

Global Views

Weekly commentary on economic and financial market developments

January 21, 2011

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Evaluating Global Pent-Up Consumer Demand

Evaluating pent-up consumer demand is anything but a science. Making even a rough attempt at doing so, however, is important to determining how a potential catch in releasing pent-up demand may affect consumer spending within various countries in propelling GDP growth higher. Over 2011-12, countries with more pent-up demand may be expected to out-perform on GDP growth rates.

We make just such an attempt at evaluating pent-up demand in our focus theme for this week's issue of Global Views. The aim is to put a little more structure to loose talk of how there must be large amounts of pent-up demand waiting to be unleashed after the crisis period. We start with Canada in part because we believe the pent-up demand debate is of consequence to the rate uncertainty governing the outlook for the Bank of Canada, and that this rate uncertainty is greater than the 2011 uncertainty for some other central banks like the Federal Reserve. Aron Gampel expresses skepticism toward the consensus view that the US has any pent-up demand on pages 6-7. Sarah Howcroft explores evidence of pent-up demand in consumer spending within several other countries on page 8.

Canada — Little Overall Evidence Of Pent-Up Demand

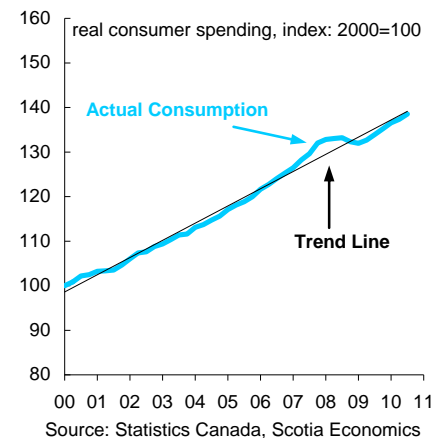
Determining how much pent-up consumer demand exists is partly a function of what one thinks is the normal trend in consumption over time. In contrast to some other economic variables, there is a very strong trend component to inflation-adjusted consumer spending over time that reflects structural forces at work. Deviations from this trend can be used to evaluate when consumption has over- or under-shot sustainable spending.

Chart 1 makes an attempt for total inflation-adjusted consumer spending in Canada. We fitted a simple linear regression trend line to real consumer spending over the past decade. By this perspective, one would argue that the period of 2007-08 was a consumer bubble against a longer run trend that has been restored of late. By corollary, no pent-up demand currently exists as Canadian consumers have restored their spending levels back to the trend line.

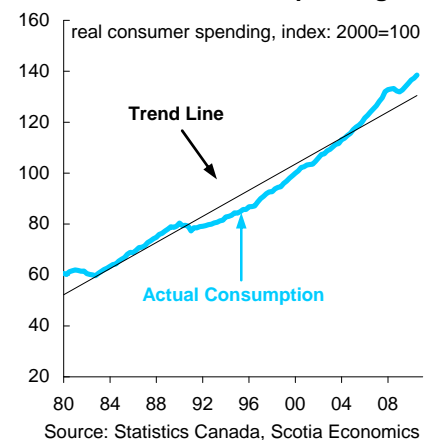
Chart 2 fits a longer run trend over the period since 1980 and reaches a starkly different conclusion. It would appear that current consumption remains above its long run trend and has further room to correct. Clearly, the period in which trend consumption is evaluated matters.

So which view is right? Before we tackle this, note that at a minimum, there is no obvious evidence of pent-up demand in Canadian consumer spending by either approach taken in chart 1 or chart 2. That suggests the absence of a super-charged rate of growth through a catch-up effect coming out of the recent recession. That said, our bias is to lean toward the conclusion drawn in chart 1 and to treat it as being more reliable for spotting trend consumption growth. The past decade likely brought into play structural macroeconomic forces more in favour of consumption than would be the case through a long-run average fitted line. China's rise to prominence brought with it cheaper consumer goods. A structural move toward lower borrowing costs remains in place. A strong Canadian dollar in recent years has motivated relatively cheaper import costs in a country that is significantly

Pent-up Demand Hard to Spot in Canadian Consumer Spending



Pent-up Demand Hard to Spot in Canadian Consumer Spending



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dependent upon imported consumer and capital goods. A caveat, however, is that the overshooting that is evident in recent years in chart 2 is likely the reflection of the exhaustion of pent-up demand from the disastrous 1990s. This process has fully run its course, and a new trend more accurately represented by chart 1 has been put into place. By corollary, since a prime reason as to why Canada outperformed its G7 peers on average annual economic growth over the past decade was due to above-trend consumption growth, the absence of any current pent-up demand would suggest the risk compared to other countries like the US is for under-performance of Canadian GDP growth.

But are there some types of consumer spending and companies serving those segments that may face pent-up demand even if it doesn't exist in aggregate? Charts 3-6 make an attempt at evaluating this using the same trend approach confined to the past decade.

Big-ticket interest sensitive items comprise a category of spending represented by durables that have longer than average useful lives, like autos and appliances. Chart 3 demonstrates little overall deviation from trend spending which signals little evidence of pent-up demand for big-ticket items waiting to be unleashed. Chart 4 reaches the same conclusion for semi-durables spending.

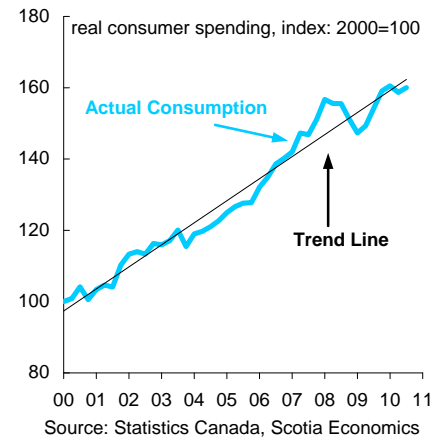
Nondurables spending is comprised of goods with relatively short economic lives that are less interest-sensitive and include items like clothing and footwear. Chart 5 suggests that current spending levels are above trend and thus an indication of excess demand.

Finally, services spending is running roughly on top of the longer run trend in chart 6. This is important, since services spending comprises about two-thirds of total consumer spending. We're so far left with the broad conclusion that little pent-up demand exists across aggregate measures of consumer spending.

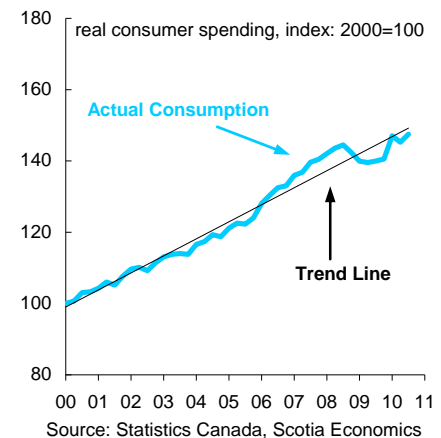
But within the aggregates there may well be some exceptions. Carlos Gomes argues that there is more pent-up demand for auto sales in the US than in Canada on page 11. Alex Koustas explores differences in pent-up demand across the Canadian provinces on pages 9-10.

The following page offers US versions of the same charts that we've used for Canada.

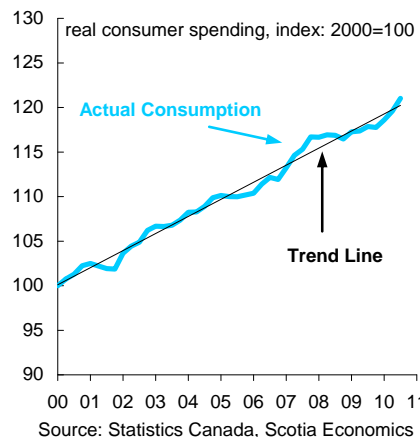
Little Pent-Up Demand For Durables



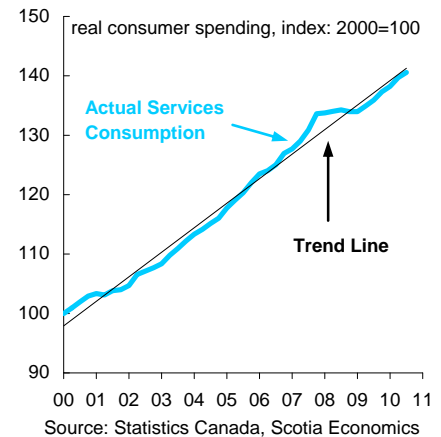
Little Pent-Up Demand For Semi-Durables



Non-Durables Consumption Lies Above Trend



No Material Pent-Up Demand For Services

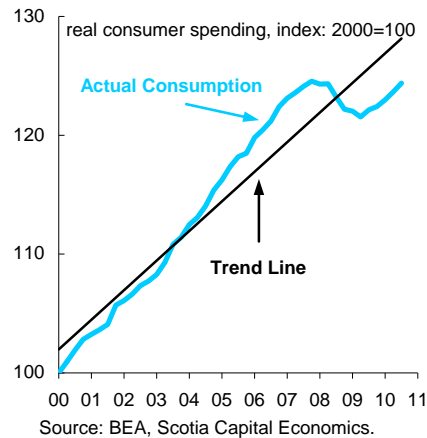


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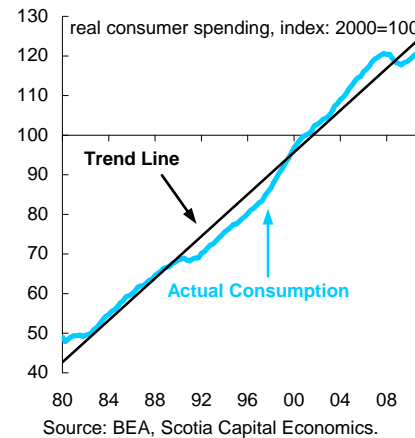
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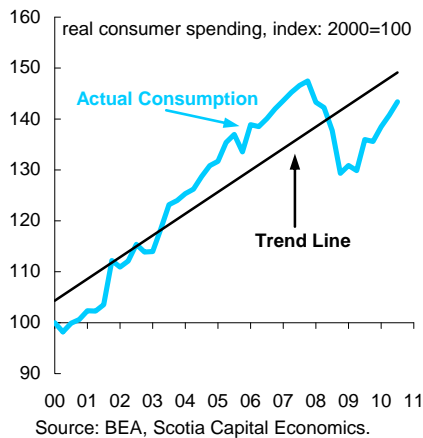
Widespread Pent-up US Demand for Consumer Spending



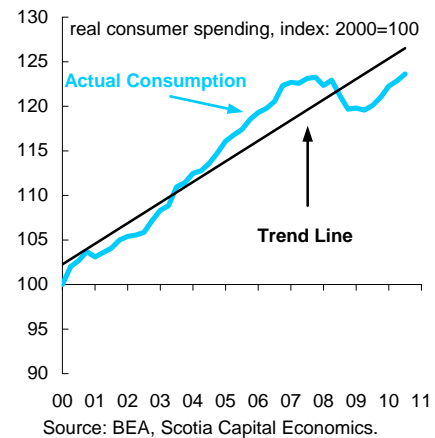
US Demand Gap Smaller Relative to the 1990s



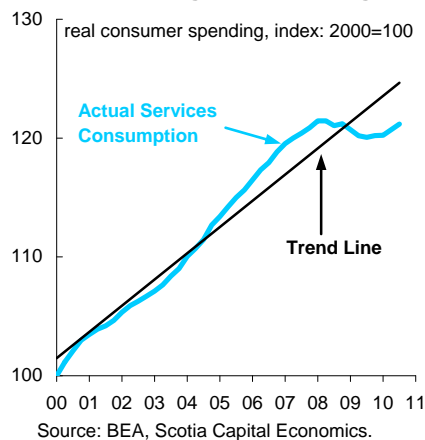
Pent Up US Demand For Durables Moderates



Non-Durables Consumption Also Lies Below Trend



Pent-Up Demand For Services Shows No Sign of Narrowing



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FOMC, U.S. GDP And Key European Speeches Will Dominate Market Attention

- ***Please see pages 32-37 for our full indicator, auction, event, and central bank calendars.***

Asia Pacific and Latin American markets largely drop out of the picture next week in terms of being key driving forces of near-term market influences, as the emphasis turns back upon US-centric risk, a wave of global central bank announcements, and key European speeches.

After having played a backseat role through much of the past week, the US will take centre stage in global markets again next week by way of presenting key market risks that go beyond a continuation of the quarterly corporate earnings cycle. Market watchers will parse through Fed language on January 26th for hints of optimism with implications for the Fed completing its Treasury purchases as planned—or earlier—by the end of Q2. Continued inability to hit its dual mandate of full employment and stable inflation will persist throughout our forecast horizon, keeping Chairman Bernanke fully committed toward staying the course without material alterations on QE2 throughout the first half of this year in our opinion. Who may replace Kansas City Fed President Thomas Hoenig as a possible dissenter will also generate attention, since he is no longer a voting FOMC member in 2011 and is retiring this year (see page 16). This Fed uncertainty will also pan out at the same time as the US auctions 2s, 5s, and 7s on Tuesday, Wednesday and Thursday respectively. But what may well trump the Fed could be Friday's first print on a path toward three ultimate guesses for 2010Q4 GDP growth. Scotia Economics is at the bottom end of the range of credible estimates that run from a low of 2.9% growth to a high of 5.6% within the Bloomberg consensus, so the tail risk is among the highest for a quarterly GDP report that could well make or break the tone for the week's risk trade.

In fact, it's not just the Fed that meets next week. Several other global central banks will be making fresh rate announcements. Among them, the Reserve Bank of India and the Hungarian Central Bank are the only ones expected to hike. The Reserve Bank of New Zealand is expected to pause as the country continues to rebuild following an earthquake at Christchurch last year, and while its neighbouring economy reels from the impact of flooding across Queensland. The Bank of Japan remains in a holding pattern on its key asset purchase and rate targets, and so is Norway's Norges Bank, but minutes to the Bank of England's last policy meeting will be scrutinized for internal debate over inflation over-shooting and the £200 billion asset purchase program. Bank Negara Malaysia is also expected to remain on hold.

Canadian fundamentals will attract little attention next week and markets should generally follow the tone of global markets, but with two important exceptions. One is that fresh December CPI could raise a few eyebrows as a combination of year-ago base effects and higher commodity prices drift the year-over-year rate higher while maintaining generally well behaved m/m core inflation readings. Second is the earnings calendar that lags the US but that begins to come into market sights next week and the following week.

European markets will pose event and data risk throughout the week, but there should be comparatively little auction risk particularly across the peripheral euro zone member states. There are two key speeches to watch. One is German Chancellor Angela Merkel's speech on Wednesday at the World Economic Forum in Davos, Switzerland in that it is her highest-profile speaking opportunity in the new year. Second is EU President Herman Van Rompuy's speech titled "Building a Viable Union" on Tuesday, with the title obviously carrying significant potential for impacting the Euro. Both speeches are sandwiched between speeches by ECB officials throughout the week.

Beyond their central bank announcements, Asia Pacific markets should not pose much additional market risk to global markets through the indicator, events or auctions calendars for the week ahead. Australian CPI will garner attention, but the disruptive effects of the massive flooding will count for more in maintaining a bias at the RBA to remain on hold at its end-of-month meeting.

Latin American markets show nothing significant on tap by way of data, event, central bank or auction risk.

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Pent-Down, Not Pent-Up Demand

- ***A multi-year period of rebalancing spending and saving lies ahead for Americans***

The general rule appears to be that the further spending, whether consumer, or even business for that matter, deviates from its historical trajectory — either falling below it for a time as is the case presently, or exceeding it — the greater is the tendency for conditions to normalize eventually back to their historical trend. And there are good reasons, and econometric evidence, that will more than likely back up this claim.

The problem is that in this cycle, and with hats off to Rogoff and Reinhart, this time *may* be different. A fundamental behavioural shift in consumer spending is beginning to be played out, especially in debt-heavy countries such as the United States, Ireland, the U.K., and Spain, where household finances are undergoing severe decompression in the wake of the significant implosion in housing, the dramatic downturn in net worth, and the dramatic rise in unemployment. What if the widening underperformance gap between current expectations and historical trends either narrows slowly or stays wide? Americans, and increasingly their counterparts around the world, may have been genetically modified ‘to shop’, but the current economic environment is much less supportive of a quick or sustained return in spending to its historical trend.

In more traditional credit supportive cycles, a resumption in business activity and a return to profitability eventually triggers a recovery in employment and income gains, confidence, and spending. But in a non-traditional credit cycle, the self-sustaining momentum is short-circuited by a number of factors, increasing the likelihood of a prolonged period of consumer underperformance.

