

World Vehicle Sales Expand at a Solid Pace but Gains Soften in Emerging Markets

- Global auto sales expanded at a solid pace in the first half of 2018 on the back of strong gains in emerging economies as well as better-than-anticipated sales figures in the US.
- Canada and the US remain near record-highs, and are only set to post a slight decline in 2018 amid a moderation in household consumption growth and a reversal of base effect gains in the US.
- Cracks are beginning to appear in certain emerging economies. The Chinese auto market seems to have been impacted by the threat of rising US protectionism while vehicle purchases in Brazil and Argentina have slowed in recent months amid a loss of economic momentum.
- Auto purchases in the core of Europe are split between robust growth in France, Germany, and Spain, and declining sales in the UK and Italy where political uncertainty is denting household confidence.

CANADA AND US: SLIGHTLY BELOW RECORD-HIGHS

Vehicle sales in Canada and the US continued on a slight downward trajectory in the first half of 2018 alongside a moderation in household consumption growth, though both are still set to close 2018 near their respective record-high levels in 2017 and 2016. In Canada, auto volumes fell by 1.1% y/y in June which marked a minor fall of 0.2% y/y YTD. Auto purchases in the US climbed by 4.7% y/y in June for a year-to-date (YTD) rise of 1.1% y/y. The year-on-year increase so far in 2018, however, is a result of weak auto sales in the first half of 2017 owing to poor fleet sales figures. This decline was compensated in the remainder of the year by a surge in auto demand due to vehicle replacement from hurricane damage. For more details on country-wide sales figures in Canada and the US, please refer to the [July 6 Global Auto Report](#).

CANADIAN PROVINCES: STRENGTH IN ONTARIO COUNTERS WEAKNESS IN THE WEST

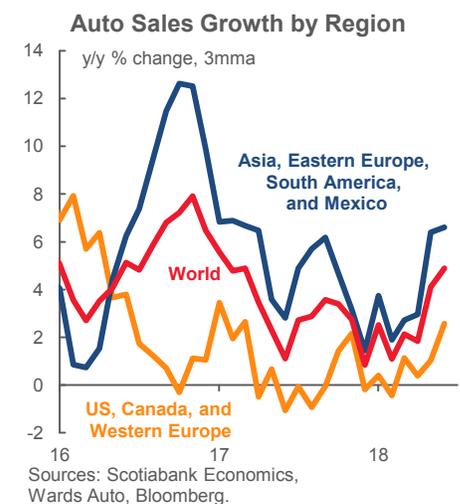
Rising auto sales in Ontario, and to a lesser degree Quebec, have prevented a large decline Canada-wide following a sharp contraction in the Western provinces in the first six months of 2018. Vehicle sales in Ontario have climbed by 1.9% y/y YTD in 2018, as employment in the province expanded by 2.2% y/y in June, the largest increase among the provinces after PEI's 2.4% y/y rise.

British Columbians scaled back their pace of spending in the first half of 2018 amid a slowdown in labour markets, for a YTD decline in sales volumes of 2.5% y/y. While employment in BC climbed by 3.7% in 2017, annual employment growth has slowed in 2018 and even contracted by 0.8% y/y in June; the decline is particularly pronounced in the financial and real estate sector where employment decreased by 10% y/y in June, likely in response to the slowdown in the real estate market following the imposition of stricter mortgage underwriting standards. Auto sales growth in Saskatchewan and Alberta has whiplashed from

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Chart 1



strong numbers in 2017, owing to the recovery in commodity prices and replacement following the Fort McMurray wildfires, to sales declines in 2018 of 10.3% y/y and 3.2% y/y YTD, respectively.

Fleet sales have compensated for a decline in retail volumes in Canada so far in 2018. However, the increase in activity in the fleet market is driven by an anomalous surge in deliveries in Manitoba, where fleet sales have surged by 225% y/y YTD, with nearly all the gains concentrated on one automaker. Excluding the Manitoba market, fleet sales are down by 3.2% y/y YTD for Canada as a whole, around ten times the 0.3% y/y decline in retail sales. Retail purchases have risen only in Ontario in the first half of 2018. Household consumption growth in Ontario remains relatively sound, though weaker than last year, despite abnormally poor weather in the early months of the year and a temporary cooling of the provincial real estate market.

