

Global Views

Weekly commentary on economic and financial market developments

February 11, 2011

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Don't Fight Inflation Worries During The Week Ahead

- ***European GDP and China Will Also Dominate Attention. See Calendars on pp.19-25.***

A need for inflation protection of global portfolios could well receive intensified focus in the week ahead, as a number of countries provide important updates on either their latest inflation readings and/or central bank inflation views. To the global risk trade, expect it to be a week more intensely focused upon speculation over a perceived need for tighter monetary policy. Therefore, regardless of one's own beliefs, this is likely to be a week in which it will be unwise to fight the market's inflation concerns.

After a dovish Sunday evening (all in eastern times) print for a smaller Chinese trade surplus, a key milestone in the week's inflation trade will be the Monday evening release of Chinese CPI figures that are likely to re-accelerate to north of 5% y/y. Also, the release of new yuan loan volumes could further intensify concern over lax monetary policy, after the prior month's stronger-than-expected loan growth which higher reserve ratio requirements have been unable to slow. An update on Chinese property prices will also undoubtedly fuel concerns over a Chinese asset bubble. These could all be risk factors to a 5-year Chinese bond auction.

But the global inflation trade will be distributed across several markets, and that could well set a positive backdrop for the ingeniously timed 30-year US TIPS auction on Thursday. The US releases January CPI figures on Thursday, followed by Canada on Friday. Higher commodity prices will lift headline readings in both cases, but we expect core to remain dead in the water. Markets will also be focused on how the FOMC minutes and Fed speeches showcase the internal dialogue at the Fed over inflation risks, especially with Kevin Warsh resigning before publication of the minutes. RBA minutes will spell out internal debate regarding coming upward pressures on growth and inflation related to reconstruction following devastating floods and a cyclone. The UK releases CPI on Tuesday, and the Bank of England will release its quarterly inflation report on Wednesday. UK inflation is only going in one (upward) direction until the full effects of the VAT hike and higher commodities have run their course in lifting year-on-year inflation readings to their peak likely come summer. After that point, base effects are more likely than ever to quash inflation spooks calling for tighter monetary policy coincidentally to sharp fiscal drag that has Q4 GDP weakness continuing to spill over into the new year. But evidence of a fanning out in inflationary pressures from headline into core in the UK remains scant, particularly with housing continuing to exert an offsetting influence to higher commodity prices that themselves are crowding out tepid growth in disposable income and thus likely to eat away at pricing power elsewhere in the economy.

With this as the back drop, there will be two mitigating factors against inflation fears in some markets. One could be evidence of slowing European growth, as consensus expects a further deceleration in European growth including in Q4 German GDP figures. Expect flavour-of-the-moment stagflation talk. Second will be concern over a lack of global policy coordination. The week starts with a Eurozone finance ministers meeting that is to be focused upon strengthening the EFSF's ability to guide Europe through its fiscal and credit market problems. We have low expectations, as we think that come the March EU Summit, German Chancellor Angela Merkel is unlikely to give France, peripheral economies, or the markets the full extension of the apparatus needed to justify a pullback in peripheral spreads. Disappointment from the EU meetings will be followed by the return of auction risk, as both Portugal and Spain tap markets, and so will the majors.

A lack of global policy coordination will also be in fine form in the lead up to the G20 meetings of finance ministers and central bank heads late next week. Expect tensions over a range of policy matters focused on managing global capital flows, competing currency regimes, Fed policy implications to the global economy, fiscal policy coordination, global imbalances, and disparate effects of food and energy price inflation.

Against this back drop will be no policy action by the Bank of Japan, but perhaps talk of exits. Sweden's Riksbank will continue to guide markets toward rate hikes this year. After visiting clients in that country and elsewhere in Europe this past week, however, I am more convinced than ever that parallels to other central banks are off-base. The Riksbank should be hiking, given imprudent reliance upon interest-only mortgages and a lack of macroprudential rule tightening used in Asia and Canada.

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Canadian Productivity — Should Be A Go Go, But Still Is A No Go

- ***The drag on the Canadian economy from the non-stop deterioration in net exports will likely continue, though at a more subdued pace, in the absence of a much stronger rebound in the United States. With a higher cost structure imbedded in manufacturing and the currency strong, Canada must boost its lagging productivity performance if the country is to grow at a faster pace.***

Canada exited the recession in mid-2009 at a slightly faster pace than the United States, but our growth has slowed in recent quarters, and the country's overall performance has slipped behind our neighbour to the south. The strong, early-cycle contributions to growth from consumer spending, residential construction, government expenditures, and inventory restocking are winding down. Business investment is advancing broadly, but its magnitude and increasing contribution to growth is relatively small.