First, households are still carrying considerable ‘debt’ baggage, even after a massive and multi-year pay-down of debt (that also includes walking away from foreclosed homes), and the persistence of historically low borrowing costs. The comparatively slow pace of economic recovery and the generally high level of uncertainty reported in confidence surveys suggest that Americans will continue to focus on putting their financial houses in order.

Second, unemployment is likely to stay higher-for-longer, the flipside to the lower-for-longer growth environment, with significant income generating consequence for American consumers. There has been an unprecedented collapse in the U.S. employment-population ratio, a key statistic measuring the proportion of the United States’ working-age population that is employed. The whopping 6.4 percentage point slide (10%) during this recession-recovery period is by far the largest in the past sixty years, pushing the ratio to a cycle-low of just over 58% at the end of 2010. (This level was last seen in the early 1980s when the employment-population ratio was on an upswing, piggybacking on a strong and sustained upturn in the U.S. economy.) With roughly 6½ million Americans on the longer-term unemployed list, the squeeze on earnings shows no sign of letting up, especially with rising food and energy costs taking a bigger bite out of their meagre spending power.

Third, it is unlikely that the lending taps will be turned on fully and quickly. U.S. financial institutions, as well as those in the other countries recuperating from sizeable household, and in some cases commercial real estate debt binges, are still focussed on recapitalizing their capital depleted balance sheets, and restructuring their operations. With stricter capital adequacy and regulatory rules being implemented in 2011 under Basel III, banks can be expected to remain more conservative and cautious lenders during this cycle.

Fourth, a lengthy period of fiscal consolidation lies ahead in the United States (and ditto for other heavily debt-burdened nations). A second dose of federal tax cuts and incentives largely coming into effect this year has helped to recharge the spending batteries of Americans, though the impact will be diluted by many of the beleaguered state & local governments that are ramping up restraint aggressively. But while these adjustments will take a toll, meaningful fiscal adjustments at the federal level probably have been delayed

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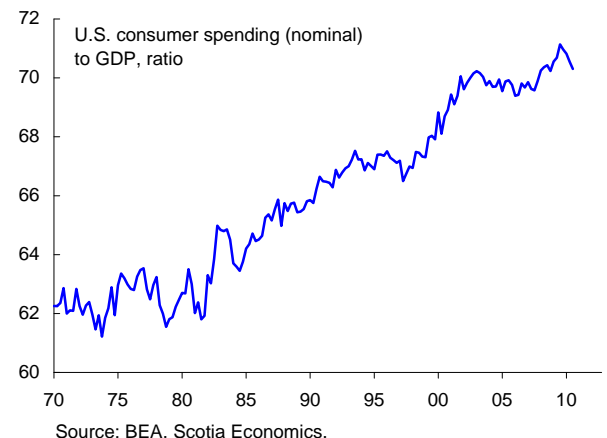
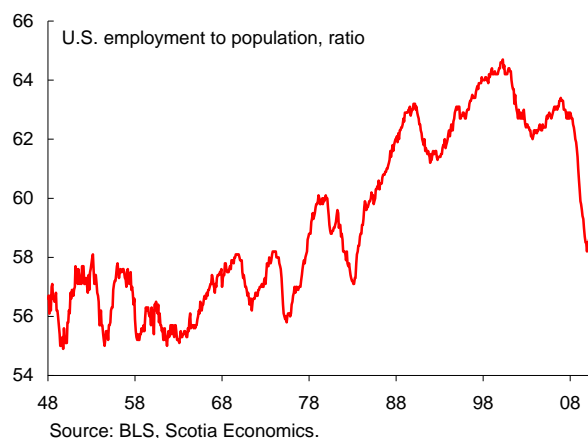
until 2013 at the earliest. Severe cutbacks in federal programmes alongside substantial revenue-raising initiatives will be needed to first stabilize, and then eventually reverse the deteriorated state of U.S. public finances. This multi-year period of adjustment will reinforce a more subdued pace of consumer spending, eventually.

And fifth, the compression in living standards underway will reinforce a new 'save-to-buy' philosophy before giving way eventually to the old 'borrow-to-buy' mantra. Net worth has rebounded over the past 18-months alongside the renewed gains in stock prices, but it is still about 15% below its pre-recession peak, thanks largely to the roughly 25% drop in home prices. Although the renewed upward trend in saving has cooled off a bit to just over 5% as Americans rediscovered their shopping and car malls, the rate should remain comparatively high (versus the recent average low of 2% in 2007) during the lengthy period of economic convalescence envisaged in the years ahead.

Combined, these factors suggest that the personal consumption share of the U.S. economy will shrink in the years ahead, reversing a multi-decade period of outperformance.

There are always exceptions to the rule. Technology products are one. Although profound structural shifts are changing the face of consumer spending priorities and patterns, American shoppers, and their counterparts around the world, will likely continue to allocate more of their hard-earned dollars on this growing market segment characterized by innovative products and software, with prices contained by competitive forces. Current dollar spending at computer & software retail establishments have increased 13% over the past year, double the gain in overall sales. And as Calos Gomes' section highlights, America's longstanding love affair with autos should persist a bit longer.

America's Changing Dynamics — Out of Work & Out of the Shopping Malls



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Identifying Pent-Up Demand Internationally

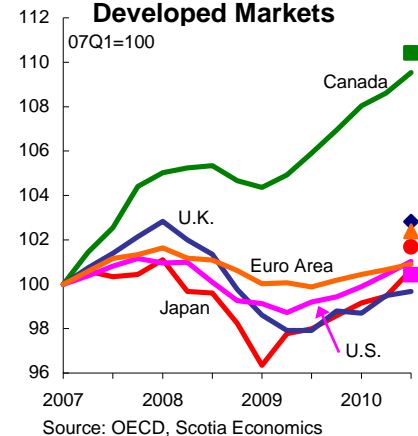
- **A comparison of current consumption levels to recent trends reveals that Mexico, Russia, the United States and the United Kingdom have the potential to outperform in the near-term.**

Any argument for the presence of 'pent-up' consumer demand in one country over another, especially when one country is developed and the other is an emerging market, must be taken with a grain of salt. Nevertheless, using private consumption series from the OECD, we have tried to ascertain the extent of pent-up demand for several major economies of interest. Keep in mind that these are rough benchmarks, given data limitations as well as structural and cyclical differences across nations, particularly in light of the recent credit crisis and the varying degrees to which consumer spending was bubble-induced prior to the downturn.

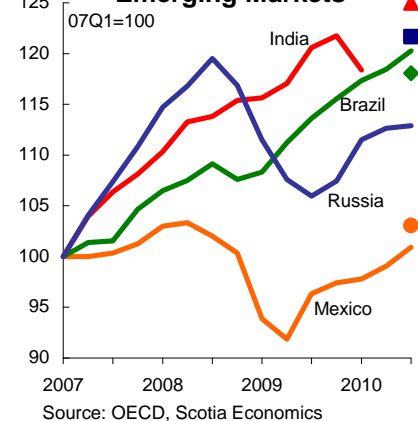
The charts on the right show real private consumption expenditures, indexed to the first quarter of 2007, for Canada, the United States, the United Kingdom, Japan, the euro area, Mexico, Brazil, Russia and India. The markers for each country, corresponding in colour, indicate where consumption 'should' have been in the third quarter of 2010, had recent trends persisted. Due to data constraints, trend lines for this experiment were calculated using quarterly data from 2003 to 2010, a relatively short timeframe including a few years of very strong global growth, which may bias the results toward overestimating pent-up demand. However, this period also captures the global downturn, which would moderate the earlier outperformance.

Standing out as countries with potential for consumption 'catch-up' are Russia, Mexico, and to a lesser extent, the U.K. and the U.S. Russia's deviation from trend was estimated at roughly 8% in 2010Q3, while Mexico's consumption gap was smaller, at around 2%. The U.K., the U.S. and the euro zone were found to be between 1% and 2% below their respective trends. In the case of the euro zone, it should be noted that some nations (i.e., Spain and Italy), were far more below trend than others (Germany). By this method, Brazil appears above trend, while Japan and Canada were nearly right on par. Data for India are available only to 2010Q1, at which time a significant consumption gap existed, though it is likely that the deficit has since been reduced. The apparent existence of a consumption gap says nothing of a nation's ability to close their gap, and while we expect the emerging markets to recoup trend levels fairly swiftly, this may not be the case for certain developed nations struggling with high debt and fiscal drag.

Little Pent-up Demand in Developed Markets



Some Pent-up Demand in Emerging Markets



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Most Canadian Regions All Spent Out

- **Alberta the only province with much left on its wish list**

Our national focus piece argued that there is little indication that the Canadian economy will experience a boost from pent-up demand given the extent of the recovery in consumption thus far. These findings are, for the most part, echoed on our regional analysis across Canada, although there are some exceptions.

Real consumption is unavailable on a quarterly basis for the provinces, so retail sales adjusted for inflation are used as a proxy. Though this measure is more volatile, and therefore slightly more difficult to map with a simple regression, this behavior does provide some insight. Similar to our national piece, real retail sales were found to have a strong structural trend component. See charts on following page.

Atlantic and Central Canada both follow similar patterns. After showing a notable drop over the course of the recession, both regions quickly recovered their losses, and in fact, overshot their trend levels in the second half of 2009 before settling back to regular rates of growth later in 2010. The overshooting is likely the effect of pent-up demand being unleashed, as consumers not only boosted their purchases but made up for foregone “luxuries”. The notable rebound in electronics, furnishings and renovation sales over this period supports this theory.

To the West, Manitoba and British Columbia performed roughly the same as their counterparts to the east leaving only Alberta as the major outlier. Alberta sales currently lie roughly 8% below trend. Evidence points to pent-up demand building in the province, as Canada’s biggest spenders have been quite reticent to buy the past two years, while economic prospects have improved.

When analyzing the data in each province, one particular trend stands out: the extent to which retail sales rebounded is largely tied to the degree of labour market recovery in each region. The Atlantic region experienced the most overshooting in 2009 and, unsurprisingly, had shown the greatest amount of labour market stability during the recession. Alberta on the other hand experienced sluggish labour market performance in both 2009 and 2010, and has struggled to recover.

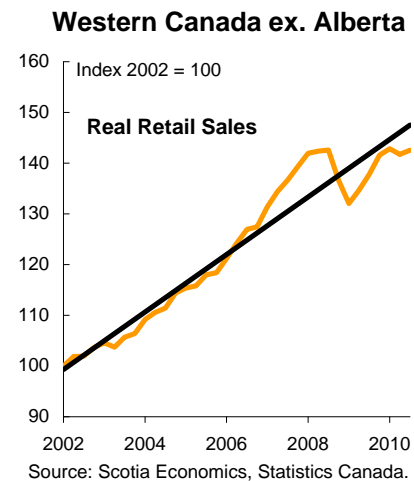
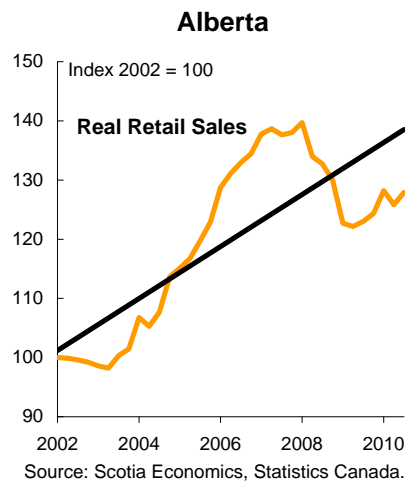
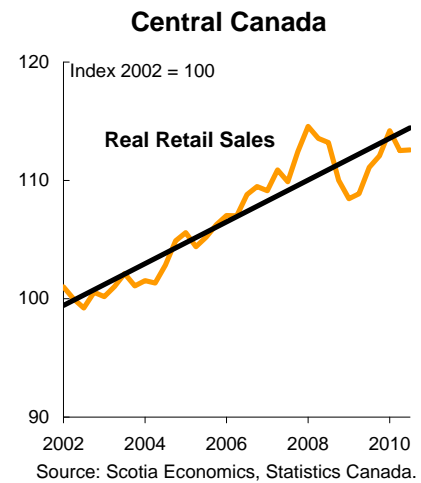
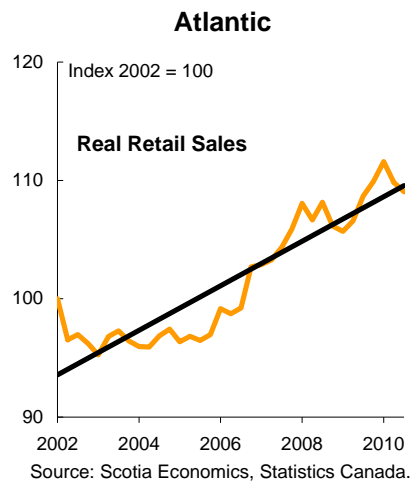
Overall, Alberta looks set to be the only region to benefit from a notable boost in consumption from pent-up demand. With employment having picked up steam in the second half of 2010, and retail sales still lying well below their trend levels, there still remains considerable space to play “catch up”.

Employment and Retail Sales				
	Atlantic	Central	West ex AB	Alberta
% Jobs Recovered	99.9	100.6	100.7	98.0
% Retail Sales Recovered	100.8	98.3	100.0	91.6

Source: Scotia Economics.

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Strong U.S. Vehicle Pent-up Demand Bodes Well for Automakers

- **Potential is more limited in Canada**

Significant pent-up demand has been created in the U.S. auto market in recent years. While new vehicle sales are improving, purchases have averaged only 11 million units over the past two years, nearly 30% below the average of the past decade. In fact, the overall sales pace — for both replacement and first-time buyers — has slumped to less than the 13 million vehicles that Americans would normally scrap annually.

With U.S. households continuing to drive their aging vehicles, the average age of the U.S. vehicle fleet has climbed above 10 years for the first time on record, up from less than 9 years a decade ago. In fact, the aging of the vehicle fleet combined with a sluggish U.S. economic recovery has forced some households not only to scrap their aging vehicles and not replace them, but to increasingly rely on public transportation. This has reduced the number of vehicles on the road for the first time on record. The U.S. vehicle fleet peaked at 250 million vehicles in 2008, but has since fallen to less than 248 million.

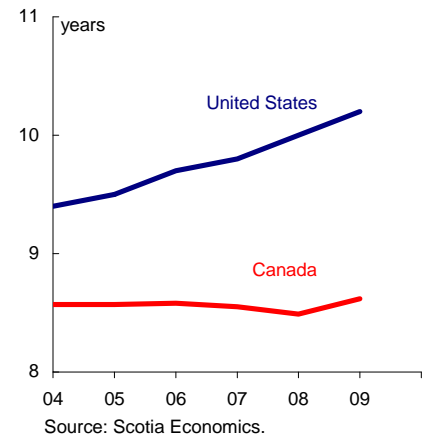
Another way of determining pent-up demand is to look at spending on new vehicles relative to household disposable income. Under this measure, U.S. spending on new vehicles plunged to a record low of 2.8% of household income in 2009, down from an average of 4.6% annually over the past decade. While purchases of new cars & light trucks have started to strengthen south of the border, spending on new vehicles still accounts for only 3% of U.S. household disposable income, suggesting that there is still significant pent-up demand. In fact, we estimate that based on an average annual scrappage rate of 5.5%, under normal economic conditions, Americans would have bought roughly 14 million vehicles per year — about 7.5 million more than were actually purchased over the past two years. This provides significant upside for both automakers and North American vehicle output in coming years.

In contrast, new vehicle pent-up demand is more limited in Canada, despite the fall-off in new vehicle sales to a decade low in 2009. Passenger vehicle sales climbed to 1.57 million units in 2010, as strengthening pent-up demand lifted purchases from only 1.46 million for all of 2009. The flight from auto dealerships in 2009 reduced vehicle replacement demand (excluding first-time buyers) to only 1.2 million units, from an average of 1.3 million annually over the past decade. With many Canadians holding on to their aging vehicles over the past two years, replacement of the Canadian vehicle fleet has fallen to only 6% annually, from an average of 7% each year over the past decade. As a result, the average age of the Canadian vehicle fleet has increased moderately to 8.6 years, from an average of 8.5 years during most of the decade.