MEXICO: THIRTEEN CONSECUTIVE MONTHS OF DECLINING SALES

Mexican auto sales fell for the thirteenth consecutive month in year-on-year terms in June amid political uncertainty leading into the July 1st general elections. Purchase volumes contracted by 8.4% y/y in the first half of 2018 compared to the same period last year, after a 6.0% y/y drop in June. Household spending has been limited by high lending rates as Banxico seeks to rein in inflation from a still-high level of 4% y/y. Vehicle sales should get a boost from improved economic sentiment in the second half of the year with the electoral period in the rear-view mirror, though they may remain constrained by monetary policy.

SOUTH AMERICA: WORSENING OUTLOOK IN ARGENTINA AND BRAZIL

Auto deliveries in Latin America posted a double digit year-on-year increase in the first half of the year. However, sales growth in Brazil and Argentina has cooled in recent months. Auto purchases in Brazil have slowed down from a strong pace of growth in the August 2017 to April 2018 period—when sales expanded by an average of 19% y/y—to 3.1% y/y in June 2018. The downtrend in sales reflects a deterioration in consumer and business confidence amid rising inflation and a loss of economic momentum. The Argentinean economy is estimated to have contracted by 5.8% y/y in May, its steepest annual decline since 2009, and will likely post flat, or even negative, growth for the year as a whole despite a strong first quarter. Inflation has risen steeply owing to a 30%+ depreciation in the Argentinean peso so far in 2018. As a result, auto sales fell by 31% y/y in June to their lowest monthly level since February 2016. On a positive note, vehicle purchases in the smaller Chilean market remained strong in June, growing 22% y/y for a year-to-date rise of 24% y/y.

EUROPE: POLITICAL UNCERTAINTY SPLITS “EU-CORE” GROWTH IN SALES

Auto sales growth has diverged across the major European economies so far this year owing to political uncertainty in the UK and Italy, while economic growth remains at a steady, though slowing, pace in France, Germany, and Spain. The UK economy continues to be bogged down by Brexit uncertainty, which resulted in a 3.5% y/y decline in auto sales in H1-2018 against a backdrop of near-zero growth in real wages. Growth prospects for the Italian economy have soured in the face of European trade tensions with the US. The newly-elected Italian government is also at odds with the rest of the EU over the bloc's guidelines on fiscal restraint and faces a tough challenge in keeping its campaign promises of higher public expenditures. Sales growth in the other major EU economies was in line with a broader pick-up in economic activity in the continent, which is nevertheless at risk of losing momentum owing to the US's protectionist threats. Sweden was an anomaly in June, where vehicle purchases reached an all-time high—up 71% month-on-month—in anticipation of a tax on new purchases of high-emission vehicles that kicked in on July 1st.

In Eastern Europe, sales volumes in Russia have softened to their slowest pace of growth since April 2017. Nevertheless, Russia continues to provide support for a strong expansion in sales in the region. Vehicle purchases in Russia climbed by 10.9% y/y in June for an 18% y/y increase in the first half of 2018. As the Russian economy transitions to a sustainable growth path, the pace of expansion in sales should taper in the second half of the year down to single digits. On the flip side, auto sales in Turkey tanked by 38.6% y/y amid a heavy depreciation of the Turkish lira which has contributed to a spike in inflation to 15.6% y/y in June, a worsening economic outlook and a boost in imported vehicle prices. The central bank's authority has been restricted by President Erdogan's campaign pledge to put a stop to high interest rates, which may foreshadow a further sell-off in the lira and an additional acceleration in inflation.

ASIA PACIFIC: SALES IN CHINA SLOW DOWN DUE TO US TARIFFS

Asia Pacific vehicle sales posted a solid increase in the first half of 2018 on the back of a pick-up in Chinese auto purchases, which may nevertheless slow down during the remainder of the year if China's trade dispute with the US