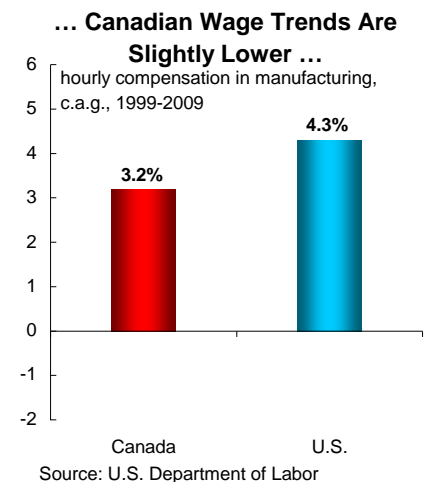
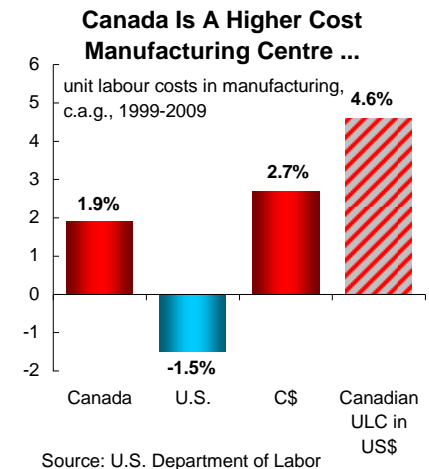
At this stage of the business cycle, Canada should be getting a much bigger bang for the buck from an improvement in net exports, where the volume of exports exceeds that of imports and adds to growth. (This is occurring, but in a limited number of sectors, and primarily among resource industries.) Instead, Canada's balance in net exports in 2010 is expected to post its sixth consecutive *and* largest annual deficit (i.e., a drag on growth), because a surge in imports boosted volumes roughly 45% above corresponding export levels. Looking ahead, this year's imbalance is expected to deteriorate somewhat further — and remain a drag on the nation's overall growth — even with some slowing in imports.

The underlying trend in export volumes will continue to be constrained by a number of factors, even though rising terms-of-trade (due to the surge in most commodity prices) are helping to lift the value of exports closer to that of imports. Importantly, the comparatively weak recovery in U.S. consumer demand is likely to persist. But there is another fundamental issue at play. There has been a steady loss of competitiveness due to a number of factors — lower-cost overseas producers increasingly making inroads into our traditional U.S. markets, the smothering effect of a stronger Canadian dollar, and this country's perennially weak productivity gains.

Market Adjustments Are Slow, At Best

A prolonged period of stronger U.S. growth would help Canada reverse the deterioration in net exports, though this is unlikely. Americans are buying again, though the slow pace of job and income gains, a persistently soft housing market, and the eventual withdrawal of federal fiscal stimulus do not auger well for a sustained bout of re-energized consumer spending. Canadian firms are exporting significantly more to the higher-growth, emerging economies internationally, but the levels are far too low to close the bilateral deficit gaps.

At the same time, the competitive differential between the lower-cost, fast-track emerging countries and the higher-cost, slow-track developed nations needs to close at a faster rate to help Canada's net export position.



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Adjustments are occurring internationally, with rising labour and other input costs, including increased interest rates and strengthening currencies, starting to narrow the cost advantage enjoyed by many of the emerging economies. But progress to date has been slow, and the very large gap is likely to remain quite wide with many of these nations now targeting more upstream production and services.