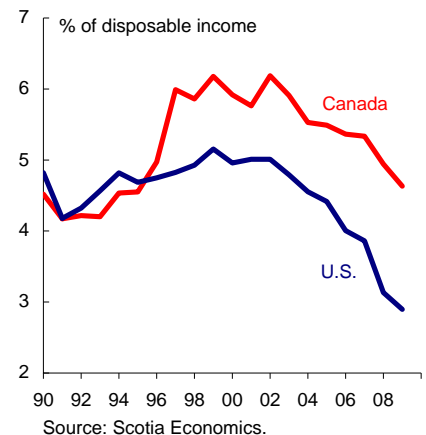
Measured relative to household disposable income, Canadian vehicle purchases absorbed only 4.6% of income in 2009, well below the average of 5.2% over the past two decades. While spending on new vehicles has since increased to 4.8% of household income over the past year, it still remains below normal.

These calculations suggest that some modest pent-up demand for new vehicles does exist in Canada. However, it is significantly lower than in the United States. In fact, we estimate that pent-up demand for new vehicles in Canada totals roughly 200,000 units — a small fraction of the 20 million cars and trucks currently on the road.

Age of the Vehicle Fleet



Spending on New Vehicles



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The Unwinding of Pent-Up Housing Demand

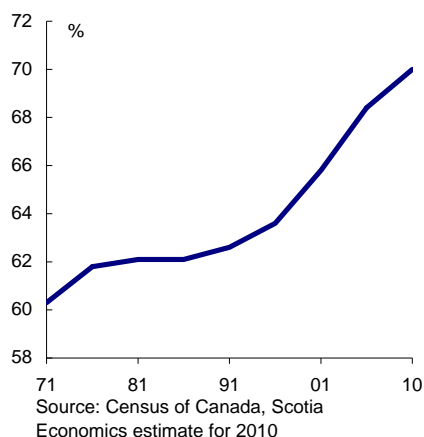
- **Canada's record-breaking housing boom of the past decade has all but exhausted any remaining pent-up demand, pointing to a protracted period of more subdued activity.**

By most measures, there would appear to be little or no pent-up demand for housing in Canada. Homeownership rates have risen steadily to record levels over the past decade (see chart) across virtually all age cohorts and regions of the country, aided by historically low interest rates, sustained strong economic growth and broad mortgage market innovation (e.g. larger RRSP withdrawal limits, longer amortization periods and lower downpayment requirements). We expect ownership rates are now reaching both a cyclical and structural peak, given inevitably higher borrowing costs, more moderate medium-term growth prospects and tighter mortgage regulations in place beginning in 2008. An aging population also will serve to moderate Canada's aggregate homeownership rate.

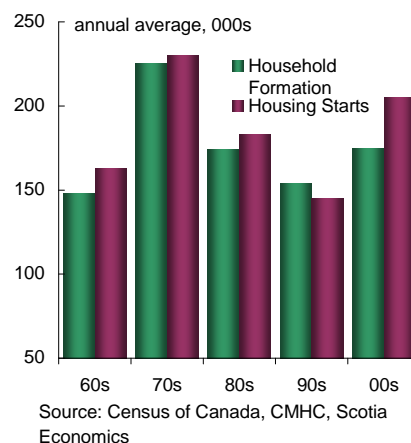
Rising homeownership, combined with record home sales, low borrowing costs and the ability to tap home equity in a rapidly appreciating price environment have led to a boom in renovation spending by Canadians in recent years. As we highlighted in *Global Views* last week, home renovation spending in Canada is at a record relative to many metrics (e.g. % of nominal GDP, average spending per household and resale transaction). This suggests little scope for a further ramping up in outlays, particularly in light of new regulations on mortgage refinancing and home equity lines of credit unveiled this week (see our mortgage market commentary also in this issue).

With the exception of the recession of 2009, housing starts have been running well above underlying household formation plus replacement demand — estimated at around 185,000 new units annually — since 2002 (see chart). While some catch-up was justified following the underinvestment of the 1990s, the outstanding stock of unsold new homes now stands above its long-term average, primarily reflecting an excess of empty condominium units. Combined with more muted sales expectations and possibly some slowing in household formation rates, starts are unlikely to average much above 175,000 annual units over the next few years. Demographic projections — taking into account an aging population and slower population growth — suggest annual household formation could fall to about 155,000 over the coming decade. Replacement demand typically requires the addition of about 10,000 new units annually.

Homeownership Rate



Housing Construction



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The Impact of New Canadian Mortgage Rules on Housing and Interest Rates

- ***New rules aimed at reining in household credit growth will reinforce a more cautious consumer and housing outlook.***
- ***Mortgage rule changes and BoC's moral suasion powers provide flexibility to preserve a low rate environment for longer than markets expect.***

Tighter mortgage lending rules unveiled this week by the Department of Finance add some downside risk to the Canadian housing market forecast we published in last week's *Global Views*. Effective March 18, 2011, the maximum allowed amortization period for new government-backed insured residential mortgages will be shortened from 35 to 30 years, and mortgage refinancing limits against home equity will be reduced from 90% to 85%. Effective April 18, 2011, government insurance backing will no longer be available on non-amortizing lines of credit secured against home equity, such as rapidly expanding home equity lines of credit (HELOCs).

This latest round of regulatory changes (they come on the heels of earlier mortgage tightening measures implemented in October 2008 and April 2010) is a positive development from the perspective of the longer-term health of Canada's housing market and consumer finances. Nonetheless, it will likely have at least some dampening impact on home sales and prices, consumer spending, and credit demand, and essentially reinforces the slowdown in each of these areas we already anticipated and have previously highlighted.

In particular, shortening the maximum amortization period could price some first-time buyers at the margin out of the market, or at the least require them to opt for a less expensive home. The new limit adds roughly \$100 to the monthly principal and interest payment on an average priced house. It also leaves less disposable income available for other household purchases. Looking further ahead, as interest rates begin to move higher in 2012 and beyond, the cumulative impact from shorter amortization options on housing affordability could be substantial.

Indeed, principal payments as a share of disposable income have declined modestly since longer amortization mortgages were introduced in 2007 (see chart). Households may well have lowered their principal payments by opting for longer-lived mortgages in recent years. That influence is now reversing as Ottawa has shortened maximum amortization periods from 40 to 30 years in two separate moves. Indeed, there is unlikely to be any payments relief going forward, unlike the period following the early 1990s, as rates eventually rise and fixed principal charges remain a weight against household cash flow for years. This is already at a time when the debt-service burden including interest and principal charges as a share of incomes is close to its highest ever. The lack of payments relief going forward is one factor alongside no real pent-up consumer demand that will constrain growth in household spending going forward.

In the case of the new limits on mortgage refinancing and the treatment of home equity lines of credit, the impact will be felt mainly on big-ticket consumer spending and renovation activity, but again is expected to be fairly modest. Refinancings above 80% loan-to-value represent a relatively small share of the overall mortgage market in Canada. Similarly, while removing government backing on HELOCs and similar products could potentially negatively impact credit pricing and availability, most financial institutions in Canada typically do not insure HELOCs.

At the same time, we now expect a repeat of some of the housing volatility seen in 2010 when buyers rushed into the winter/spring market to beat the pending rule changes, as well as expectations of rising interest rates. This mini buying boom pulled forward sales and temporarily bid up prices before leading to a marked softening over the summer. Plan for a flurry of new applications and refinancing activity over the next two months ahead of the March 18 cutoff.

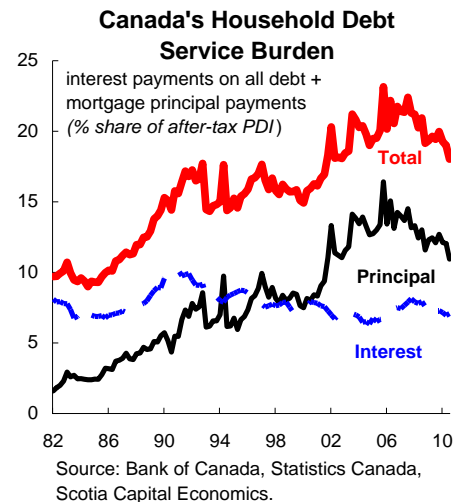
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The tighter mortgage rules are part of a one-two combination of policy variables being used to mitigate the impact of an extended period of low rates on household financing behaviour. The blunt instrument of monetary policy is inappropriate for targeting sector-specific excesses when sizeable spare capacity persists, the Canadian dollar remains elevated, and prices and wages remain fairly sticky.

The second tool being used is that of moral suasion, as BoC Governor Carney beseeches Canadians to be wary of future rate risk in managing their finances over a full cycle. Combined, the use of tighter mortgage rules and jawboning serve to reinforce our view that the Bank of Canada remains on hold for longer than both consensus and markets expect with our first forecast hike not arriving until October of this year.



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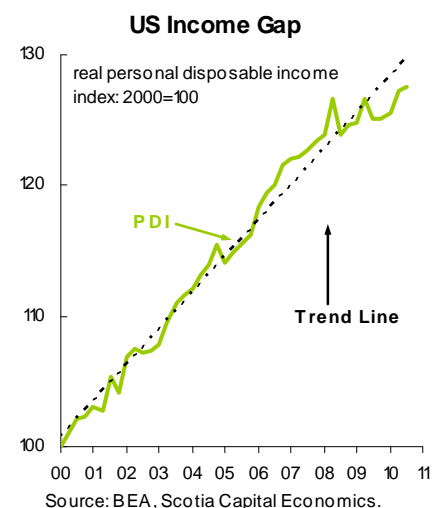
The Prospects For the U.S. Income Gap

- ***In the interplay of cyclical and structural factors, it might take years to close off the US income gap.***

There is a strong trend component to incomes rooted in population growth, inflation, productivity and net transfers. Current incomes are well off this trend, particularly after excluding net government transfers.

Going forward, a gradual phasing out of the impact of government transfers on income growth and less favourable demographic drivers — such as the anticipated retirement of some 76 million US baby boomers over the next ten years — will offset positive influences, to the like of a stronger business sentiment and gradual rise in labour force participation rates over time.

It will likely take years to close off the income gap (see chart) that has emerged in recent years and restore incomes back to trend. And even as household income improves, Americans are likely to continue in the medium term to channel some of their funds toward deleveraging and saving until the economic recovery becomes more sustainable.



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The Seniors' Imperative in Health Care Reform

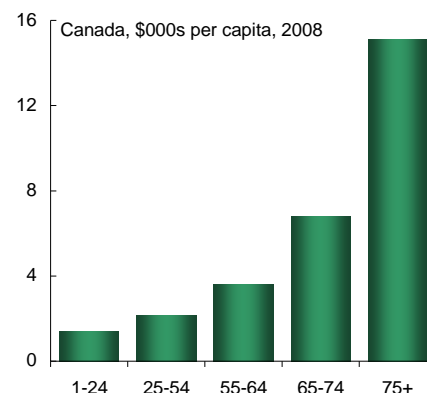
- **The baby boom generation's retirement focuses attention on the sharp rise in per capita health outlays for the elderly.**

For provincial expenditure management, health care will remain critical, in part due to the public's priority on quality and accountability in this sector. Additionally, steady cost escalation is pushing health outlays in a number of Provinces well over 40% of program spending. Of concern, therefore, with the baby boom generation's imminent retirement, is the dramatic rise in per capita health outlays for Seniors (*top chart*).

In 2008, the latest year for health expenditure data by age group, Canadians 65 years and older comprised just 14% of the population but accounted for almost 44% of total provincial/territorial government health spending (*middle chart*). The U.S. reports a similar surge, with per capita health expenses for residents over 64 almost four times the average for individuals 25 to 44. With the Provinces' different age profiles (*bottom chart*), standardizing provincial government per capita health expenditures by age and sex significantly raises the per capita estimates for jurisdictions with younger populations such as Alberta, while lowering the estimates for the Maritimes and other areas with relatively older populations (*table below*).

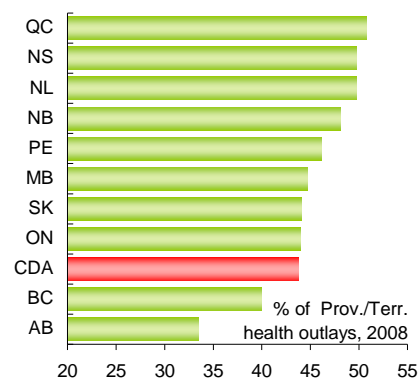
The Provinces' record on health expenditure growth over the past decade underscores the challenge of future restraint, such as Ontario's plan to curtail its health expenditure growth to 3.0% by FY13. Given the annual 6% increase slated for Ottawa's Canada Health Transfer through FY14, for those Provinces with health expenditure growth exceeding 6%, the federal share of their total health outlays will edge lower. As the Provinces proceed with a broad range of health care restructuring, such as generic drug pricing, of note is the rapid escalation of hospital expenses for Seniors. If all factors are held constant except population growth and Canada's shifting demographic structure, growth in total provincial/territorial government health outlays from 2009 to 2021 is projected to average about 2.0% annually, with just over 1.0% of the increase due to population gains. This calculation, however, assumes the status quo in per capita health spending, ignoring potential options in care for the elderly.

Health Outlays Rise With Age



Source: Canadian Institute for Health Information.

Provincial Government Health Spending on Residents 65+



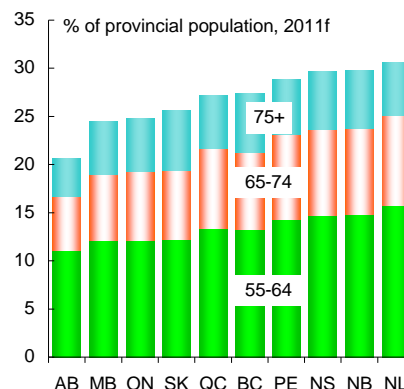
Source: Canadian Institute of Health Information.

Provincial Government Health Expenditures

	Total Outlays		Per Capita Outlay		Per Capita Standardized	
	2000-05 annual avg. % change	2006-10f annual avg. % change	2000-05 annual avg. % change	2006-10f annual avg. % change	2008 \$	vs Actual % change
NL	4.9	7.8	5.6	8.1	3,876	-1.3
PE	7.5	8.7	7.2	8.2	3,114	-4.3
NS	6.7	7.5	6.6	7.4	3,319	-5.8
NB	7.6	5.9	7.6	6.0	3,328	-5.3
QC	6.4	6.3	5.7	5.5	2,925	-2.6
ON	8.4	6.0	6.8	5.0	3,342	1.0
MB	7.5	6.7	7.0	5.7	3,613	-1.6
SK	7.0	7.3	7.4	6.2	3,528	-4.5
AB	10.4	9.7	8.5	6.7	4,208	9.5
BC	6.4	5.7	5.3	4.4	3,252	-2.4
CA	7.6	6.6	6.6	5.5	3,353	-

Source: Canadian Institute for Health Information.

Canada's Aging Population



Source: Statistics Canada.

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Will Anyone Step Forward To Replace Hoenig As An FOMC Dissenter?

Perhaps the most significant thing to watch in Tuesday's FOMC statement will be whether a new dissenter will appear. We expect little else by way of policy signals to be sent to markets, though the Fed is likely to state that it is more encouraged by recent economic growth.

Kansas City Fed President Thomas Hoenig tied the record for the most consecutive number of times an FOMC voter has dissented by doing so eight times in 2010 right up to and including his last vote in December. That ties him with Governor Henry Wallich's stretch in 1980, but Hoenig is no longer a voting member and is retiring. The accompanying table shows how the voting structure changes this year compared to last, and again next year by rotating through Federal Reserve District Banks. Each of the four new voting FOMC members

will now vote alongside the eight permanent voters that consist of the NY Fed President (William Dudley) and the seven Fed Governors. Who, if anyone, could dissent early in 2011? We're hoping someone, frankly, as we err on the side of

Shifting Composition of the FOMC - Federal Reserve District Banks			
	2010	2011	2012
Members	New York (Dudley)	New York (Dudley)	New York (Dudley)
	Cleveland (Pianalto)	Chicago (Evans)	Cleveland (Pianalto)
	Boston (Rosengren)	Philadelphia (Plosser)	Richmond (Lacker)
	St. Louis (Bullard)	Dallas (Fisher)	Atlanta (Lockhart)
	Kansas City (Hoenig)	Minneapolis (Kocherlakota)	San Francisco (Moore)
Alternate Members	New York (Cumming)	New York (Cumming)	New York (Cumming)
	Chicago (Evans)	Cleveland (Pianalto)	Chicago (Evans)
	Philadelphia (Plosser)	Richmond (Lacker)	Boston (Rosengren)
	Dallas (Fisher)	Atlanta (Lockhart)	St. Louis (Bullard)
	Minneapolis (Kocherlakota)	San Francisco (Moore)	Kansas City (Hoenig)

Source: Federal Reserve Board.

accepting Hoenig's view that "It is important to recognize that in the face of uncertainty, arriving at the best policy decision is built on divergent opinions and vigorous debate."