escalates. Volumes sold rose by 5.2% y/y in China in June—down from 11.4% y/y and 9.2% y/y in April and May, respectively—amid a hit to consumer confidence from US tariffs on USD 34 bn in imports from China which kicked in on July 6. China dropped tariffs on imported vehicles from 25% to 15% effective July 1—a decision which had been announced prior to the final implementation of the US tariffs. Duties on US vehicles, however, are set at 40% in response to the US’s tariffs. The US exported only 267k passenger vehicles to China last year, which is only about 1% of the 25 mn units sold in the country in 2017 and roughly a tenth of all imported autos sold in China. Domestic sales are thus unlikely to be directly impacted by the tariffs, but rather experience a slump from the economic impact that would ensue if the US Administration moves forward with its threat to impose tariffs on USD 200 bn, or more, in imports from China. June sales in the region were also supported by a 37.5% y/y surge in India—which is roughly a tenth of the size of the Chinese market—where economic growth is set to outpace all other major economies at 7.5% y/y in each of 2018 and 2019.

AUTO TARIFFS UPDATE: US PUTS THE BRAKES ON TARIFFS ON EU AUTOS

On July 25, President Trump and European Commission President Jean-Claude Juncker announced that the US and the EU will hold off on the imposition of additional import tariffs, namely on autos, as the two parties look toward negotiating freer reciprocal trade. The announcement, however, does not denote an official start to trade negotiations or a dismissal of tariffs already put in place either on steel and aluminum products or related retaliatory measures. As talks between the EU and the US develop, the two parties may lift their respective tariffs on metal imports and, in the case of the EU, duties on consumer goods from the US, but no immediate change is anticipated. On a side note, Canada, Mexico, Korea, Japan, and the EU will meet on Tuesday July 31 in Geneva to discuss strategy in case the US moves forward with tariffs on automobiles.

The US-EU entente may be only a temporary stay. Wilbur Ross, US Secretary of Commerce, has indicated that the national security investigation into auto imports will continue, but no measures aimed at limiting vehicle imports will be implemented until it is concluded, which may take place “sometime in the month of August”. The EU has meanwhile tentatively agreed to work toward a full elimination of tariffs on industrial goods, as well as increasing its imports of US soybeans and natural gas.

The EU has been targeted by the US Administration owing to the 10% MFN tariff that Europe levies on automobile imports from countries with whom it does not have a free trade agreement. Last year, the US exported over 250k vehicles to the EU compared to around 1.2 mn units shipped from the US to the EU. Daimler, BMW, and Audi would face significant headwinds in the US auto market were the US Administration to slap tariffs as high as 25% on European autos—up from 2.5% currently. Between two-thirds and three-quarters of their unit sales in the US are imported from outside North America. Volkswagen is a notable exception, where 63% of its vehicles sold in the US are assembled in Mexico, which would lessen the blow to the German automaker if tariffs were not imposed on the US’s NAFTA partners.

INTERNATIONAL CAR SALES OUTLOOK

(millions of units)

	<u>1990–99</u>	<u>2000–14</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018f</u>
TOTAL SALES	39.20	54.89	72.61	77.25	79.02	81.50
North America*	16.36	17.85	20.64	21.01	20.70	20.60
Canada	1.27	1.62	1.90	1.95	2.04	2.00
United States	14.55	15.24	17.39	17.46	17.13	17.10
Mexico	0.54	0.99	1.35	1.60	1.53	1.50
Western Europe	13.11	13.67	13.20	13.97	14.32	14.60
Germany	3.57	3.23	3.21	3.35	3.44	3.50
Eastern Europe	1.18	3.08	3.15	3.14	3.41	3.65
Russia	0.78	1.87	1.60	1.43	1.60	1.75
Asia	6.91	17.12	32.29	36.06	37.10	38.79
China**	0.43	7.31	20.01	23.57	24.20	24.92
India	0.31	1.23	2.06	2.09	2.19	2.33
South America	1.64	3.17	3.33	3.07	3.49	3.86
Brazil	0.94	1.94	1.82	1.39	1.50	1.68

*Includes light trucks. **Includes crossover utility vehicles from 2005. Sources: Scotiabank Economics, Ward's Automotive Reports, Bloomberg.

