3.8	3.8	2.7	(Dec)
Housing Starts (millions)	0.58	0.57	0.62	0.66	(Dec)
Employment	-0.8	0.9	1.1	1.3	(Dec)
Unemployment Rate (%)	9.6	9.0	9.1	8.5	(Dec)
Retail Sales	6.8	8.1	8.3	6.3	(Dec)
Auto Sales (millions)	11.6	12.1	12.4	13.5	(Dec)
CPI	1.6	3.4	3.8	3.0	(Dec)
PPI	4.2	6.9	6.9	4.8	(Dec)
Pre-tax Corp. Profits	25.0	1.3	3.7		
Brazil					
Real GDP	6.9	2.9	2.0		
Current Acc. Bal. (US$B, ar)	-47.4	-45.0	-42.6		
Merch. Trade Bal. (US$B, ar)	20.2	39.2	40.3	45.8	(Dec)
Industrial Production	10.5	0.6	0.1	2.1	(Nov)
CPI	5.1	6.5	7.1	6.7	(Dec)
Italy					
Real GDP	1.4	0.7	0.2		
Current Acc. Bal. (US$B, ar)	-0.07	-0.08	-0.05	-0.06	(Nov)
Merch. Trade Bal. (US$B, ar)	-40.1	-38.9	-18.3	-25.7	(Nov)
Industrial Production	6.4	1.5	-0.1	3.0	(Nov)
CPI	1.6	2.7	2.9	3.3	(Dec)
France					
Real GDP	1.4	1.7	1.5		
Current Acc. Bal. (US$B, ar)	-44.5	-81.9	-48.6	-113.9	(Oct)
Merch. Trade Bal. (US$B, ar)	-38.8	-52.0	-49.2	-39.1	(Nov)
Industrial Production	4.6	1.9	2.8	5.9	(Nov)
Unemployment Rate (%)	9.8	9.6	9.6	9.8	(Nov)
CPI	1.5	2.1	2.1	2.5	(Dec)
United Kingdom					
Real GDP	2.1	0.6	0.5		
Current Acc. Bal. (US$B, ar)	-75.2	-40.3	-113.3		
Merch. Trade Bal. (US$B, ar)	-152.5	-162.7	-177.3	-164.0	(Nov)
Industrial Production	1.9	-1.3	-1.3	-0.1	(Nov)
Unemployment Rate (%)	7.9	7.8	8.2	8.4	(Oct)
CPI	3.3	4.4	4.7	4.2	(Dec)
Australia					
Real GDP	2.6	1.9	2.5		
Current Acc. Bal. (US$B, ar)	-35.2	-18.3	-33.8		
Merch. Trade Bal. (US$B, ar)	19.3	50.2	43.3	11.5	(Nov)
Industrial Production	4.3	-1.6	0.8		
Unemployment Rate (%)	5.2	4.9	5.2	5.2	(Dec)
CPI	2.8	3.6	3.5		
South Korea					
Real GDP	6.2	3.4	3.5		
Current Acc. Bal. (US$B, ar)	29.4	22.0	27.6	60.6	(Nov)
Merch. Trade Bal. (US$B, ar)	41.2	33.4	25.2	40.9	(Dec)
Industrial Production	16.6	6.7	5.4	13.2	(Nov)
CPI	2.9	4.0	4.3	4.2	(Dec)

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

Source: Bloomberg, Scotia Economics.