Among the key voting members, the New York Fed always votes with the Fed Chairman. That leaves the possible dissenting candidates to the remaining four new voting members, barring a substitute alternate voting member.

At the top of our list of possibilities is Dallas Fed President Richard Fisher. He is well experienced at the art of dissenting, having done so five times through much of 2008 in subscribing to hawkish inflation views through much of the year though perhaps that record will make him a tad trigger shy this go-around. He has also held his cards close to his chest by stating he "doesn't know" if he'll dissent at next week's FOMC meeting. That's a far cry from clearing the air and rejecting the possibility. Fisher has also recently been lukewarm toward QE2, but nonetheless expects it to be completed as scheduled.

Second on our list is Philadelphia Fed President Charles Plosser. He too has experience in dissenting after having done so twice in 2008, and expressed concern in early December that QE2 makes the Fed's exit path more complicated.

Unlikely is Chicago Fed President Charles Evans who offers a dovish bias in favour of QE2 as a means by which to avoid deflation risks.

Also unlikely is Minneapolis Fed President Narayana Kocherlakota. In a Wall Street Journal interview, he set a "pretty high" bar for dissenting by noting that a bigger round of bond purchases than the November extension of \$600 billion would be required to spark greater concern over inflation risks. He has also flatly stated that "I do not contemplate stopping" QE2. Kocherlakota would perhaps stand in opposition to any possible QE3 initiatives, but is unlikely to become a dissenter in the first half of 2011.

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Scotia's Treasury Yield Forecast Is Based Upon U.S. Fiscal Worries

The past week's lukewarm TIPS auction should be a wake-up call to the inflation hawks. Yes, it was a big issue (in fact, the biggest 10-year TIPS auction ever), but a bid-to-cover of 2.37 was the lowest since April 2009. At least as yet, the market is politely saying no thanks to any great rush toward inflation protection. Now part of that is because breakevens have already adjusted from the fears of last summer, with the 10-year inflation breakeven rate treading at 2.33% currently, or about 80bps higher than last August's trough. The whole breakevens structure has been repriced over this period (see chart).

This leads to a broader point. Scotia's forecast for rising nominal Treasury yields over 2011-12 has nothing to do with either growth or inflation concerns. In fact, Scotia Economics is toward the bottom of the consensus on US growth at 2.7% this year and 2.9% next year, and in line with consensus on mild inflation. Indeed, our inflation forecast for the US is for CPI to rise by 1.5% this year and 1.6% next year which is a tad milder than what breakevens are suggesting, although breakevens mix inflation risk and liquidity premium differences between nominal and real yields and are therefore difficult to fully evaluate.

Markets Have Already Adapted to Higher Inflation Risk

(U.S. Inflation Break Even Rates)

U.S. Breakeven 30 Year	2.57
U.S. Breakeven 20 Year	2.54
U.S. Breakeven 10 Year	2.33
U.S. Breakeven 7 Year	2.18
U.S. Breakeven 9 Year	2.16
U.S. Breakeven 8 Year	2.09
U.S. Breakeven 6 Year	2.09
U.S. Breakeven 5 Year	1.86
U.S. Breakeven 3 Year	1.79
U.S. Breakeven 2 Year	1.76
U.S. Breakeven 1 Year	1.62

Source: Bloomberg, Scotia Economics.

But our principal view remains that flow of funds fundamentals will be increasingly at work to stamp an expiration date on Treasury's free pass to issue as much as it wants. We explored this in greater depth in our long-run themed piece "Souring Bond Market Fundamentals Favour Equity Outperformance", January 2011, and earlier writings. Competition for capital is growing, and retail supply of savings to hold Treasuries is about as high as it will get when properly measured to include all direct and indirect holdings of fixed income instruments and substitutes like fixed term deposits — all expressed as about a 35% share of total household financial assets and up ten percentage points over the past decade. Rising yields are also a function of the fact that we expect fiscal deficit pressures to climb, in part because we don't believe that temporary jobless benefit extensions and tax cut extensions will be allowed to expire in a Presidential election year. Vote for me and I'll hike your taxes and cut your jobless benefits won't exactly resonate so well on main street. Further, as Europe puts itself further along the path toward addressing its fiscal challenges, we are longer-run USD and Treasury bearish when attention migrates back to the more beleaguered status of US federal, state and municipal finances that has merely been postponed.

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Developing Economies Crucial in Global Trade, Benefiting Germany and France

- ***With the increasing importance of emerging economies in global trade, we show that demand from those markets has a substantial impact on the export sector performances of Germany and France***

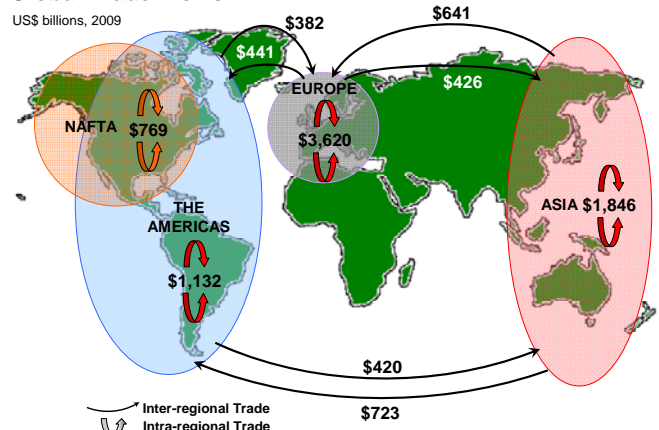
Changes in Global Trade Patterns Evident

Emerging market economies are increasingly playing the role of global growth engine while many developed economies continue to face uncertainties regarding the strength and sustainability of their recoveries. The last decade has witnessed a partial decentralization of global trade, whereby the developed economies of North America and Europe lost share in world trade to emerging economies, particularly those in Asia and Latin America. This trend — amplified by the global downturn — is confirmed by data from the World Trade Organization, which reveal that as a share of total world merchandise exports, North American exports decreased from 15.8% in 2003 to 13.2% in 2009 (latest data available), and European exports fell from 45.9% to 41.2%. Meanwhile, South and Central American exports increased from 3.0% of total exports in 2003 to 3.8% in 2009 and Asian exports rose from 26.2% to 29.4%. Most impressively, in the last five years China has captured the title of top exporter, surpassing Japan, the United States and Germany. Many developing nations around the globe are similarly gaining ground as importers. China accounted for 7.9% of total world merchandise imports in 2009, moving past Germany's share of 7.4% to the number two spot behind the United States, which accounts for 12.7% of world imports.

Emerging market economies are also increasingly trading among their regional peers (see chart), largely thanks to expanding trade in intermediate goods. Merchandise trade within Asia surged to US\$1,846 billion in 2009 from US\$1,201 billion in 2004. Trade among South and Central American countries, which was worth only US\$64 billion in 2004, had reached US\$120 billion by 2009. Meanwhile, intra-regional trade in North America and in Europe fell in terms of total world trade shares. These declines will likely persist as consumers and governments in many developed nations look to reduce high levels of indebtedness. It is worth noting that while the developed economies' share of world exports has dropped, the majority of the shift in market shares has been in low quality goods, potentially reflecting increased outsourcing of low-cost manufacturing to developing countries. Meanwhile, the core European Union countries, for example, continue to record solid performance in higher-end goods.

Global Trade Flows

US\$ billions, 2009



Source: WTO, International Trade Statistics

Policymakers in developed economies seem concerned about the loss of market share. However, a country's well-being is not determined by its achievements in world markets compared to those of other countries — i.e. by its share of world exports — and one country's success does not come at the expense of another's; growth in emerging economies does not hurt the developed world. Instead, a nation's standard of living is determined by the productivity of its own economy. By improving productivity, a nation can enhance its well-being, since productivity pushes down the cost of products, and allows a country to support higher wages, attractive returns to capital, a stronger currency and accordingly, a higher standard of living. Many countries have recently implemented policies to keep their currencies artificially low in order to make their exports cheaper in world markets, thereby aiming to support domestic growth conditions. However, from a

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theoretical perspective, the primary reason for exporting is to be able to import those items that a country needs but cannot produce efficiently, i.e. the goods in which it does not have comparative advantage. In this context, it is useful to keep in mind that a currency devaluation is equivalent to a national salary decrease; while a nation's exports would be cheaper in the world markets, the country's import bill would rise, adversely impacting the country's standard of living.

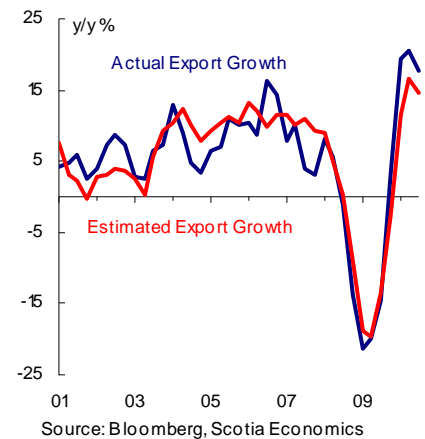
Despite the loss of market share, developed economies' exports continue to grow, notwithstanding the major dip during the 2009 financial crisis that caused world merchandise exports to contract by 12% in one year. German export volumes, for instance, grew by 32% in 2006-2010 from the preceding five year period. It is interesting to note that world trade – both in developed and developing economies – has grown faster than world GDP; world trade has risen 730% over the last three decades, outpacing the growth rate of world GDP that was around 420% over the same period. There are various factors behind this development, such as domestic demand growth in emerging and transition economies, increasing disposable incomes, a preference for variety in developed economies, global fragmentation of production, the emergence of new markets following a general trend of trade liberalisation, as well as advances in infrastructure, technology, and communications that allow more firms to access markets previously considered too costly to enter.

Factors Behind Export Performance in Germany and France

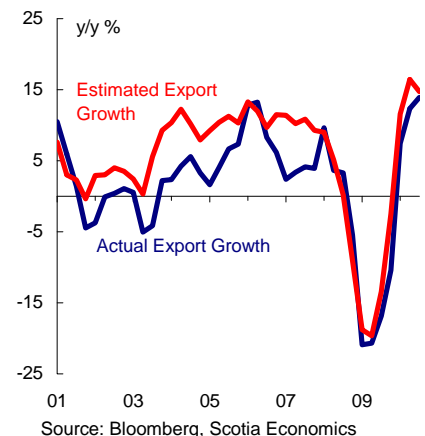
Given the increased attention globally to exchange rates and their impact on export sector success, taking a closer look at the factors affecting export sector performance is a timely exercise. We perform a regression analysis in order to gauge the impact of foreign demand and real effective exchange rate on a country's export sector performance, focusing on Germany and France. We find that goods export growth (in volume terms) is explained rather well by the real effective exchange rate and foreign demand (see charts on the side), which is defined by a weighted average of real GDP growth in the five largest export partners. It is interesting to note, however, that GDP developments in export destinations have a substantial impact on export sector growth in Germany and France, while changes in real effective exchange rates have a significantly more limited effect on exports. In the case of Germany, a one percentage point increase in foreign demand growth boosts Germany's export growth by 4.6 percentage points, while a one percent appreciation of the real effective exchange rate decreases exports by 0.6%. France's results are roughly in line with those of Germany, with a one percentage point increase in foreign demand boosting export growth by 4.1 percentage points, and a one percent appreciation of the real effective exchange rate causing a 1% decrease in exports. The charts on the side map out actual export growth in France and Germany, as well as the export growth pattern predicted by our model.

Developing economies will continue to be the global growth engines in the foreseeable future; their real GDP growth will likely average over 6.5% in 2011-2013, while advanced economies' output is expected to expand by less than 2.5% on average over the same period. Therefore, rather than being concerned about exchange rate impacts, the best export strategy for developed economies would be to focus on these fast growing markets, establishing trade links with develop-

Germany's Export Performance



France's Export Performance



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ing economies that have a promising economic outlook and favourable domestic demand conditions. It is important that exporters in these economies take advantage of the fact that high-growth economies are increasingly expanding their share of world imports, as well as their share of exports, revealing opportunities for the supply of a wide range of goods and services. Tapping into the growing domestic demand of emerging markets is not just an opportunity, but a necessity for countries like the United Kingdom, Germany, France, as well as the United States and Canada, where ageing populations, still sluggish domestic markets and structural imbalances pose considerable threats to future economic well-being.

In recent years, Germany and France have focused on expanding the share of developing economies among their export destinations, with emerging markets such as China and India overtaking many historically important trading partners. Germany's export sector is relatively well-positioned to face the emergence of developing economies as major players in world trade. Revealing its successful strategy to increase shipments to developing economies, the country has raised the amount of its exports going to the BRICs (Brazil, Russia, India, and China) from 1½% of total exports in 1990 to over 9% in 2009. The ongoing re-alignment of its export destinations is one of the underlying reasons the German export-oriented economy is performing so well. At the same time, France has focused somewhat less on gaining export ground in the BRICs; while in 1990 the group of leading emerging economies purchased 1½% of France's total exports, the share had increased to 5.2% by 2009. Moreover, in response to growing emerging market demand for specific higher-value goods and services, the sectoral composition of exports, employment and output in developed countries has also begun to change. Potential export growth drivers now include high value-added industries like machinery, pharmaceuticals and transportation equipment. In addition, rising incomes globally will continue to support the unprecedented expansion in demand for medical care, telecommunications, recreation and 'green' goods.

Peru 2011: Economic Highlights

- ***Elections will not interfere with robust growth***
- ***Looking forward to a fiscal surplus once again***
- ***A new central bank board of directors will face the risk of rising inflation***

Elections will not interfere with robust growth

Peru faces 2011 from a position of economic strength. We forecast 7.0% GDP real growth, with domestic demand continuing to be the leading driver, up by 8.3% this year. Although output growth will be mildly slower than the estimated 8.7% expansion in 2010, it will, actually, be more robust. Factors, such as inventory restocking and delayed investment as part of the 2009 fiscal stimulus program, which contributed strongly to growth in 2010, will be less significant in 2011. Therefore, growth will reflect more sustainable domestic drivers, in particular private investment and greater employment, signaling a return to the virtuous cycle that drove the economy between 2005 and 2008.

As a result of the end of the stimulus program, and a return to fiscal prudence, public sector expenditure will contribute much less to growth in 2011 compared to the previous two years. We expect a 7.8% increase in public investment (versus 24.3% in 2010) and a 4.3% growth in government consumption (10.8% in 2010). Thus, the contribution of the private sector will be the highest in years. Private investment will lead, rising by 15.2% in the year, with private consumption up by 5.7%. In our opinion, current high growth is sustainable over time, as Peru has no major macro imbalances to hinder the economic expansion; economic risks mainly involve the world, rather than the domestic economy. Furthermore, unlike in the past, the presidential elections this year are generating significantly less uncertainty, and should not have a significant impact on either economic growth or the markets.

Although all sectors of the economy should grow in 2011, those sectors linked to domestic demand will lead. Construction growth returned to double-digits in 2010 (17.5%), which should continue in 2011 (10.0%). However, the surprise performer was manufacturing as it was the sector that suffered the most during the global downturn, declining by 7.2% in 2009 and rebounding by 13.2% in 2010. We expect it to continue showing strength, rising 7.9% in 2011.

Looking forward to a fiscal surplus once again

In a world in which huge fiscal imbalances abound, one of the outstanding aspects of Peru's economy, in our view, is the likely return to a fiscal surplus. Our forecast of a 0.4% of GDP fiscal surplus in 2011 (following an expected 0.8% deficit in 2010) will represent a return to a double surplus (fiscal and trade) for the first time since 2008. High metal prices, with record prices for gold and copper, Peru's two major exports, together with strong domestic demand, are boosting tax revenue. Overall, we expect fiscal revenue to increase by 13% in 2011. At the same time, as the extraordinary fiscal stimulus spending program ends, we anticipate government spending to slow to 4% in 2011, compared with 11% in 2010.