CANADA/US MOTOR VEHICLE SALES OUTLOOK

	<u>1991-05</u> Average	<u>2006-15</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	
					Jan-Jun**	Annual f
	(thousands of units, annualized)					
CANADA	1,398	1,668	1,949	2,041	2,049	2,000
Cars	797	776	662	644	602	610
Domestic	583	490	439	438	395	415
Imports	214	286	223	206	207	195
Light Trucks	601	892	1,287	1,397	1,447	1,390
	(millions of units, annualized)					
UNITED STATES	15.5	14.4	17.5	17.1	17.1	17.1
Cars	8.3	6.9	6.9	6.1	5.4	5.8
Light Trucks	7.2	7.5	10.6	11.0	11.8	11.3
	(millions of units, annualized)					
NORTH AMERICAN PRODUCTION*	15.58	14.63	18.15	17.48	16.99	17.32
CANADA	2.50	2.24	2.37	2.19	2.10	2.05
UNITED STATES	11.67	9.80	12.18	11.23	11.06	11.32
MEXICO	1.41	2.59	3.60	4.06	3.83	3.95

*Includes light, medium and heavy trucks. **Canadian sales are Scotiabank estimates. Sources: Ward's Automotive Reports, Statistics Canada.

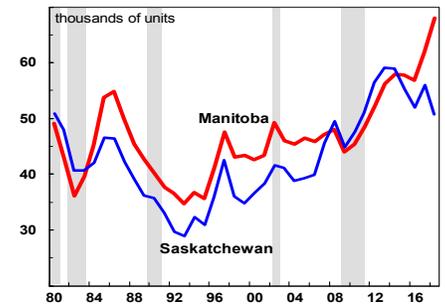
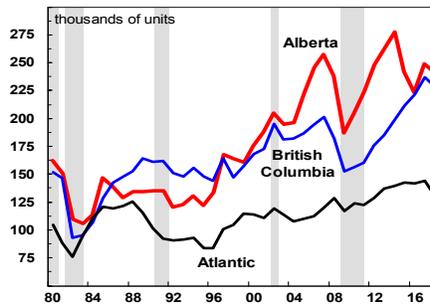
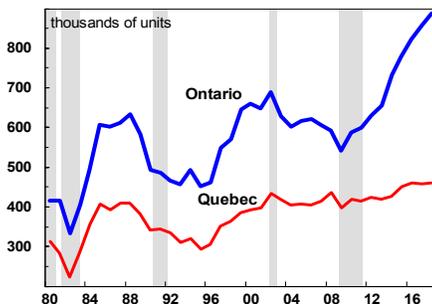
VEHICLE SALES OUTLOOK BY PROVINCE*

(thousands of units, annual rates)

	<u>1994-05</u> Average	<u>2006-15</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	
					Jan-Jun**	Annual f
CANADA	1,446	1,668	1,949	2,041	2,052	2,000
ATLANTIC	102	125	140	143	132	138
CENTRAL	936	1,034	1,265	1,300	1,328	1,266
Quebec	366	411	458	453	464	445
Ontario	570	623	807	847	864	821
WEST	408	509	544	598	593	596
Manitoba	42	49	55	62	73	61
Saskatchewan	36	49	51	56	51	56
Alberta	166	232	220	245	240	248
British Columbia	164	179	218	235	228	231

*Includes cars and light trucks. **Scotiabank estimates. Sources: Statistics Canada, Canadian Vehicle Manufacturers' Association.

VEHICLE SALES BY PROVINCE



Includes cars and trucks (light, medium and heavy). Shaded bars indicate U.S. recession periods. Source: Statistics Canada.

AUTO MARKET SHARE BY MANUFACTURER — CANADA*

(thousands of units, not seasonally adjusted)