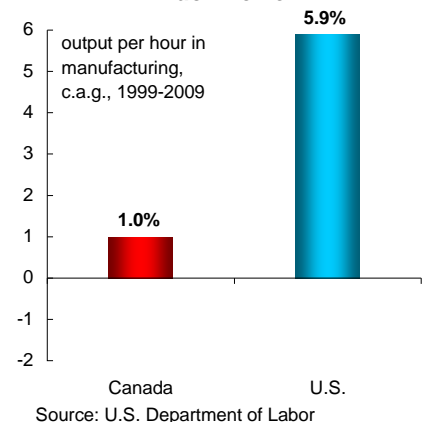
A weaker Canadian dollar also would go a long way towards helping to reverse the drag from net exports. However, increasing investments in Canada — both financial and direct, as well as strong immigration inflows — are a reflection of this country's relative longer-term attractiveness in a number of areas ranging from commodities to comparatively sounder balance sheets in the government and financial sectors. These factors are likely to remain supportive of a stronger currency vis-à-vis the U.S. dollar, more so given the likelihood that the United States faces a longer and deeper period of fiscal consolidation that will undoubtedly keep the U.S. economy on a slower growth trajectory.

Canada Has Become A Higher-Cost Country

If we cannot rely on market factors to turn around Canada's net export position on a timely basis, then our private and public sectors must continue to build upon past actions and initiatives to bolster our competitiveness through improved productivity.

However, the record in this area has not been encouraging, because Canada has become a relatively higher-cost economy. At first glance, Canadian dollar unit labour costs in the manufacturing sector — that is, the cost of labour to produce a unit of manufactured output — increased at a moderate 1.9% annualized rate in the ten years ending in 2009. But the underlying costs are far greater than in the United States where unit labour costs decreased at a 1.5% annualized rate over the same ten-year period. The differential in the United States' favour becomes even greater when the strengthening Canadian dollar is factored in, with the loonie's 2.7% annualized appreciation pushing Canadian unit labour costs in U.S. dollar terms up to an even greater 4.6% annualized rate.

... But Canadian Productivity Is Much Lower



A sub-par productivity performance in Canada further aggravates our longer-term competitive position. Canada's productivity in the manufacturing sector increased at a minimal 1.0% annualized rate between 1999 and 2009, well behind the outsized 5.9% annualized gain in the United States.

No Easy Way To Turn Productivity Trends Around

It would be counterproductive to rely on slower domestic demand and reduced imports to turn around Canada's net export position, since it works to reduce the country's output potential. *The better way to enhance growth and living standards is by raising Canada's sub-par productivity performance and bolstering the nation's export competitiveness.*

- Sustaining economic growth is key to reinforcing the turnaround, since steady corporate profit and government revenue gains are required to finance the changes — technology purchases, business restructuring, and policy initiatives — that are designed to boost operational efficiencies. To that end, Ottawa must continue to focus on reducing the federal deficit and moving back into surplus. Only by lowering the nation's debt burden can we regain the fiscal flexibility needed to redress many of the issues that could enhance the nation's overall productivity performance. Such action should go a long way towards keeping Canadian borrowing costs lower than in other more heavily indebted nations whose fiscal problems are more intractable, thereby providing a more growth-supportive financial backstop.

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- The budgetary focus of policymakers should remain on reducing program spending, including the elimination of tax expenditures. Maintaining a globally competitive tax system is critical to supporting stronger longer-term growth by bolstering domestic business profitability critical to expansion, and attracting foreign direct investments, immigration, and capital inflows.
- Ottawa should maintain incentives that help promote productivity-enhancing investments in the goods-producing sectors. While the focus of policymakers should increasingly shift towards spending restraint, adjustments can be made to more effectively target existing policies aimed at supporting innovation and efficiencies through expanded research & development and equipment investments.
- The continued upgrading of broader infrastructure requirements in the transportation and energy areas will reap longer-term benefits. A persistently strong Canadian dollar should reinforce the purchase and licensing of technology produced internationally.
- Policies must continue to focus on boosting productivity in the service sector, since its large size virtually guarantees a disproportionate impact on the economy at large. Canada's service providers, in aggregate, would benefit from a greater adoption of information technologies that are critical to increased operational efficiencies.
- Ottawa must continue to build relationships with the higher-growth regions around the world through expanded trade relationships and reciprocal arrangements that could further support business-university partnerships and the development of regional centres of research.

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Continued Strength in Multi-Unit Construction Adds to Unsold Inventory

- ***An excess supply of condominium units in several major Canadian cities points to soft pricing conditions in 2011, though long-term demand fundamentals for this affordable housing type remain positive.***

Housing construction in Canada appears to be settling to a healthy, sustainable pace, with starts holding steady at around 170,000 annualized units in January. This is a bit below estimated longer-term household formation and replacement needs, suggesting continued builder confidence but with some restraint amid expectations of slowing sales over the coming year. Standing out, however, is the continuing high level of multi-unit activity (semi-detached, row and apartment) amid a more marked slowdown in single-detached home construction over the past 10 months. While single-detached housing starts are running about 30% below their early 2010 highs, construction on new multi-unit projects has continued apace (chart 1).