Given the improved fiscal situation, the challenge for the new administration that will take over on July 28th will be on how to manage a fiscal surplus. It will be particularly interesting to see if the government will use the opportunity to increase the stabilization fund, given long-term uncertainty over the sustainability of current high metal prices. Other things to look for are changes in investment decisions and spending priorities. In 2010, the government focused on investment projects already in execution, rather than embarking on new large investment initiatives. This will change in 2011, when new local, regional and central government authorities will find themselves with appreciable amounts of fiscal resources to spend. Given long maturity periods, most of these new initiatives will not have a significant impact until 2012 or after. However, the way the resources are used, the type of initiatives that will emerge, and the structuring of public sector spending will be indicative of what to expect over the next five years. A critical, early sign will

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be the designation of the Finance Minister and the President of the Cabinet. Although the incoming cabinet is likely to be market-friendly, the details of policies and priorities will depend heavily on the individuals that will be chosen.

Peru has registered a trade surplus since 2002, the longest period in its history. This should extend into 2011, and perhaps for as long as the metals megacycle continues. High metal prices are a significant, but not sole, factor behind Peru's strong external accounts. The volume of non-natural resource exports has also risen significantly in recent years, and will continue contributing to export growth in 2011. Strong productivity gains, due to new investment, are driving exports in a host of non-metal goods, even as the Peruvian sol (PEN) appreciates. Both higher metal prices and higher non-metal volumes contribute to our estimate of a US\$7.3 billion trade surplus in 2011. This surplus would be much greater — if not for our forecast of an 18% increase in imports — in line with strong domestic demand. An expected current account deficit of 2.3% of GDP will be counterbalanced by a 5.8% surplus in the financial account stemming from a continued inflow of capital and investment.

A new Central Bank board of directors will face the risk of rising inflation

Current inflation — 2.1% in 2010 — is low, and there is no evidence that domestic demand is feeding price pressures. However, many of the soft commodities that Peru imports have risen significantly recently, and the imported component of inflation has begun to rise. Our forecast of 3.5% does not represent a dramatic increase, but is outside of the 1% - 3% central bank's target range. Faced with the prospect of rising consumer prices, monetary authorities have already begun raising the reference rate again; it was increased by 25 bps to 3.25% in early January. Further hikes are likely this year, although the pace will depend on the velocity with which inflation rises. In line with our 3.5% forecast, the monetary policymakers may need to increase the policy rate to over 4.0%, and probably closer to 4.5%, to keep ahead of expectations.

In 2010, the monetary authorities showed more concerns regarding the FX market and short-term capital inflows than inflation. To limit these inflows, the central bank adopted a series of measures, some of them quite imaginative, including raising reserve requirements and applying special charges. These concerns regarding the FX market are likely to remain in place in 2011. With international reserves rising, high metal prices, an increasing domestic preference for the PEN over the USD as a store of value, an improving fiscal situation, a thriving economy, and the likelihood that Peru's credit rating will be upgraded soon after the elections, the currency should continue to gain ground in 2011. However, the extent of the appreciation will depend on capital inflows and the aggressiveness of the monetary authorities to control them and the currency. Given this uncertainty, the 4.5% appreciation we are forecasting, to end the year at USDPEN2.68, really only replicates what has been occurring over the past five years.

The central bank's monetary and foreign exchange policies may vary to some extent following the change in the board of directors, scheduled to take place in August. We believe that the central bank is, institutionally, sufficiently solid and influential to ensure a broad continuity in policy. However, there is likely to be some degree of variation in the fine-tuning of monetary and FX policy. It is, for example, unclear if the next board will be as aggressive in intervening in the FX market and trying to curtail short-term capital inflows as the current one has been.

Mexico Forecast Revision

- **Improved Mexican Economic Outlook**

The Mexican economic outlook is improving even though risks on the international environment remain elevated. We are revising our macroeconomic outlook for 2011 with two main changes: higher real GDP growth and a stronger exchange rate. We have changed our 2011 real GDP growth forecast from 3.6% to 4.0% due to two main reasons. First, the renewed fiscal stimulus in the US will provide some additional impulse on the US economy, at least during the first half of the year, which is likely to produce strong growth in the US industrial sector and a constant pulling force for Mexican exports. Second, recent economic activity figures in Mexico have been improving. Industrial production in real terms grew by 5.3% y/y in November (4.1% expected), highlighting the meaningful rebound in the construction sector, which expanded by 5.7% y/y. At the same time, the latest Global Economic Activity Indicator (IGAE) figures were also positive, growing 4.3% y/y in real terms (vs. an expected 4.0%). The services component expanded 4.4% y/y, signaling an important recovery on the internal demand after a consistent creation of new jobs throughout the year.

Our 2011 forecast for the average exchange rate has been revised to MXN12.21 from 12.68 per USD. The main reason for this revision is the recently announced extension of the US\$72 billion flexible credit line with the International Monetary Fund for the next two years. This credit facility alongside with the current level of international reserves will provide the Mexican authorities with ample room to weather out a negative turn in global financial markets. As a result of these changes, other variables were also revised. Job creation is expected to be higher, which should provide an extra impulse on private consumption. Investment growth has also improved recently, and new projects will likely begin ahead of the approaching presidential vote in 2012 and many relevant local elections this year.

Due to a stronger peso and a higher internal demand, the trade deficit and current account deficit are expected to be deeper, despite the upward revision in the oil price forecast. Inflation is expected to remain high but under control though there will likely be some increased pressures steaming from international food prices, energy and other commodities. As the economy gains momentum, the negative output gap of previous years will eventually be closed and will stop pulling down inflation. The stronger peso, on the other hand, should limit price pressures from abroad. Some demand-side inflationary pressures could emerge in the second part of the year. Under these conditions, we expect that the current monetary policy stance to remain unchanged this year, and so, short term interest rates will remain relatively stable.

A comment should be made about the violence situation in the country. Up until now, there is no clear evidence that this situation is significantly affecting economic activity or the prospects for the future. However, it is also clear that this negative factor is on international investor's radar screens.

Finally, it is also relevant to keep in mind that Mexico's economic potential is seriously limited by rigidities, lags and distortions in its economic structure. Many of the well known structural changes are pointed at correcting these problems; however, the political environment has been unfavorable for these reforms to be carried out. In the current political conditions, no significant reform is expected to be approved and implemented in the coming two years.

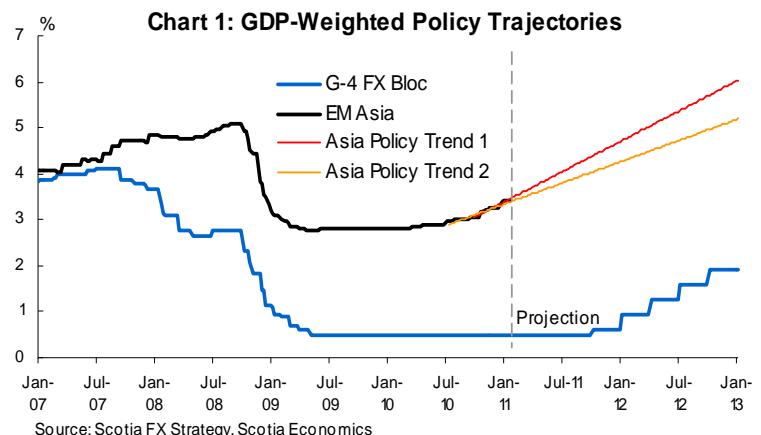
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Long EM Asian FX / Short USD: A Far From Finished Trade

Global macroeconomic dynamics have seemingly created one of the more obvious one-way bets in the currency market available today. The growth differential between Asian emerging markets (EM) over those in the developed economies, compounded with very different inflation dynamics in the two economic groups still make a convincing case for short USD/long emerging market Asian FX positions. We feel that the broad underlying international macro-financial trends projected to hold for the lion's share of 2011 and 2012 provide a convincing argument for further gains in this thematic trade.

High growth and very attractive returns to capital investment act as a magnet for foreign direct investment (FDI) and provide one channel through which emerging market Asian currencies have been able to, and will continue to be able to, attract significant foreign investment inflows. Indeed, over the 2011 through 2015 time span the IMF projects a cumulative real growth differential of 37% for developing Asia over the so called advanced economies. The IMF also projects that the inflation differential between the two regions will reach over 8% on a cumulative basis in favour of the Asian bloc. This logically reflects the impact of rapid growth and a more acute sensitivity to a rising commodity price outlook. The obvious implication for monetary policy is that Asian economies will need to further accommodate currency strength as well as tighten monetary policy in order to properly manage both their price and growth paths and ensure that they remain on a sustainable trajectory. EM Asia's growth and inflation dynamics play in stark contrast to Scotia's outlook for the G-4 economies (US, Eurozone, Japan, UK). Chart 1 depicts the GDP-weighted monetary policy rate outlook for the G-4 against two different scenarios for GDP-weighted Asian rates (consisting of the 11 largest Asian economies). The first scenario extrapolates a simple linear trend reflecting the pace of monetary tightening in recent months. The second less aggressive trend extrapolates a more measured pace of tightening reflecting EM Asia's generally cautious 2010 approach to monetary tightening, borne out of the fear that too aggressive a move would attract an inordinate quantity of financial inflows.



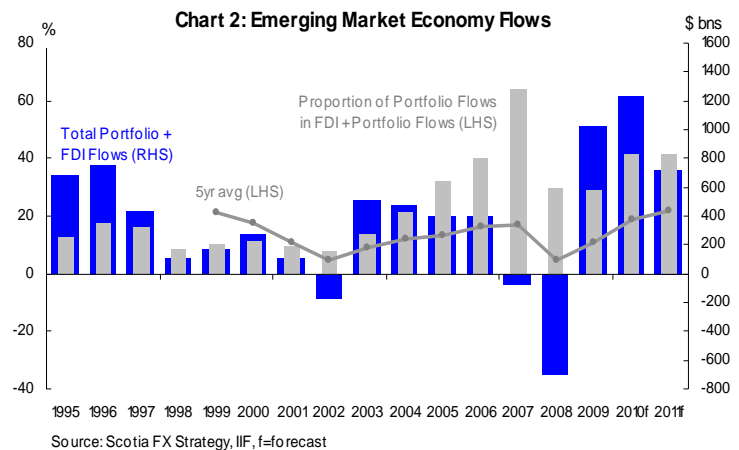
Given the rising trend in prices in the region, and the initial caution in tightening monetary policy (Indonesia and the Philippines remain notable laggards at this point), it appears that central banks are going to continue to make long Asian FX (short USD) positions attractive via higher yield pickup and/or further accommodation of appreciatory pressures on currencies. There is an important nuance to this however as the policy mix is going to be dependent on the type of inflows that each economy experiences. There have been administrative measures already put in place in a number of countries in order to tame upward pressure on currencies and dissuade capital flows of a certain nature. This is a crucial point as policy spreads between the two economic blocs increase, so will the magnetic pull on portfolio flows given attractive yields and higher expected returns on equity driven by robust growth. However, there are drawbacks to being such an attractive destination for portfolio capital. Portfolio flows are inherently unstable relative to FDI, with the risk of rapid outflows during times of financial stress implicit in every dollar of inflow. Unlike FDI flows, portfolio flows are by definition not invested in longer term projects that can increase the future productive capacity of an economy. FDI-investment can allow for nominal exchange rate appreciation without the same loss of competitiveness on a real effective basis. Indeed, portfolio flows have been found to have several orders of magnitude greater an appreciatory impact on the real exchange rate (acting through the nominal exchange rate) than FDI, suggesting that in the short run central banks are likely to want to resist inordinate appreciatory forces on the back of heavy portfolio interest.

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What of the outlook for the quantity and composition of capital flows to the region? The Institute of International Finance (IIF) tracks international capital flows and provides an estimate of flow trends across the globe. While we do not have sufficient historical data on EM Asia, we can certainly extrapolate Asian trends from the IIF data, given the importance of Asia as a destination for international capital. It is obvious that both private FDI and portfolio flows have rebounded impressively, but what has been particularly important is that the proportion of these flows due to portfolio investment has actually returned to levels not seen since the early nineties (as depicted in chart 2). Given the higher aggregate level of flows and the higher proportion attributable to portfolio flows, this dynamic suggests that capital flows risk placing a great deal of upwards pressure on real exchange rates. This is a point of concern for domestic policymakers, and it is likely that they will want to continue fighting this trend using intervention in the nominal exchange rate.



Certainly this has already been taking place, however policymakers are facing an increasing trade-off between intervention with reserve accumulation, that produces domestic liquidity and inflation risks, and nominal appreciation that will place more immediate upwards pressure on the real exchange rate. The policy mix that policymakers ultimately choose to pursue may be dependent on whether they receive greater flows from FDI sources, or greater flows from portfolio sources. Given the previous analysis, too great a volume of portfolio flows may suggest less exchange rate flexibility in order to fight nominal appreciation, however there is a paradoxical argument to entice policymakers to accommodate portfolio flows with exchange rate appreciation. Essentially, the more flexible an exchange rate is, the less risk there is that a persistent “one-way bet” mentality is engendered amongst investors who may not see the same risk-reward payoff should an exchange rate be allowed to respond more acutely to financial market conditions. Indeed, persistent financial market stress would stand to stop out USD shorts as the greenback appreciated on an unwind of risk/yield-seeking positions. This in turn would tame (but certainly not eliminate) the portfolio interest in EM Asian currencies. The perception of increased two-way volatility reduces the expected Sharpe ratios inherent in unhedged FX positions, and thus the attractiveness to international investors of taking on such positions. In addition, greater accommodation of FX appreciation may take some pressure off of the need to tighten domestic monetary policy as it not only constrains export-sourced growth, but also restrains any overly robust domestic monetary expansion that may result from rapidly growing FX reserves and the diminishing utility/increased costs to monetary authorities of sterilization. Of course this argument for increased exchange rate flexibility, that could certainly increase downside volatility, is not inconsistent with our bullish EM Asian FX / short USD view as we hold the fundamental outlook that the EM Asian FX complex remains undervalued in the near term.

In reality, we see it likely that countries facing portfolio flow risks will continue to utilize a multi-faceted approach and will look to administrative measures (withholding/financial taxes, minimum interest-free holding periods), reserve accumulation and gradual exchange rate appreciation. It is certain however that countries with wide current account surpluses and increasing policy rates on the back of more buoyant inflation outlooks will face no choice but to accommodate appreciatory pressures on their exchange rates vis-à-vis the USD, as increased flexibility will help ease pressure on portfolio flows.

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By our estimates (depicted in chart 1) the weighted average policy gap between the major Asian economies over the G-4 economies is projected to rise from the current 2.8% to between 3.5% and nearly 4% by October of 2011, depending on the pace of tightening. Indeed, with a robust growth outlook for these EM Asian economies, we can extrapolate a very supportive scenario for financial flows to EM Asia. Since 1995, the correlation between annual total private EM investment flows and EM Asian growth is a very strong 0.8 (compared with a weak 0.4 correlation with global growth, and a virtually insignificant -0.1 correlation with growth in the advanced economies). With Scotia's bullish view on the prospects for EM growth, combined with widening projected interest rate differentials, we can extrapolate very strong private investment flows for EM Asia over the next two years. Given the recent evidence, these flows are likely to have an historically elevated portfolio investment component. In fact, IIF data for the past few years suggests that the average proportion of private inflows due to portfolio investment over the coming years could be at least a very impressive one-third. This will necessitate the accommodation of further exchange rate appreciation against the USD, enhancing the attractiveness of our long EM Asian FX / short USD view.

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Beat the Street — Q4/10

We published on Monday our beat the Street report, which provides a preview of the upcoming earnings season.