	<u>2017</u>		<u>2018</u>		<u>2017</u>		<u>2018</u>	
	Jan to Jun		Jan to Jun		Jun		Jun	
	Units	% of Total	Units	% of Total	Units	% of Total	Units	% of Total
TOTAL	338.7	100.0	307.8	100.0	66.2	100.0	60.8	100.0
Big Three	70.3	20.7	61.9	20.1	12.4	18.7	10.9	18.0
General Motors	34.9	10.3	34.1	11.1	5.3	8.1	5.6	9.2
Ford	21.5	6.4	19.2	6.3	5.2	7.8	3.9	6.5
Chrysler	13.8	4.1	8.5	2.8	1.9	2.8	1.4	2.3
Japanese	153.5	45.3	142.2	46.2	30.4	46.0	28.1	46.2
Honda	49.7	14.7	48.1	15.6	9.5	14.3	8.9	14.7
Toyota	46.3	13.7	44.2	14.3	9.7	14.6	9.2	15.2
Nissan	26.0	7.7	22.9	7.5	5.2	7.8	4.7	7.7
Mazda	17.6	5.2	16.0	5.2	3.5	5.4	3.1	5.1
Mitsubishi	4.3	1.3	2.8	0.9	0.8	1.2	0.5	0.8
Subaru	9.6	2.8	8.3	2.7	1.7	2.6	1.7	2.8
Hyundai	37.1	10.9	30.8	10.0	7.1	10.7	6.6	10.8
Volkswagen	22.9	6.8	20.0	6.5	5.1	7.7	4.1	6.8
Kia	19.1	5.6	18.7	6.1	3.8	5.8	4.0	6.6
BMW	11.1	3.3	10.6	3.4	2.3	3.5	2.1	3.4
Mercedes-Benz	12.4	3.7	11.1	3.6	2.2	3.3	2.2	3.6
Other	12.4	3.7	12.5	4.1	2.8	4.3	2.8	4.6

*Source: Dealer sales from the Global Automakers of Canada.

TRUCK MARKET SHARE BY MANUFACTURER — CANADA*

(thousands of units, not seasonally adjusted)

	<u>2017</u>		<u>2018</u>		<u>2017</u>		<u>2018</u>	
	Jan to Jun		Jan to Jun		Jun		Jun	
	Units	% of Total						
TOTAL	715.5	100.0	749.4	100.0	139.8	100.0	143.4	100.0
Big Three	392.3	54.8	383.0	51.1	74.4	53.2	70.4	49.1
General Motors	115.6	16.2	120.8	16.1	21.8	15.6	22.1	15.4
Ford	138.9	19.4	135.9	18.1	27.6	19.7	27.2	19.0
Chrysler	137.8	19.3	126.3	16.9	25.0	17.9	21.1	14.7
Other Domestic	21.7	3.0	28.3	3.8	3.8	2.7	5.1	3.6
Japanese	209.4	29.3	230.6	30.8	42.4	30.3	45.8	31.9
Honda	49.8	7.0	52.3	7.0	9.8	7.0	9.8	6.8
Toyota	68.0	9.5	71.9	9.6	13.8	9.9	14.1	9.8
Nissan	49.0	6.8	53.6	7.2	10.8	7.7	11.7	8.2
Mazda	18.9	2.6	22.7	3.0	3.4	2.4	4.5	3.1
Mitsubishi	6.9	1.0	10.5	1.4	1.2	0.9	2.0	1.4
Subaru	16.8	2.3	19.6	2.6	3.4	2.4	3.7	2.6
Hyundai	30.0	4.2	30.9	4.1	5.8	4.1	7.1	5.0
Kia	17.7	2.5	18.2	2.4	4.4	3.1	4.4	3.1
Other Imports	44.4	6.2	58.4	7.8	9.0	6.4	10.6	7.4
LIGHT TRUCKS	699.6	97.8	728.4	97.2	137.2	98.1	139.3	97.1

*Source: Dealer sales from the Global Automakers of Canada.

AUTO SALES BY PROVINCE

(thousands of units, not seasonally adjusted)

	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>
	Jan to May	Jan to May	May	May
CANADA	272.4	249.7	66.0	57.9
ATLANTIC	19.0	16.6	5.3	4.4
Newfoundland	3.9	3.4	1.2	1.0
Nova Scotia	8.4	7.8	2.3	2.0
New Brunswick	5.5	4.5	1.4	1.1
Prince Edward Island	1.2	0.9	0.3	0.3
CENTRAL	193.2	178.1	46.3	41.6
Quebec	78.3	71.5	19.4	16.8
Ontario	114.9	106.6	26.8	24.8
WEST	60.2	55.0	14.4	11.9
Manitoba	5.8	6.7	1.5	1.7
Saskatchewan	3.7	3.1	0.9	0.6
Alberta	20.4	17.3	5.0	3.8
British Columbia	30.2	28.0	7.0	5.8

Source: Statistics Canada.