Interest Rates (%, end of period)

Canada	11Q3	11Q4	Jan/20	Jan/27*	United States	11Q3	11Q4	Jan/20	Jan/27*
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	0.75	0.80	0.83	0.85	3-mo. T-bill	0.02	0.01	0.04	0.05
10-yr Gov't Bond	2.16	1.94	2.06	2.00	10-yr Gov't Bond	1.92	1.88	2.02	1.93
30-yr Gov't Bond	2.77	2.49	2.63	2.62	30-yr Gov't Bond	2.91	2.89	3.10	3.11
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US$B)	63.5	65.7	65.7	(Dec)	FX Reserves (US$B)	137.4	136.9	136.9	(Dec)
Germany					**France**				
3-mo. Interbank	1.51	1.35	1.15	1.08	3-mo. T-bill	0.38	-0.06	0.14	0.16
10-yr Gov't Bond	1.89	1.83	1.93	1.86	10-yr Gov't Bond	2.60	3.15	3.09	3.03
FX Reserves (US$B)	66.9	66.9	66.9	(Dec)	FX Reserves (US$B)	51.8	48.6	48.6	(Dec)
Euro-Zone					**United Kingdom**				
Refinancing Rate	1.50	1.00	1.00	1.00	Repo Rate	0.50	0.50	0.50	0.50
Overnight Rate	1.46	0.63	0.37	0.38	3-mo. T-bill	4.85	4.85	4.85	4.85
FX Reserves (US$B)	310.9	316.7	316.7	(Dec)	10-yr Gov't Bond	2.43	1.98	2.11	2.07
					FX Reserves (US$B)	78.9	79.3	79.3	(Dec)
Japan					**Australia**				
Discount Rate	0.30	0.30	0.30	0.30	Cash Rate	4.75	4.75	4.50	4.25
3-mo. Libor	0.13	0.13	0.13	0.13	10-yr Gov't Bond	4.22	3.67	3.82	3.81
10-yr Gov't Bond	1.03	0.99	0.99	0.97	FX Reserves (US$B)	39.7	42.8	42.8	(Dec)
FX Reserves (US$B)	1160.7	1258.2	1258.2	(Dec)					

Exchange Rates (end of period)

USDCAD	1.05	1.02	1.01	1.00	¥/US$	77.06	76.91	77.01	76.73
CADUSD	0.95	0.98	0.99	1.00	US¢/Australian$	96.62	102.09	104.84	106.44
GBPUSD	1.558	1.554	1.558	1.569	Chinese Yuan/US$	6.38	6.30	6.34	6.31
EURUSD	1.339	1.296	1.293	1.317	South Korean Won/US$	1178	1152	1134	1123
JPYEUR	0.97	1.00	1.00	0.99	Mexican Peso/US$	13.897	13.936	13.181	12.948
USDCHF	0.91	0.94	0.93	0.92	Brazilian Real/US$	1.879	1.867	1.755	1.743

Equity Markets (index, end of period)

United States (DJIA)	10913	12218	12720	12674	U.K. (FT100)	5128	5572	5729	5743
United States (S&P500)	1131	1258	1315	1316	Germany (Dax)	5502	5898	6404	6522
Canada (S&P/TSX)	11624	11955	12397	12482	France (CAC40)	2982	3160	3322	3330
Mexico (Bolsa)	33503	37078	37384	37158	Japan (Nikkei)	8700	8455	8766	8841
Brazil (Bovespa)	52324	56754	61927	63055	Hong Kong (Hang Seng)	17592	18434	19628	20502
Italy (BCI)	796	806	833	858	South Korea (Composite)	1770	1826	1892	1965

Commodity Prices (end of period)

Pulp (US$/tonne)	970	890	890	890	Copper (US$/lb)	3.16	3.34	3.73	3.91
Newsprint (US$/tonne)	640	640	640	640	Zinc (US$/lb)	0.85	0.82	0.91	0.99
Lumber (US$/mfbm)	240	261	250	244	Gold (US$/oz)	1620.00	1531.00	1653.00	1726.00
WTI Oil (US$/bbl)	82.14	99.65	98.46	100.41	Silver (US$/oz)	30.45	28.18	30.36	33.48
Natural Gas (US$/mmbtu)	3.75	3.03	2.34	2.57	CRB (index)	298.15	305.30	309.91	318.08

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

Emerging Markets Strategy

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