S&P 500 Q4 Earnings Could Positively Surprise

- We believe S&P 500 earnings are en route to exceed expectations for an eighth consecutive quarter. Our optimism is underpinned by the following factors: (1) U.S. growth is accelerating; (2) strong operating leverage; (3) a low Negative-to-Positive preannouncement ratio (N/P); and (4) Q4 earnings are off to a good start.
- Moreover, the slight decline in the greenback in Q4 as well as the recent pick-up in share buybacks could also help Q4 earnings create some positive surprise.
- **U.S. growth is accelerating in Q4.** Both U.S. ISM indices improved in Q4. The manufacturing gauge averaged 56.8 in Q4 vs. 55.4 in Q3 and the ISM services increased to 55.5 from 53.0 in Q3. LEI, exports, industrial production, capacity utilization, retail sales, consumer confidence, and jobless claims also improved versus Q3.
- In Europe, the sovereign debt crisis is still a cause of concern. Although investors remain anxious, Q4 macro data released so far in the euro-zone has held up pretty well. As long as U.S. and European economic growth remains positive, earnings should maintain their upward trajectory.
- **Strong operating leverage.** Corporate America is benefitting from strong operating leverage, which is translating into rising profit margins. The rebound in profit margins has been spectacular. The Q4/08 trough in profit margin was amongst the highest in the last 50+ years, despite going through the sharpest economic downturn since the Great Depression. Since hitting 7% in Q4/08, profit margins have expanded to 11.1% in Q3/10. Margins are already standing two percentage points above their 50-year average of 9.1%.
- Although profit margins are approaching record high levels, we believe they still have room to expand over the coming quarters as capacity utilization moves up. With businesses still focused on cost savings and top-line growth and capacity utilization rising, operating leverage remains substantial, in our view.
- **N/P ratio below average.** There have been 91 negative EPS preannouncements for Q4/10 vs. 48 positive ones. The N/P ratio currently sits at 1.9 versus 2.3 in Q3/10. The N/P ratio is also slightly below the long-term average of 2.0. A low N/P ratio is a good omen entering the Q4/10 earnings season.
- **Q4 earnings off to a good start.** Most S&P 500 companies who have already reported Q4 numbers – i.e., those with a quarter ending in November or December – have surpassed analyst expectations, leading to a beat ratio of 67%. 18 of 27 companies reported a beat, with the average surprise coming in at +5% (excluding LEN).
- The same number of companies reported sales figures above expectations, with an average beat of 1%. These preliminary results could set the table for another better-than-expected earnings season in Q4.
- **Earnings growth... more than cost cutting.** Contrary to what many investors seem to believe, top-line growth is back. Corporate America remains very cost sensitive, but earnings growth is not exclusively driven by cost cuts. In fact, S&P 500 revenues were up 6% in 2010. The outlook for this year is robust with the global leading economic indicator pointing toward further top-line expansion. The bottom-up crowd is looking for 6% top-line growth in 2011. Cost cutting has been the driving force behind the turnaround in earnings, but top-line growth is now pulling its weight.

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S&P/TSX: Q4/10 Earnings Season Preview

- **S&P/TSX:** Based on bottom-up consensus forecasts, quarterly EPS should reach \$201 in Q4, which would mark the first \$200+ quarterly EPS figure since 2008. Bottom-up consensus is suggesting earnings growth of 19% YOY (see Exhibit 1). On a sequential basis (Q4/10 vs. Q3/10), TSX earnings are expected to grow 27%. This robust sequential improvement is mainly due to strong commodity prices and a "normalization" of insurance earnings after a two disastrous quarters.
- On a 12-month trailing basis, TSX EPS should hit \$691 in Q4/10, which would be the strongest reading since Q2/09 (\$696). TSX trailing earnings troughed at \$576 in Q2/09 and have rebounded 20% since then, lagging the 111% rebound in S&P 500 trailing earnings.
- **Sectors:** Seven TSX GICS sectors are expected to deliver sequential earnings growth in Q4 (fiscal Q1 for banks). As indicated in Exhibit 1, Health Care (+114%), Financials (+55%) and Utilities (+55%) should register the strongest EPS improvement in Q4. Energy (+29%) and Materials (+28%) are also expected to deliver solid financial results in Q4, lifted by a surge in commodity prices. Crude oil averaged US\$85/bbl in Q4 compared to US\$76/bbl in Q3, gold increased to US\$1,370/oz from US\$1,223/oz the preceding quarter, and copper's average price jumped to US\$3.93/lb from US\$3.30/lb in Q3. At the other end of the spectrum, three sectors are expected to post earnings contraction on a sequential basis: Telecom (-22%), Consumer Staples (-11%), and Industrials (-10%) are expected to lag.
- In Canada, we expect TSX earnings to come in relatively in-line with consensus. TSX Energy EPS could surprise on the upside; Financials and Gold should be relatively in-line with consensus, while Mining could disappoint.

Exhibit 1

S&P/TSX EPS: Q4/10 Consensus Estimates

	Q4/10 E		
	\$	QOQ	YOY
S&P/TSX	201	27%	19%
Energy	32	29%	13%
Materials	48	28%	53%
<i>Divers. M/Mining</i>	205	46%	72%
<i>Gold</i>	35	17%	26%
<i>Fertilizers</i>	59	44%	88%
Industrials	19	-10%	17%
<i>Transportation</i>	51	-16%	22%
<i>Capital Goods</i>	9	8%	11%
Cons. Discretionary	19	9%	28%
Cons. Staples	26	-11%	6%
Health Care	6	114%	-6%
Financials	34	55%	11%
<i>Banks</i>	40	18%	4%
<i>Insurance</i>	26	827%	33%
Technology	6	17%	44%
Telecom	15	-22%	20%
Utilities	30	55%	-5%
TSX 60	12	30%	17%
TSX Completion	11	16%	31%

Q4/10 estimates include companies with quarter ending in Nov., Dec., and Jan.

Source: Scotia Capital; Thomson Financial; Bloomberg

S&P 500: Q4/10 Earnings Season Preview

- **S&P 500** quarterly EPS is expected to reach US\$21.78 in Q4/10, suggesting a run-rate of US\$87 and 1% above Q3/10 (US\$21.56). Since quarterly earnings troughed in Q4/08, S&P 500 EPS has improved steadily and exceeded expectations for seven straight quarters. Year over year, S&P 500 EPS should expand 27% (see Exhibit 2). Yearly comparisons are still impressive due to a low earnings base last year, but that should change as soon as Q1/11.

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- The beat ratio should remain above its 10-year average of 65% for an eighth consecutive quarter. On a 12-month trailing basis, S&P 500 EPS should reach US\$83.63 in Q4, up from US\$79.01 in Q3 and US\$73.23 in Q2. Trailing earnings have increased 111% since their US\$39.61 trough in Q3/09.
- **Sectors:** Cyclical sectors are once again expected to display the strongest earnings momentum in Q4, but sector participation is narrower. Technology earnings should increase 9% QOQ, followed by Energy (+8%), and Discretionary (+7%). Financials EPS should gain 5% QOQ. However, consensus is looking for earnings contraction in Materials (-16% QOQ) and Industrials (-6%). Utilities (-41%) and Health Care (-2%) are also expected to register sequential earnings decline in Q4.

Exhibit 2

S&P 500 EPS: Q4/10 Consensus Estimates

	Q4/10 E			Contribution to Earnings	Sector Weighting (%)
	\$	QOQ	YOY		
S&P 500	21.78	1%	27%	100%	100%
Energy	9.05	7.8%	43%	12%	12%
Materials	2.73	-15.9%	29%	2%	4%
Industrials	4.56	-5.8%	10%	9%	11%
Cons. Discretionary	4.75	7.3%	10%	10%	11%
Cons. Staples	5.15	2.8%	4%	11%	10%
Health Care	7.29	-2.0%	16%	12%	11%
Financials	4.12	5.1%	169%	17%	16%
Technology	7.27	8.5%	13%	21%	19%
Telecom	1.92	4.8%	19%	2%	3%
Utilities	2.41	-41.4%	6%	3%	3%
S&P SmallCap 600	4.70	-3%	65%	n/a	n/a

Source: Scotia Capital, S&P

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Canadian Mortgage Rule Changes: Market Impact

The impact of the rule changes on financial markets is likely to be positive, but fairly modest. We do think the rule changes are positive at the margin for Canada Mortgage Bonds, reinforcing our previous recommendation to buy these securities (January 11, 2011 RV Weekly, January 14 Global Views).

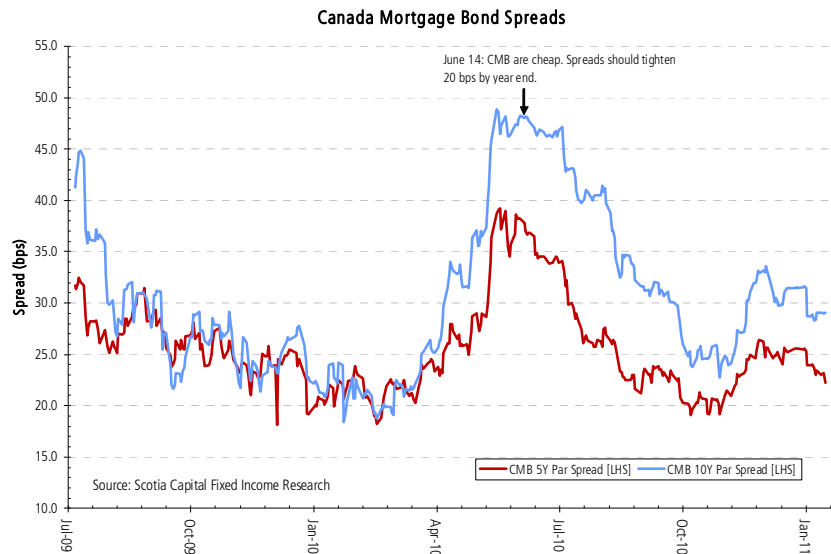
The changes in mortgage rules should mean a moderate decline in mortgage originations over time, as the housing market cools a bit, and some people find it less affordable to take out a mortgage. There will however likely be an increase in mortgage originations in the next two months before the rules take effect on March 18, followed by a drop off.

The longer-term decline in mortgage origination should be moderately positive for Canada Mortgage Bonds, because it means somewhat lower supply.

We were already expecting that CMB 5-year spreads would move back to 20 bps and perhaps to the mid teens this year. The prospect of lower supply adds some more support to this view, though is not enough for us to expect spreads to tighten further than we were already forecasting.

There is also likely to be some effect on interest rate swaps. The increased origination in the next two months may mean an increase in banks paying 5-year swaps to hedge their mortgage books, putting a bit of widening pressure on spreads. However, those flows should subside in the spring, if more mortgage demand is shifted forward to meet the March 18 deadline. To a somewhat lesser extent these similar kinds of mortgage hedging flows should affect 5-year Canada yields also, but it may be difficult to discern amid the usual market volatility.

In the view of my colleagues in credit research, there may be a modest effect on bank bonds. To the extent that banks originate fewer mortgages, issuance needs would be lower. This would be good for bank spreads at the margin, though the impact is likely fairly small, and consequently it may be difficult to discern this effect from other factors affecting spreads.



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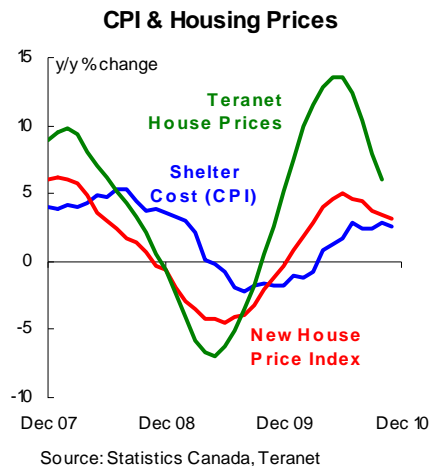
Key Data Preview

CANADA

Next week's Canadian economic calendar is light. Headline **CPI** (Tuesday) — currently at 1.9% y/y — has picked up since bottoming in mid-2009. However, this gain is largely attributable to the higher cost of food and energy and the implementation of the Harmonized Sales Tax in Ontario and British Columbia. Core prices remain below the BoC's target of 2.0%. With the Canadian housing market at cycle tops, the contribution from shelter — the biggest component of the consumer basket — seems to have started to moderate, softening core inflation. Home price indicators, to the like of the New Home Price Index (HPI) — which drives the shelter component of CPI — and the Teranet HPI reaffirm this view (see chart).

For December, we are forecasting a modest headline CPI gain of 0.1% m/m (2.5% y/y) and a decline of 0.2% m/m (1.5% y/y) at the core level. Retail gasoline prices retreated the most since May. Auto prices — new and used — were also lower, reflecting incentives and seasonal discounting. However, food prices should provide some offset, as agricultural commodities were up the most since early 2009. The likely sizeable y/y gains will primarily occur due to a strong base effects from the prior year.

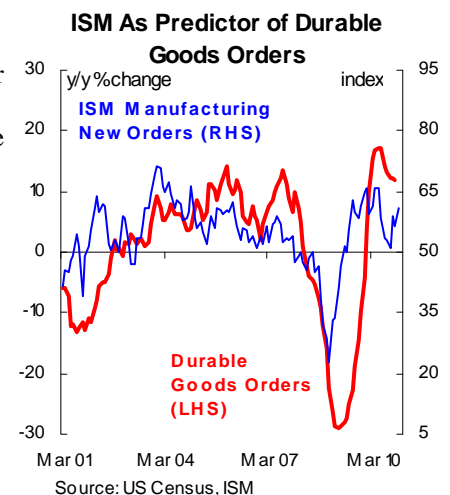
Teranet/National Bank HPI (Wednesday) — the best overall measure of house prices because it tracks repeat sales — has been declining for four months now, rolling back in November to a ten-month low in y/y terms. We expect this gauge to have extended the downward trend in November.



UNITED STATES

Friday's **GDP report** will provide the initial estimate of fourth-quarter GDP. Data released to date still leaves intact soft growth. Our forecast predicts a gain of 3.2% q/q annualized, a pickup relative to 2.6% in the previous quarter. Economist estimates range broadly from 2.9% to 5.6%. Most support is still likely to have come from household consumption, exports and government expenditure, although, after the prior quarter's sharp gain, inventories are likely to act as a drag.

Durable goods orders (Thursday) are expected to have advanced in December, with our forecast looking for a headline gain of 1.3% m/m — partly supported by a strong base effect — and a more modest core (ex. transportation) advance of 0.8%. Leading indicators reaffirm this view. According to the December ISM manufacturing index (see chart), growth in orders picked up the most since May. Industry data suggest that the demand for commercial aircraft and vehicles was stronger in December, which should boost the headline print. Stronger defense procurement, higher metal prices and reports of increased capital spending (as per regional manufacturing surveys) will provide support for core components.



The string of housing releases continues into next week. **Pending existing home sales** (Thursday) will provide insight on whether rising mortgage rates are starting to have any impact on the resale activity and an update on what's coming down the pipeline for existing home sales. A modest decline in mortgage applications and unchanged buying intentions for resale properties in December suggest that we could see that translate into a small decline in pending home sales, with our forecast looking for a retreat of about 0.2% m/m. **New home sales** (Wednesday) have been moving along the floor since mid-2010, after the extended first-time homebuyers' tax credit expired. We do not expect to see a significant change in December, or, rather, at least not until labour market conditions improve more sustainably. New home sales are considered to be a more timely housing market indicator than existing home sales, as there is no lag between mortgage applications and contract closure.