TRUCK SALES BY PROVINCE*

(thousands of units, not seasonally adjusted)

	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>
	Jan to May	Jan to May	May	May
CANADA	577.4	604.8	145.3	151.8
ATLANTIC	39.8	38.2	11.1	10.8
Newfoundland	9.8	9.1	2.8	2.6
Nova Scotia	15.2	14.5	4.2	4.2
New Brunswick	12.6	12.6	3.5	3.4
Prince Edward Island	2.2	2.1	0.6	0.6
CENTRAL	351.6	376.3	90.1	95.3
Quebec	114.9	124.4	29.4	31.9
Ontario	236.8	251.9	60.6	63.4
WEST	185.9	190.2	44.2	45.7
Manitoba	19.1	23.7	4.7	5.1
Saskatchewan	19.2	17.2	4.2	4.2
Alberta	81.6	82.4	19.4	20.3
British Columbia	66.1	67.0	15.9	16.1

*Light, medium and heavy trucks. Source: Statistics Canada.

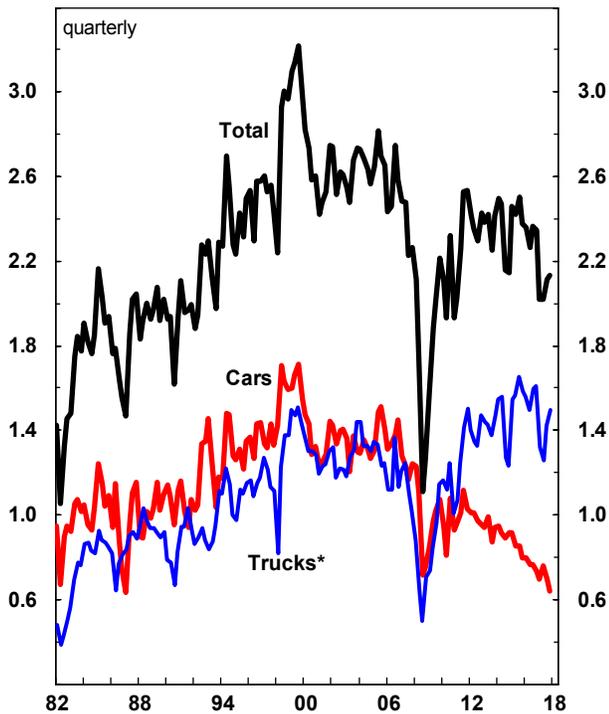
CANADIAN MOTOR VEHICLE PRODUCTION

(thousands of units, not seasonally adjusted)

	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>
	Jan to Jun	Jan to Jun	Jun	Jun
TOTAL	1,213.6	1,083.2	217.1	185.5
CAR	396.5	356.5	68.2	62.5
Chrysler	114.7	112.5	23.3	22.5
GM	51.2	29.2	8.7	5.0
Honda	109.3	110.9	18.8	18.3
Toyota	121.2	103.9	17.5	16.7
TRUCKS*	817.1	726.8	148.9	122.9
Chrysler	162.7	167.1	34.0	28.0
Ford	137.8	135.1	24.9	21.3
GM	200.6	126.5	37.3	21.7
Honda	117.6	118.5	18.6	20.3
Toyota	189.5	169.4	32.4	29.5
Others	8.9	10.3	1.7	2.0

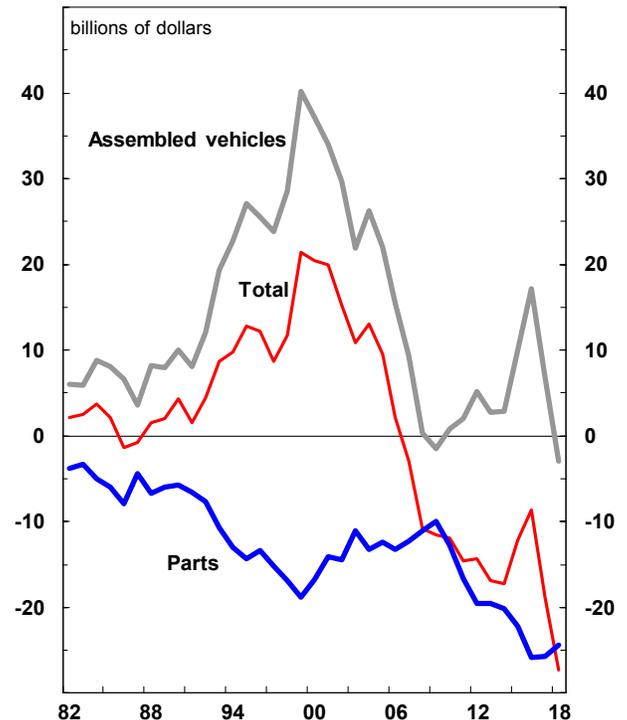
*Light, medium and heavy trucks. Source: Ward's Automotive Reports.