There are emerging signs of oversupply in the multi-unit housing market. The inventory of completed and unsold multi-unit homes (excluding semi-detached homes) has been trending up since mid-2008 and is approaching the highs of the early 1990s (chart 2). In contrast, the inventory of unsold single- and semi-detached homes has been trending down since mid-2009, and is tracking about 20% below its 20-year average.

This supply overhang, most pronounced in Vancouver and Calgary, points to soft pricing conditions in the multi-unit housing market in 2011, especially if first-time homeowner demand weakens more than expected. While deserving of close monitoring, barring a further ramping up of multi-unit building, we expect these excess units can be absorbed without a major price adjustment.

The ongoing high level of multi-unit starts reflects in large part strong sales in late-2009 and early-2010. Given high pre-sale requirements for most projects, there is an inherent lag (up to a year or more) between new openings and the start of construction. Meanwhile, the overall number of units under construction has stabilized, with current starts being matched by an equivalent level of completions.

The Canadian housing market can absorb a much larger number of multi-family housing units than in the past. The share of multi-units in overall new construction in Canada has been climbing steadily over the past decade. Multi-unit dwellings now account for roughly half of all new housing stock (chart 3). By far the most rapid growth has been in apartment construction, primarily condominiums.

In 2006 (the latest census data available), almost 11% of homeowners were living in condominiums, up from just over 3% in 1981. Semi-detached homes, townhomes and duplexes account for another 14%, leaving only three-quarters of Canadian homeowners living in more traditional detached homes. We expect these multi-unit shares are even higher today.

Chart 1
Housing Starts

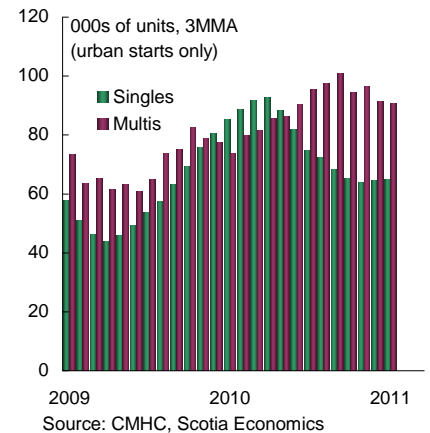
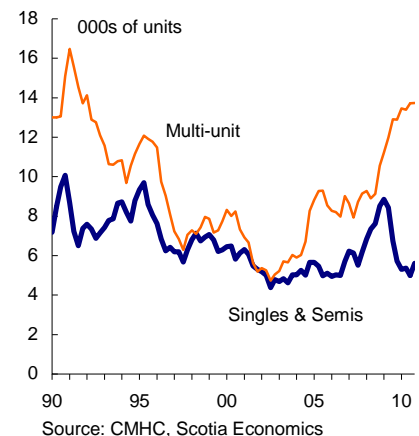


Chart 2
Unsold Housing Inventory



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A number of factors are behind the explosive growth in condominiums, though affordability is likely key among them. According to the latest house price survey from Royal LePage, the average price of detached 1,200 square foot bungalow in the fourth quarter of 2010 was \$324,531, while the price of standard 1,500 square foot two-storey home was \$360,329. This represents a premium of 43% and 59%, respectively, over the average \$226,746 price for a standard 900 square foot condominium. Not surprisingly, condo ownership is most prevalent in large urban areas where housing prices are highest, with Vancouver holding title to Canada's largest share of condo homeowners.

Other factors driving demand include favourable demographics (an aging/downsizing population, a maturing baby echo generation, a rising number of one-person households and increased immigration), changing lifestyle preferences (the desire for shorter commutes and lower maintenance), greater availability/selection, and potential investment returns. From a supply perspective, urban intensification/renewal and rising land prices have played a role, as have persistently tight rental markets.

Canada's average rental apartment vacancy rate in major urban centres edged down slightly last year to 2.6%, and has remained historically low throughout the past decade (chart 4). Alongside the slow pace of construction of purpose-built apartments since the early 1990s, private condos have become an increasingly important source of Canada's rental stock. Vacancy rates for rented condominium apartments are low, at 2.0% or less in 6 of the 10 CMAs surveyed by CMHC.