Key Indicators for the week of January 24 - 28

North America

Country	Date	Time	Event	Period	BNS	Consensus	Latest
CA	01/25	07:00	Consumer Price Index MoM	DEC	0.1	0.1	0.10%
CA	01/25	07:00	Consumer Price Index YoY	DEC	2.5	2.5	2.00%
CA	01/25	07:00	Bank Canada CPI Core MoM	DEC	-0.2	-0.1	0.00%
CA	01/25	07:00	Bank Canada CPI Core YoY	DEC	1.6	1.6	1.40%
MX	01/25	09:00	Trade Balance	DEC P	--	-249M	-105M
US	01/25	09:00	S&P/CS 20 City MoM% SA	NOV	-1.00%	-0.95%	-0.99%
US	01/25	10:00	Consumer Confidence	JAN	53.5	54.2	52.5
US	01/25	10:00	House Price Index MoM	NOV	--	--	0.70%
US	01/25	10:00	Richmond Fed Manufact. Index	JAN	22.0	22.0	25.0
US	01/26	07:00	MBA Mortgage Applications	21-Jan	--	--	--
MX	01/26	09:00	Retail Sales (INEGI)	NOV	--	4.10%	4.40%
CA	01/26	09:00	Teranet/National Bank HPI YoY%	NOV	4.00%	5.10%	6.00%
US	01/26	10:00	New Home Sales	DEC	280K	300K	290K
US	01/26	10:00	New Home Sales MoM	DEC	-1.5%	3.50%	5.50%
US	01/26	14:15	FOMC Rate Decision	26-Jan	0.25%	0.25%	0.25%
US	01/27	08:30	Chicago Fed Nat Activity Index	DEC	--	0.10	-0.46
US	01/27	08:30	Durable Goods Orders	DEC	1.3%	1.50%	-0.30%
US	01/27	08:30	Durables Ex Transportation	DEC	0.0%	0.90%	3.60%
US	01/27	08:30	Cap Goods Orders Nondef Ex Air	DEC	--	1.30%	2.60%
US	01/27	08:30	Initial Jobless Claims	22-Jan	415K	408K	404K
US	01/27	08:30	Continuing Claims	15-Jan	3880K	3880K	3861K
US	01/27	10:00	Pending Home Sales MoM	DEC	-0.20%	1.00%	3.50%
MX	01/28		Budget Balance (Year to date)	DEC	--	--	-225.04B
US	01/28	08:30	Employment Cost Index	4Q	--	0.50%	0.40%
US	01/28	08:30	GDP QoQ (Annualized)	4Q A	3.20%	3.50%	2.60%

Europe

Country	Date	Time	Event	Period	BNS	Consensus	Latest
FR	01/24	03:00	PMI Manufacturing	JAN P	--	57.3	57.2
FR	01/24	03:00	PMI Services	JAN P	--	55.2	54.9
GE	01/24	03:30	PMI Manufacturing	JAN A	--	60.9	60.7
GE	01/24	03:30	PMI Services	JAN A	--	59.0	58.3
EC	01/24	04:00	PMI Composite	JAN A	--	55.6	55.5
EC	01/24	04:00	PMI Manufacturing	JAN A	--	57.0	57.1
EC	01/24	04:00	PMI Services	JAN A	--	54.3	54.2
EC	01/24	05:00	Industrial New Orders SA (MoM)	NOV	--	1.90%	1.40%
HU	01/24	08:00	Hungary Base Rate Announcement	25-Jan	6.00%	6.00%	5.75%
GE	01/25	02:00	GfK Consumer Confidence Survey	FEB	--	5.4	5.4
FR	01/25	02:45	Consumer Spending (MoM)	DEC	--	0.30%	2.80%
SP	01/25	03:00	Producer Prices (YoY)	DEC	--	5.00%	4.40%
UK	01/25	04:30	GDP (QoQ)	4Q A	0.50%	0.50%	0.70%
UK	01/25	04:30	Public Finances (PSNCR)	DEC	--	16.3B	16.8B
SP	01/25		Spain Business Confidence	4Q	--	--	-17.3
SP	01/26	03:00	Mortgages on Houses (YoY)	NOV	--	--	-24.30%
IT	01/26	04:00	Retail Sales s.a. (MoM)	NOV	--	0.00%	0.30%
UK	01/26	04:30	Bank of England Minutes				
UK	01/26	04:30	BBA Loans for House Purchase	DEC	--	--	29991
NO	01/26	08:00	Norwegian Deposit Rates	26-Jan	2.00%	--	2.00%
FR	01/26	12:00	Jobseekers- Net Change	DEC	--	0.0	21.3
FR	01/26	12:00	Total Jobseekers	DEC	--	--	2698.1
UK	01/26	19:01	Hometrack Housing Survey (MoM)	JAN	--	--	-0.40%
FR	01/27	02:45	Consumer Confidence Indicator	JAN	--	--	-36
SP	01/27	03:00	Retail Sales (Real) (YoY)	DEC	--	--	-1.00%
GE	01/27		CPI - Brandenburg (MoM)	JAN	--	--	1.10%
GE	01/27		CPI - Bavaria (MoM)	JAN	--	--	0.80%
GE	01/27		CPI - Baden Wuerttemberg (MoM)	JAN	--	--	0.90%
GE	01/27		CPI - Hesse (MoM)	JAN	--	--	1.10%
GE	01/27		CPI - North Rhine-West. (MoM)	JAN	--	--	1.10%
GE	01/27		CPI - Saxony (MoM)	JAN	--	--	1.20%
SP	01/28	03:00	Labour Costs (YoY)	4Q	--	--	--
SP	01/28	03:00	Unemployment Rate (Survey)	4Q	--	20.20%	19.79%
IT	01/28	03:30	Consumer Confidence Ind. sa	JAN	--	109.0	109.1
PO	01/28		Bank of Portugal Publishes Bank Survey on Credit Market				
RU	JAN 25-26		Industrial Production (YoY)	DEC	--	6.50%	6.70%
RU	JAN 26-28		Retail Sales (Real) (MoM)	DEC	--	19.20%	-1.00%

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

Key Indicators for the week of January 24 - 28

Asia Pacific

Country	Date	Time	Event	Period	BNS	Consensus	Latest
SI	01/24	00:00	CPI (YoY)	DEC	--	4.50%	3.80%
AU	01/24	18:00	Conference Board Leading Index	NOV	--	--	0.60%
AU	01/24	19:30	Consumer Prices (YoY)	4Q	--	3.00%	2.80%
AU	01/24	19:30	RBA Trimmed Mean (QoQ)	4Q	--	0.70%	0.60%
AU	01/24	19:30	RBA Weighted Median (QoQ)	4Q	--	0.70%	0.50%
PH	01/24	20:00	Trade Balance	NOV	--	--	-\$112M
IN	01/25	01:00	India REPO Cutoff Yld	25-Jan	--	6.50%	6.25%
IN	01/25	01:00	Cash Reserve Ratio	25-Jan	--	6.00%	6.00%
IN	01/25	01:00	Reverse Repo Rate	25-Jan	5.50%	5.50%	5.25%
HK	01/25	03:30	Trade Balance	DEC	--	-33.7B	-23.5B
JN	01/25		BOJ Target Rate	25-Jan	0.10%	--	0.10%
SK	01/25	16:00	SK Consumer Confidence	JAN	--	--	109
SK	01/25	18:00	GDP at Constant Price (QoQ)	4Q P	--	--	0.70%
SI	01/26	00:00	Industrial Production MoM SA	DEC	--	-3.1%	1.10%
NZ	01/26	15:00	RBNZ Official Cash Rate	27-Jan	3.00%	3.00%	3.00%
SK	01/26	18:00	Current Account in US\$ Million	DEC	--	--	\$1930.0M
JN	01/26	18:50	Merchnds Trade Balance Total	DEC	--	¥465.0B	¥161.1B
JN	01/26	18:50	Merchnds Trade Exports YoY	DEC	--	9.3	9.1
JN	01/26	18:50	Merchnds Trade Imports YoY	DEC	--	12.0	14.2
PH	01/26	21:00	Annual GDP (YoY)	31-Dec	--	--	0.90%
MA	01/27	05:00	Overnight Rate	27-Jan	2.75%	--	2.75%
MU	01/27		Unemployment Rate	DEC	--	--	2.80%
JN	01/27	18:30	Job-To-Applicant Ratio	DEC	--	0.58	0.57
JN	01/27	18:30	Overall Hhold Spending (YoY)	DEC	--	-0.6%	-0.40%
JN	01/27	18:30	Jobless Rate	DEC	--	5.10%	5.10%
JN	01/27	18:30	Natl CPI YoY	DEC	--	-0.10%	0.10%
JN	01/27	18:30	Natl CPI Ex Food, Energy YoY	DEC	--	-0.80%	-0.90%
JN	01/27	18:50	Retail Trade MoM SA	DEC	--	-1.40%	2.10%

Latin America

Country	Date	Time	Event	Period	BNS	Consensus	Latest
BZ	01/25		Current Account - Monthly	DEC	--	-\$3080M	-\$4696M
CO	01/25	16:00	Trade Balance	NOV	--	\$62.00	\$150.70
BZ	01/27	05:00	FGV Consumer Confidence	JAN	--	--	122.5
BZ	01/27	05:30	COPOM Monetary Policy Meeting Minutes				
BZ	01/27	06:00	Unemployment Rate	DEC	--	5.20%	5.70%
BZ	01/28	05:00	FGV Inflation IGP-M (MoM)	JAN	--	0.74%	0.69%
BZ	01/28	05:00	FGV Inflation IGP-M (YoY)	JAN	--	11.46%	11.32%
CL	01/28	06:30	Central Bank Meeting Minutes				
BZ	01/28		Central Govt Budget	DEC	--	--	1.1B
CL	01/28	07:00	Industrial Production (YoY)	DEC	--	4.00%	2.50%
CL	01/28	07:00	Industrial Sales YoY	DEC	--	5.20%	4.80%
CL	01/28	07:00	Copper Production Total	DEC	--	--	467478

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

Global Auctions for the week of January 24 - 28

North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	01/24	11:00	U.S. Fed to Purchase USD7-9 Bln Notes/Bonds
US	01/24	11:30	U.S. to Sell 3-Month Bills
US	01/24	11:30	U.S. to Sell 6-Month Bills
US	01/25	11:00	U.S. Fed to Purchase USD6-8 Bln Notes/Bonds
US	01/25	11:30	U.S. to Sell 4-Week Bills
US	01/25	13:00	U.S. to Sell 2-Year Notes
CA	01/26	12:00	Canada to Sell 2-Year Notes
US	01/26	13:00	U.S. to Sell 5-Year Notes
US	01/27	11:00	U.S. Fed to Purchase USD4-6 Bln Notes/Bonds
US	01/27	13:00	U.S. to Sell 7-Year Notes
US	01/28	11:00	U.S. Fed to Purchase USD7-9 Bln Notes/Bonds

Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
GE	01/24	05:15	Germany to Sell EU3 Bln 12-Mth Bills
HU	01/24	05:30	Hungary to Sell 6-Week Bills
PD	01/24	06:00	Poland to Sell Up to PLN2 Bln 27-Week T-bills
FR	01/24	09:00	France to Sell Bills
NE	01/25	04:00	Netherlands to Sell Up to EU3.0Bln 2012 & 2017 Bonds
DE	01/25	04:15	Denmark to Sell Bonds
SP	01/25	04:30	Spain to Sell 3, 6-Month Bills
SZ	01/25	05:30	Switzerland to Sell 3-Month Bills
HU	01/25	05:30	Hungary to Sell 3-Month Bills
HU	01/25	06:00	Hungary's Central Bank to Sell 2-Week Bills
IT	01/26	05:00	Italy to Sell Bills & Zero Coupon Notes
SW	01/26	05:10	Sweden to Sell Bonds
GE	01/26	05:15	Germany to Sell Add'l EU2 Bln 30-Year Notes
CZ	01/26	06:00	Czech Rep. to Sell CZK5 Bln Floating Rate Bonds Due May 2024
RU	01/26	06:00	Russia to Sell Up to RUB30 Bln OFZ Bonds
IT	01/27	05:00	Italy to Sell I/L Bonds
HU	01/27	05:30	Hungary to Sell Bonds
CZ	01/27	06:00	Czech Republic to Sell CZK7 Bln 91-Day Bills
IT	01/28	05:00	Italy to Sell Bonds/Floating Rate Notes
UK	01/28	06:10	U.K. to Sell Bills

Source: Bloomberg, Scotia Economics.

Global Auctions for the week of January 24 - 28

Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
PH	01/24	00:00	Philippines to Sell PHP 1 Bln 91D T-bills
PH	01/24	00:00	Philippines to Sell PHP 3.5 Bln 182D T-bills
PH	01/24	00:00	Philippines to Sell PHP 4 Bln 364D T-bills
JN	01/24	03:00	Japan Auction for Enhanced-Liquidity
TH	01/24	22:00	Bank of Thailand to Sell THB25 Bln 28D Bills
TH	01/24	22:00	Bank of Thailand to Sell THB22 Bln 91D Bills
TH	01/24	22:00	Bank of Thailand to Sell THB15 Bln 182D Bills
TH	01/24	22:00	Bank of Thailand to Sell THB40 Bln Bonds due 2013
HK	01/24	22:30	Hong Kong to Sell HKD25.741 Bln 91-Day Bills
HK	01/24	22:30	Hong Kong to Sell HKD9 Bln 182-Day Bills
IN	01/25	06:30	India to Sell INR 40Bln 91-Day Bills
IN	01/25	06:30	India to Sell INR 10Bln 364-Day Bills
CH	01/25	22:00	China Government Bond to Sell 7 Year Bond
TH	01/25	22:00	Thailand to Sell THB7 Bln Bonds due 2021
JN	01/25	22:35	Japan to Sell 3-Month Bills
JN	01/26	22:45	Japan to Sell 2-Year Bond
SI	01/26	23:00	Singapore to sell 2-Year Bonds
NZ	01/27	20:30	New Zealand Plans to Sell Government Bonds

Source: Bloomberg, Scotia Economics.

Events for the week of January 24 - 28

North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	01/26	09:00	Fed's Open Market Committee Meets on Interest Rates, Economy

Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
HU	01/24	08:00	Hungary Base Rate Announcement
EC	01/25	11:00	EU's Van Rompuy Speaks at Think Tank Conference
SZ	01/26	00:00	World Economic Forum in Davos
UK	01/26	04:30	Bank of England Releases Monetary Policy Committee Minutes
NO	01/26	08:00	Norwegian Deposit Rates
EC	01/26	11:00	ECB's Stark Speaks in Kiel, Germany
EC	01/27	05:30	ECB's Bini Smaghi Speaks in Bologna
SP	01/27	08:00	ECB's Gonzalez-Paramo Speaks in Madrid
EC	01/27	13:00	ECB's Tumpel Gugerell Speaks in Mainz, Germany
EC	01/27	13:00	EU's Van Rompuy, KBC's Vanhevel Speak in Brussels
PO	01/28		Bank of Portugal Publishes Bank Survey on Credit Market
GE	01/28	11:30	Chancellor Angela Merkel to Speak at Davos Economic Forum
PD	01/28		Prime Minister Donald Tusk Press Conference on Finances Reform

Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
JN	JAN 24-25		BOJ to Hold Regular Policy-Setting Board Meeting in Tokyo
IN	01/25	01:00	REPO Cutoff Yield
TH	01/26	00:00	BOT Governor's Speech on Policy Direction 2011
NZ	01/26	15:00	Reserve Bank of New Zealand Reviews Official Interest Rate
NZ	01/26	16:00	Government Financial Statements
MA	01/27	05:00	Overnight Rate
NZ	01/27	18:30	Reserve Bank Governor Bollard Speaks at Canterbury Luncheon

Latin America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
BZ	01/27	05:30	COPOM Monetary Policy Meeting Minutes

Source: Bloomberg, Scotia Economics.

Global Central Bank Watch

North America

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
Bank of Canada – Overnight Target Rate	1.00	March 1, 2011	1.00	--
Federal Reserve – Federal Funds Target Rate	0.25	January 26, 2011	0.25	0.25
Banco de México – Overnight Rate	4.50	March 4, 2011	4.50	4.50

Comments: The Federal Reserve will remain on hold next week, but may signal more optimism on the economy while remaining committed to completing its planned Treasury purchases by the end of 2011Q2. The greater risk lies in who may replace Hoenig as a dissenter. See our FOMC preview piece in this issue. As expected, the central bank of Mexico left unchanged its interest rate at 4.50%; however, some concerns over international food prices have started to rise.

Europe

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
European Central Bank – Refinancing Rate	1.00	February 3, 2011	1.00	--
Bank of England – Bank Rate	0.50	February 10, 2011	0.50	0.50
Swiss National Bank – Libor Target Rate	0.25	March 17, 2011	0.25	--
Central Bank of Russia – Refinancing Rate	7.75	TBA	--	--
Hungarian National Bank – Base Rate	5.75	January 24, 2011	6.00	6.00
Central Bank of the Republic of Turkey – 1 Week Repo Rate	6.25	February 15, 2011	6.25	--

Comments: Despite intensifying price pressures in the UK, we maintain our view that the Bank of England will remain on hold for an extended period of time as the economic outlook will be challenged by fiscal consolidation efforts. Monetary tightening is expected to continue in Hungary on the back of persistent inflationary pressures and elevated risk aversion towards Hungarian assets.

Asia Pacific

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
Bank of Japan – Target Rate	0.10	January 25, 2011	0.10	0.10
Reserve Bank of Australia – Cash Target Rate	4.75	January 31, 2011	4.75	4.75
Reserve Bank of New Zealand – Cash Rate	3.00	January 26, 2011	3.00	3.00
People's Bank of China – Lending Rate	5.81	TBA	--	--
Reserve Bank of India – Repo Rate	6.25	January 25, 2011	6.50	6.50
Hong Kong Monetary Authority – Base Rate	0.50	TBA	--	--
Bank Negara Malaysia – Overnight Policy Rate	2.75	January 27, 2011	2.75	2.75
Bank of Korea – Bank Rate	2.75	February 10, 2011	--	--
Bank of Thailand – Repo Rate	2.25	March 9, 2011	--	--

Comments: The Reserve Bank of India will likely raise the benchmark interest rate by 25 basis points next week. Wholesale price inflation accelerated in December on the back of continued increases in primary products and fuels. Manufacturing goods prices picked up only slightly reflecting recent rupee strength.