Canada — Motor Vehicle Production



Millions of units, seasonally adjusted annual rates.
*Light, medium and heavy trucks.
Source: Ward's Automotive Reports.

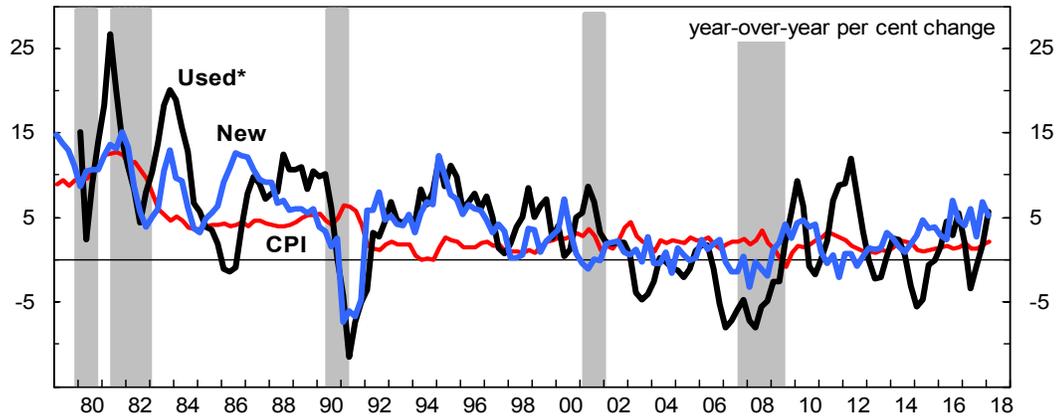
Canada — World Auto Trade Balances



2018 data are January-May annualized.
Source: Statistics Canada.

New & Used Car Prices

Scotiabank Car Price Indicators — Canada



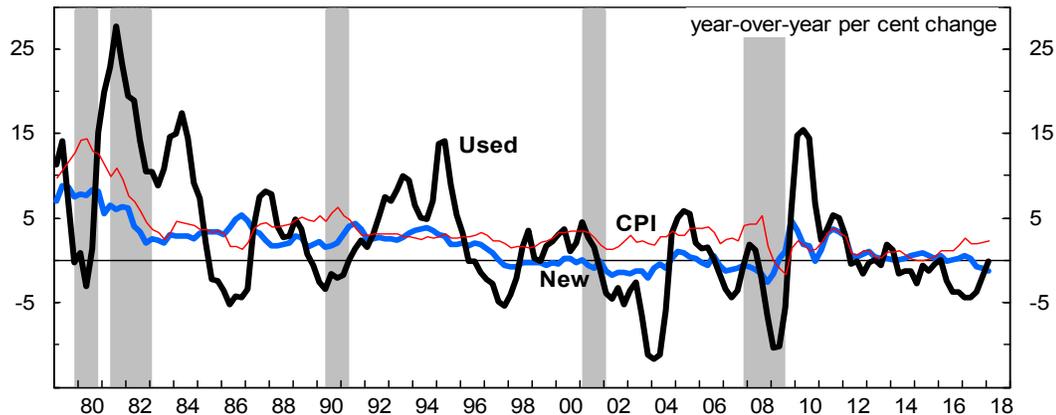
*Scotiabank estimate from Canadian Black Book data.
Sources: Canadian Black Book. Statistics Canada.

Scotiabank Car Price Indicators — Canada



Scotiabank estimate from Canadian Black Book data.

Scotiabank Car Price Indicators — United States



Consumer price indices for new and used cars.
Shaded areas indicate recession periods. Source: U.S Bureau of Labor Statistics.