Chart 3

Multi-unit Construction

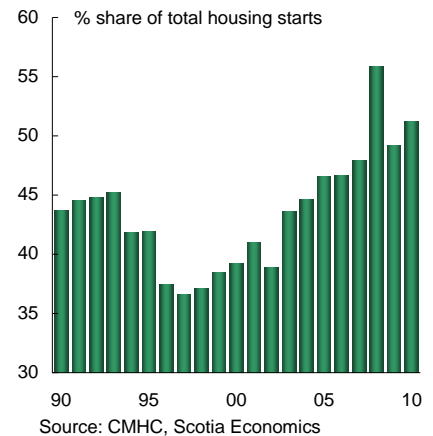
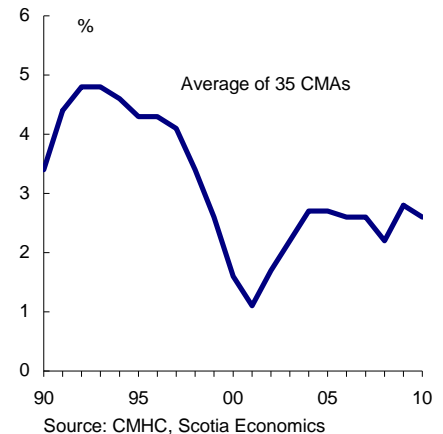


Chart 4

Apartment Vacancy Rate



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Geopolitical and Fiscal Shocks in Emerging Markets

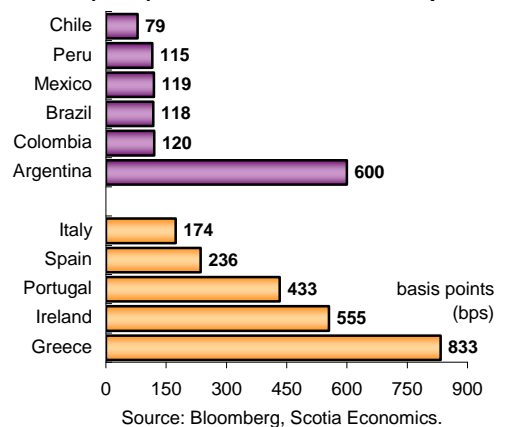
• Latin America in Context

Global risk (aversion) metrics still indicate persistent demand for sovereign debt assets in Latin America despite heightened investor awareness of rising food and energy costs in the core group of emerging-market economies. In fact, there has been a major deterioration in the market perception of creditworthiness in European peripheral countries (Greece, Ireland, Portugal and Spain in this order) over the past year, whereas the core group of Latin American sovereign credits remain surprisingly unfazed by adverse developments in Europe, Africa and the Middle East (please refer to the chart indicating comparative credit-default-swap spreads). CDS market metrics indicate that, on average, Brazil, Mexico, Chile and Peru are priced at roughly 120 basis points whereas Portugal and Ireland are in the 400-600 range.

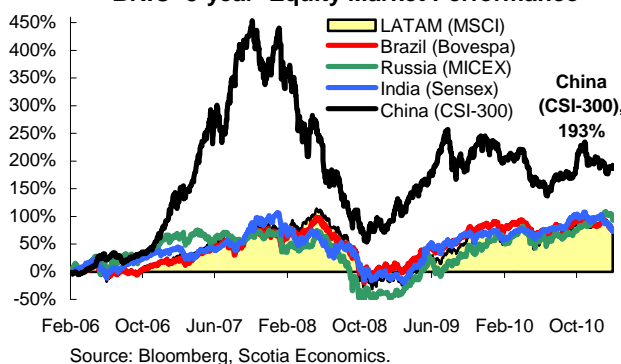
The persistence of a near-zero (short-term) interest rate environment in the US remains a key factor influencing capital flows in the developing Americas; therefore, any indication by the US Federal Reserve that a shift in its accommodating monetary stance is in store (something that is not likely in the near term) may trigger a sudden wave of volatility in Latin currency and securities markets. Meanwhile, the region continues to benefit from sovereign credit differentiation dynamics within the emerging market asset class. International rating agencies have placed Brazil, Peru, Chile and Colombia on review for a possible upgrade revision — quite a contrast to the agencies' negative outlook on the debt-distressed European periphery countries.