Latin America

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
Banco Central do Brasil – Selic Rate	11.25	March 2, 2011	11.75	--
Banco Central de Chile – Overnight Rate	3.25	February 17, 2011	3.25	--
Banco de la República de Colombia – Lending Rate	3.00	January 31, 2011	3.00	3.00
Banco Central de Reserva del Perú – Reference Rate	3.25	February 10, 2011	3.50	--

Comments: The central bank of Brazil has begun another cycle of interest rate hikes responding to increasing annual inflation, which remains close to 6.0%. The so-called SELIC rate was increased by 50 basis points to 11.25% as expected, sending clear signs that the "process of adjustment" is starting despite currency appreciation.

Africa

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
South African Reserve Bank – Repo Rate	5.50	March 24, 2011	5.50	--

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

	2000-09	2010e	2011f	2012f	2000-09	2010e	2011f	2012f
Output and Inflation (annual % change)	Real GDP				Consumer Prices²			
World ¹	3.6	4.9	4.2	4.4				
Canada	2.1	2.9	2.4	2.7	2.1	1.8	2.1	2.2
United States	1.8	2.8	2.7	2.9	2.6	1.7	1.5	1.6
Mexico	1.9	5.1	3.5	4.0	4.9	4.5	4.0	3.5
United Kingdom	2.7	1.8	1.6	1.7	2.2	3.1	3.3	2.7
Euro zone	1.2	1.9	1.4	1.6	2.1	2.2	2.3	2.3
Japan	0.7	3.4	1.6	2.7	-0.3	-0.5	0.7	1.0
Australia	3.0	3.0	3.5	3.3	3.2	3.0	2.8	2.5
China	10.2	10.0	9.5	9.7	2.0	3.5	4.5	4.0
India	7.2	8.3	8.5	8.8	5.7	7.0	5.5	5.0
Korea	4.5	5.8	5.0	5.3	3.2	3.0	3.3	3.0
Brazil	2.9	7.5	5.5	5.0	6.6	5.8	5.2	5.0
Chile	3.7	5.0	6.0	5.5	3.4	3.7	3.5	3.0
Peru	5.1	8.5	6.8	7.2	2.5	2.4	3.0	3.0
Central Bank Rates (% end of period)	11Q1f	11Q2f	11Q3f	11Q4f	12Q1f	12Q2f	12Q3f	12Q4f
Bank of Canada	1.00	1.00	1.00	1.50	2.00	2.25	2.25	2.25
Federal Reserve	0.25	0.25	0.25	0.25	0.75	1.25	1.75	2.00
European Central Bank	1.00	1.00	1.00	1.25	1.50	1.75	2.00	2.25
Bank of England	0.50	0.50	0.50	0.75	1.00	1.25	1.50	1.75
Swiss National Bank	0.25	0.25	0.25	0.50	0.50	0.75	0.75	1.00
Bank of Japan	0.10	0.10	0.10	0.10	0.10	0.25	0.25	0.50
Reserve Bank of Australia	5.00	5.00	5.25	5.50	5.75	6.00	6.25	6.50
Exchange Rates (end of period)								
Canadian Dollar (USDCAD)	1.00	0.99	0.98	0.96	0.96	0.95	0.95	0.94
Canadian Dollar (CADUSD)	1.00	1.01	1.02	1.04	1.04	1.05	1.05	1.06
Euro (EURUSD)	1.33	1.33	1.35	1.37	1.39	1.41	1.43	1.45
Sterling (GBPUSD)	1.58	1.60	1.61	1.63	1.65	1.67	1.69	1.70
Yen (USDJPY)	82	83	84	84	86	87	89	90
Australian Dollar (AUDUSD)	1.03	1.05	1.06	1.08	1.07	1.08	1.09	1.10
Chinese Yuan (USDCNY)	6.5	6.3	6.2	6.1	6.0	5.9	5.8	5.8
Mexican Peso (USDMXN)	12.5	12.6	12.7	12.8	12.9	13.0	13.1	13.2
Brazilian Real (USDBRL)	1.66	1.66	1.65	1.65	1.66	1.67	1.69	1.70
Commodities (annual average)	2000-09	2010e	2011f	2012f				
WTI Oil (US\$/bbl)	51	79	95	98				
Nymex Natural Gas (US\$/mmbtu)	5.95	4.40	4.40	4.75				
Copper (US\$/lb)	1.78	3.40	4.50	4.25				
Zinc (US\$/lb)	0.73	0.98	1.03	1.05				
Nickel (US\$/lb)	7.11	9.85	10.00	8.00				
Gold, London PM Fix (US\$/oz)	522	1,225	1,500	1,450				
Pulp (US\$/tonne)	668	960	875	960				
Newsprint (US\$/tonne)	572	607	685	710				
Lumber (US\$/mfbm)	275	252	250	300				

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

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

Canada	2009	10Q2	10Q3	Latest	United States	2009	10Q2	10Q3	Latest
Real GDP (annual rates)	-2.5	2.3	1.0		Real GDP (annual rates)	-2.6	1.7	2.6	
Current Acc. Bal. (C\$B, ar)	-43.5	-51.9	-70.1		Current Acc. Bal. (US\$B, ar)	-378	-493	-509	
Merch. Trade Bal. (C\$B, ar)	-4.6	-9.4	-26.5	-1.0 (Nov)	Merch. Trade Bal. (US\$B, ar)	-507	-678	-685	-614 (Nov)
Industrial Production	-9.4	6.2	7.9	6.2 (Oct)	Industrial Production	-9.3	7.8	6.9	5.7 (Dec)
Housing Starts (000s)	149	199	192	172 (Dec)	Housing Starts (millions)	0.55	0.60	0.59	0.53 (Dec)
Employment	-1.6	1.8	2.1	2.1 (Dec)	Employment	-4.3	-0.5	0.2	0.8 (Dec)
Unemployment Rate (%)	8.3	8.0	8.0	7.6 (Dec)	Unemployment Rate (%)	9.3	9.6	9.6	9.4 (Dec)
Retail Sales	-2.9	4.9	3.6	5.3 (Nov)	Retail Sales	-7.2	7.5	6.1	8.2 (Dec)
Auto Sales (000s)	1459	1518	1609	1561 (Nov)	Auto Sales (millions)	10.4	11.3	11.6	12.5 (Dec)
CPI	0.3	1.4	1.8	2.0 (Nov)	CPI	-0.4	1.8	1.2	1.5 (Dec)
IPPI	-3.5	0.7	1.0	2.1 (Nov)	PPI	-2.6	4.4	3.8	4.0 (Dec)
Pre-tax Corp. Profits	-32.3	26.3	16.0		Pre-tax Corp. Profits	-1.2	46.7	34.8	
Mexico					Brazil				
Real GDP	-6.1	7.6	5.3		Real GDP	-0.6	8.5	5.9	
Current Acc. Bal. (US\$B, ar)	-6.2	-2.5	-7.4		Current Acc. Bal. (US\$B, ar)	-24.3	-46.7	-45.2	
Merch. Trade Bal. (US\$B, ar)	-4.6	-0.2	-9.2	-1.3 (Nov)	Merch. Trade Bal. (US\$B, ar)	25.3	28.0	19.4	64.4 (Dec)
Industrial Production	-7.4	7.9	6.3	5.3 (Nov)	Industrial Production	-7.2	14.2	8.1	4.1 (Nov)
CPI	5.3	4.0	3.7	4.4 (Dec)	CPI	5.2	5.5	5.0	6.6 (Dec)
Argentina					Italy				
Real GDP	0.9	11.8	8.6		Real GDP	-5.1	1.3	1.1	
Current Acc. Bal. (US\$B, ar)	11.0	12.8	3.6		Current Acc. Bal. (US\$B, ar)	-0.06	-0.08	-0.07	-0.08 (Nov)
Merch. Trade Bal. (US\$B, ar)	16.9	21.4	12.0	4.7 (Nov)	Merch. Trade Bal. (US\$B, ar)	-8.0	-32.1	-22.9	-55.5 (Nov)
Industrial Production	0.1	10.1	9.3	12.8 (Nov)	Industrial Production	-18.2	7.7	6.3	4.2 (Nov)
CPI	-26.9	93.3	89.8	10.9 (Dec)	CPI	0.8	1.5	1.6	1.9 (Dec)
Germany					France				
Real GDP	-4.7	3.9	3.9		Real GDP	-2.8	1.8	2.0	
Current Acc. Bal. (US\$B, ar)	168.9	132.0	148.1	197.5 (Nov)	Current Acc. Bal. (US\$B, ar)	-52.2	-58.3	-41.8	-131.0 (Nov)
Merch. Trade Bal. (US\$B, ar)	193.4	179.3	205.9	193.3 (Nov)	Merch. Trade Bal. (US\$B, ar)	-31.4	-42.3	-40.0	-34.0 (Nov)
Industrial Production	-15.5	12.2	10.2	11.1 (Nov)	Industrial Production	-13.5	7.4	5.3	5.1 (Nov)
Unemployment Rate (%)	8.2	7.7	7.6	7.5 (Dec)	Unemployment Rate (%)	9.5	9.8	9.7	9.8 (Nov)
CPI	0.3	1.1	1.2	1.7 (Dec)	CPI	0.1	1.6	1.5	1.8 (Dec)
Euro Zone					United Kingdom				
Real GDP	-4.0	1.9	1.9		Real GDP	-4.9	1.6	2.7	
Current Acc. Bal. (US\$B, ar)	-69.2	-104	-43	-99 (Nov)	Current Acc. Bal. (US\$B, ar)	-37.1	-28.3	-63.9	
Merch. Trade Bal. (US\$B, ar)	54.7	17.1	43.0	15.9 (Nov)	Merch. Trade Bal. (US\$B, ar)	-128.7	-135.3	-159.6	-167.7 (Nov)
Industrial Production	-14.8	9.0	7.1	7.4 (Nov)	Industrial Production	-10.1	1.5	3.2	3.3 (Nov)
Unemployment Rate (%)	9.4	9.9	9.9	10.0 (Nov)	Unemployment Rate (%)	7.6	7.8	7.8	7.9 (Oct)
CPI	0.3	1.5	1.7	2.2 (Dec)	CPI	2.2	3.4	3.1	3.7 (Dec)
Japan					Australia				
Real GDP	-6.3	3.5	5.0		Real GDP	1.3	3.1	2.7	
Current Acc. Bal. (US\$B, ar)	141.8	156.9	227.5	135.0 (Nov)	Current Acc. Bal. (US\$B, ar)	-41.4	-12.3	-33.5	
Merch. Trade Bal. (US\$B, ar)	29.1	59.9	84.6	62.0 (Nov)	Merch. Trade Bal. (US\$B, ar)	-3.2	31.9	27.3	7.1 (Nov)
Industrial Production	-21.8	21.1	12.9	4.2 (Nov)	Industrial Production	-1.6	6.9	5.0	
Unemployment Rate (%)	5.1	5.2	5.1	5.1 (Nov)	Unemployment Rate (%)	5.6	5.2	5.2	5.0 (Dec)
CPI	-1.4	-0.9	-0.8	0.1 (Nov)	CPI	1.8	3.1	2.8	
China					South Korea				
Real GDP	9.1	10.3	9.6		Real GDP	0.2	7.2	4.4	
Current Acc. Bal. (US\$B, ar)	297.1				Current Acc. Bal. (US\$B, ar)	32.8	34.3	37.6	23.2 (Nov)
Merch. Trade Bal. (US\$B, ar)	195.7	164.3	261.4	157.0 (Dec)	Merch. Trade Bal. (US\$B, ar)	40.4	58.0	45.7	44.9 (Dec)
Industrial Production	18.5	13.7	13.3	13.5 (Dec)	Industrial Production	-1.3	19.5	14.1	9.0 (Nov)
CPI	1.9	2.9	3.6	4.6 (Dec)	CPI	2.8	2.6	2.9	3.5 (Dec)

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

Source: Bloomberg, Scotia Economics.

Interest Rates (% , end of period)

Canada	10Q3	10Q4	Jan/14	Jan/21*	United States	10Q3	10Q4	Jan/14	Jan/21*
BoC Overnight Rate	1.00	1.00	1.00	1.00	Fed Funds Target Rate	0.25	0.25	0.25	0.25
3-mo. T-bill	1.01	1.05	1.03	1.03	3-mo. T-bill	0.15	0.12	0.15	0.15
10-yr Gov't Bond	2.76	3.12	3.27	3.34	10-yr Gov't Bond	2.51	3.29	3.32	3.42
30-yr Gov't Bond	3.36	3.53	3.69	3.76	30-yr Gov't Bond	3.68	4.33	4.53	4.58
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US\$B)	59.4		58.1	(Nov)	FX Reserves (US\$B)	122.1		119.2	(Nov)
Germany					France				
3-mo. Interbank	0.86	0.96	0.88	0.92	3-mo. T-bill	0.51	0.40	0.41	0.53
10-yr Gov't Bond	2.28	2.96	3.03	3.17	10-yr Gov't Bond	2.66	3.36	3.40	3.49
FX Reserves (US\$B)	62.4		61.3	(Nov)	FX Reserves (US\$B)	52.2		52.9	(Nov)
Euro-Zone					United Kingdom				
Refinancing Rate	1.00	1.00	1.00	1.00	Repo Rate	0.50	0.50	0.50	0.50
Overnight Rate	0.88	0.82	0.38	0.71	3-mo. T-bill	4.85	4.85	4.85	4.85
FX Reserves (US\$B)	300.1		296.1	(Nov)	10-yr Gov't Bond	2.95	3.40	3.61	3.70
Japan					FX Reserves (US\$B)	67.2		65.1	(Nov)
Discount Rate	0.30	0.30	0.30	0.30	Australia				
3-mo. Libor	0.15	0.13	0.13	0.13	Cash Rate	4.50	4.50	4.75	4.75
10-yr Gov't Bond	0.94	1.13	1.21	1.22	10-yr Gov't Bond	4.96	5.55	5.55	5.65
FX Reserves (US\$B)	1077.4		1067.0	(Nov)	FX Reserves (US\$B)	38.1		38.3	(Nov)

Exchange Rates (end of period)

USDCAD	1.03	1.00	0.99	0.99	¥/US\$	83.52	81.16	82.87	82.63
CADUSD	0.97	1.00	1.01	1.01	US\$/Australian\$	96.71	102.33	98.87	98.91
GBPUSD	1.572	1.561	1.587	1.600	Chinese Yuan/US\$	6.69	6.59	6.59	6.59
EURUSD	1.363	1.339	1.339	1.358	South Korean Won/US\$	1138	1125	1115	1119
JPYEUR	0.88	0.92	0.90	0.89	Mexican Peso/US\$	12.593	12.360	12.033	12.059
USDCHF	0.98	0.93	0.96	0.96	Brazilian Real/US\$	1.688	1.660	1.686	1.671

Equity Markets (index, end of period)

United States (DJIA)	10788	11578	11732	11869	U.K. (FT100)	5549	5900	6002	5904
United States (S&P500)	1141	1258	1284	1284	Germany (Dax)	6229	6914	7076	7062
Canada (S&P/TSX)	12369	13443	13464	13334	France (CAC40)	3715	3805	3983	4017
Mexico (Bolsa)	33330	38551	37995	37474	Japan (Nikkei)	9369	10229	10499	10275
Brazil (Bovespa)	69430	69305	70940	69252	Hong Kong (Hang Seng)	22358	23035	24283	23877
Italy (BCI)	1033	1048	1089	1107	South Korea (Composite)	1873	2051	2108	2070

Commodity Prices (end of period)

Pulp (US\$/tonne)	990	960	960	960	Copper (US\$/lb)	3.65	4.42	4.35	4.30
Newsprint (US\$/tonne)	638	640	640	640	Zinc (US\$/lb)	0.99	1.10	1.10	1.06
Lumber (US\$/mfbm)	236	308	309	299	Gold (US\$/oz)	1307.00	1405.50	1367.00	1343.50
WTI Oil (US\$/bbl)	79.97	91.38	91.40	89.04	Silver (US\$/oz)	22.07	30.63	28.52	27.14
Natural Gas (US\$/mmbtu)	3.87	4.41	4.41	4.74	CRB (index)	286.86	332.80	333.06	333.34

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

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