CANADIAN CORPORATE FINANCIAL PERFORMANCE
MOTOR VEHICLE DEALERS AND REPAIR SHOPS

		Net Income After Tax (\$ mil)	Pre-Tax Profit Margin (%)	Inventory Turnover Ratio	Interest Coverage Ratio	Debt/ Equity Ratio	Return on Shareholders Equity (%)
Annual	2005	799	0.93	5.35	2.55	2.74	12.90
	2006	942	1.20	5.16	2.64	2.75	14.37
	2007	1089	1.41	5.05	3.36	2.56	15.13
	2008	1142	1.43	5.04	3.51	2.44	14.66
	2009	1392	1.84	5.34	4.85	2.07	16.99
	2010	1649	2.06	4.91	5.34	2.11	18.09
	2011	1664	1.99	5.17	5.19	2.02	17.44
	2012	1748	1.97	4.86	5.32	2.03	16.71
	2013	2215	2.32	5.08	6.64	2.02	20.08
	2014	2714	2.60	5.09	7.41	1.90	21.03
	2015	2930	2.65	5.19	7.47	1.94	21.06
	2016	2940	2.46	5.06	7.54	1.87	18.84
	2017	3660	2.73	4.89	8.02	1.89	21.39
Quarterly at annual rates	2017Q1	2360	2.65	4.32	6.43	1.98	14.67
	Q2	4232	2.43	5.33	9.43	1.95	25.66
	Q3	4204	2.43	5.13	8.54	1.85	23.88
	Q4	3844	2.65	4.78	7.53	1.79	21.02
	2018Q1	2444	3.65	4.31	6.11	1.87	13.39
Average (89–17)		1094	1.40	5.96	3.68	2.30	12.63
Low (89–17)		-68	0.10	4.32	1.10	3.57	-1.20

Definition of Ratios:

Pre-tax Profit Margin: pre-tax income/sales

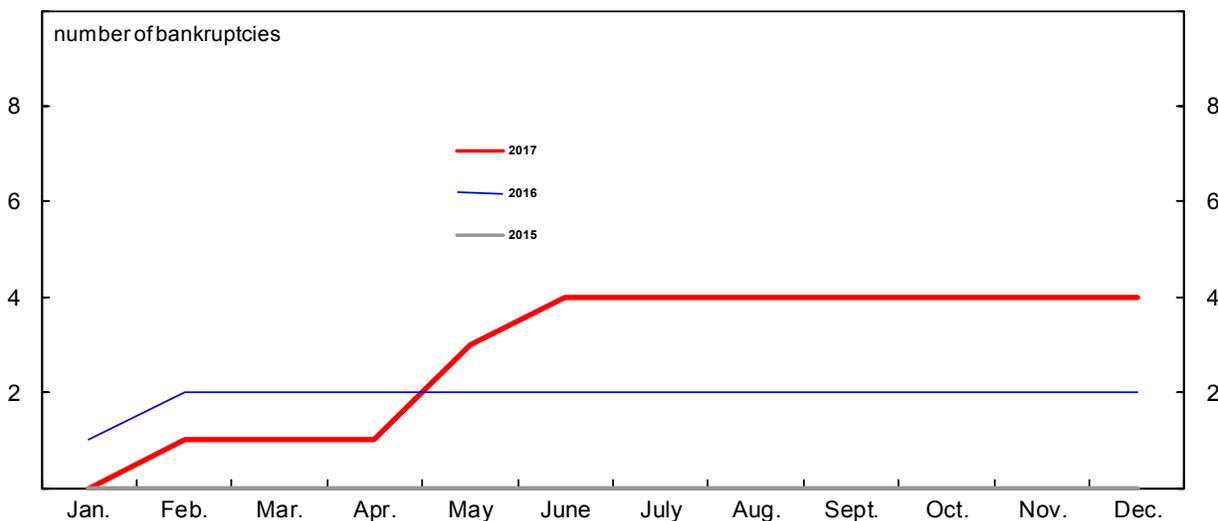
Inventory Turnover Ratio: sales/inventory

Source: Statistics Canada.

Interest Coverage Ratio: (pre-tax income and interest payments)/(interest payments)

Debt/Equity Ratio: (short-term and long-term debt)/total equity

Return of Shareholders' Equity: after-tax income/total equity

Retail Auto Dealer Bankruptcies


New car dealers only; cumulative total during the year.

Source: Office of the Superintendent of Bankruptcy.

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