The political crisis in Egypt and selected countries in Northern Africa and the Middle East has reignited investors' debate (and fears) on potential overvaluation in emerging-markets' equity securities markets and, recently, triggered asset allocation movements in favour of developed-market jurisdictions. The process of global rebalancing is also taking place in equity securities markets; indeed, after a five-year expansion of more than 700%, China accounts now for 7% of the world's global exchange market capitalization, ranking in third place after the United States (30%) and Japan (7.8%). Moreover, China is the heavy weight market within the BRIC group which also includes Brazil, Russia and India; therefore, any sharp asset price adjustment in Chinese equity securities might have a direct impact on other top-tier emerging markets given the strong technical correlation in place.

Sovereign Credit Default Swap (CDS) - Latin America vs Europe



BRIC -5-year Equity Market Performance



Within the Americas, Brazil is the one to monitor given its size and relative trading volume. Recent trends indicate a technical resistance to revive an upward trajectory, irrespective of geopolitical conditions in the Middle East and Africa. Sharp swings in global portfolio investors away from emerging-market assets may also inject an added dose of volatility in foreign exchange markets; however, so far, Latin American currencies retain a bias towards further appreciation against the US dollar on the grounds of widening growth and interest rate differentials and supportive commodity-linked trade and capital flows. It is also worth noting that the process of foreign

exchange reserve accumulation remains strongly in place in most countries in Latin America, as a powerful shield against an abrupt reversal of capital flows which may instill regional currency market volatility.

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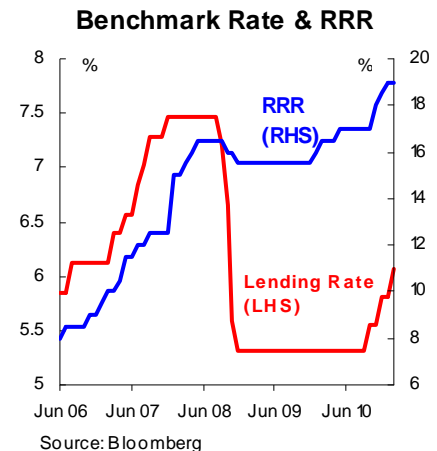
China's Monetary Policy Not Too Far From Neutral Stance

- ***This week's third central bank warning call on inflation expectations will be followed by further moves in coming months; but the end might be closer than anticipated***

China's condition as the global growth pace-setter will intensify as the country's rising domestic demand balances the country's still solid export growth. Latest economic reports reaffirm China's relevance in global trade trends with imports continuing to outpace foreign sales pulling the global recovery forward. However, persistent gains in economic momentum imply that the Chinese economy remains natural breeding ground for goods or asset price pressure contamination.

Indeed, the now familiar double-digit gains in investment spending have been underpinned by a surge in domestic lending by state-controlled banks. Although the Y7.5 trillion credit growth target for 2010 was 20% lower than the previous year's objective, the latter was an unprecedented record while the former ended up being topped by 5.6%. Lending has taken off with a bang in 2011. Banking system loans for January are due to be published next week, with market participants' expectations pointing to an expansion that would leave the flow barely 15% below the year-earlier reading. Thus, if 2011 turns out to be anything like 2010, credit into the economy would be 46% higher than at the peak of the previous cycle. With nominal GDP growing at 12% per year, this implies that credit is 10% ahead, which hardly speaks of a tight monetary stance.

Such developments have already provoked a reaction by Chinese monetary authorities, either at the State Council and the People's Bank of China (PBoC), wherever these decisions are finalized. Policymakers decided once again to impose on banks a higher reserve requirement ratio (RRR) (the sixth such move since January 2009) bringing it already 250 basis points (bps) over the peak established during the previous expansionary cycle back in mid-2008 (please refer to adjacent chart). The policy measure was followed this week with a 25 bps increase in the benchmark lending rate to 6.06%, the third upward adjustment in four months. The latter policy move is interpreted as an attempt by authorities to retain a grip on inflationary expectations, while tweaking the RRR valve is viewed as the PBoC's main mechanism to control the amount of credit flowing into the economy.



When analyzing current conditions in China it is important to recognize that it is a special case amongst emerging markets, given the preeminence of capital controls. Thus, while monetary authorities in other economies in Asia and Latin America are nowadays struggling to handle the effects of vast amounts of portfolio capital inflows, in China this is not a main concern. Individuals or firms are not borrowing abroad to finance investments, nor are banks. The flow of credit into the economy is thus controlled by the amount of loans that are financed with deposits within the system. It is local savings financing investment, with the current account surplus resulting in a persistent rise in the central bank's international reserve stock.

With an economy at the expansionary stage of the cycle, undoubtedly inflation will remain a concern for Chinese authorities in 2011. Rising labour demand will likely continue to lead to wage tensions, as happened last year, with the pickup in purchasing power inherently raising the risk of further price pressures in basic consumer items. Swelling food values have been behind the recent buildup in headline CPI gains, with yearly inflation having eased to 4.6% in December on the back of base effects. While a rebound in the yearly inflationary rate is not discarded in the months ahead, transmission to non-food items has yet to become evident, with real wage adjustments so far still consistent with productivity advances.

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An issue that remains is how much further room is available to monetary authorities as they attempt to put the brakes on credit and manage inflationary expectations? One way to tackle this is to estimate the interest rate level that implies a “neutral” monetary policy stance. A simple Taylor rule calculation yields some interesting conclusions.

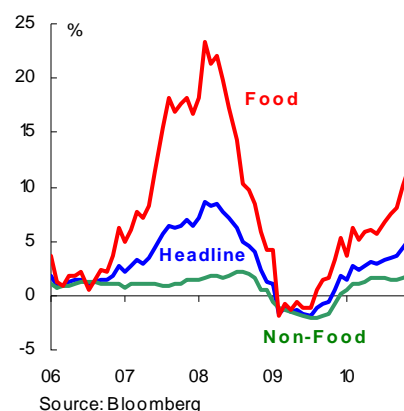
Three different plausible scenarios can be constructed depending upon the estimation of average inflation for the next twelve months (please refer to the table below). The working assumptions are that the objective for inflation is consistent with the PBoC's stated 4% y/y target for 2011. Trend economic growth is estimated at 8%, which coincides as well with the objective proposed by the State Council. We now know that the economy accelerated to a 9.8% y/y rate in the final three months of 2010, after the 9.6% registered in the third quarter. These figures are consistent with our in-house projection of 9.5% GDP growth for this year. These figures result in a positive output gap of 1.5%. Finally, we assume that the real interest rate is insignificant given the fact that depositors have few alternatives under the overwhelming presence of capital controls.

As can be judged from the simple calculations displayed on the table, in a context where inflation does not pickup considerably from current levels, the interest rate that would leave the PBoC with a neutral monetary policy stance results around 6.5%. Note importantly, that what matters for these calculations is the average rate of inflation prevailing through the year; thus, even this conservative initial scenario implies a pickup in average inflation to 4.5%, a higher rate than the PBoC's projections.

A second scenario that has the average yearly rate of inflation rising more significantly from current levels leads to a neutral rate of 7.25%. Not too far from that imposed at the peak of the previous cycle, as can be attested by the adjacent chart. Finally, a third scenario that has inflation picking up considerably more (to 5.5%) leading to an 8.5% neutral rate.

So, how far is the PBoC from a neutral monetary policy stance? This obviously hinges crucially on the inflationary outcome. While yearly inflation is expected to have risen again in January (final read to be published next week) on base effect, food inflation did come down in December as a result in part of supply measures undertaken by the government. Subsequent inflationary observations will be conditioned by similar base effects. This obviously highlights the relevance of the average inflation rate as the key gauge, with the only possible way that an upward trajectory is adopted being a clear contamination of price pressures to the rest of the economy. As far as we can see, this is not yet in sight.

China's Yearly Inflation



The implication is that the PBoC will be drawing ever closer to a neutral stance over the next twelve months; a benchmark rate estimated at between 6.5% and 7%. Once that level is reached, in our view, the central bank will have little choice but to accelerate the appreciation of the Chinese Yuan.

Taylor Rule Based Neutral Interest Rate Estimation	
Average Inflation	Neutral Interest Rate
4.5%	6.50%
5.0%	7.25%
5.5%	8.50%
Source: Scotia Economics	

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Cemex Bonds Update — 4Q10

Cemex results released at the end of last week continue to reflect the differing conditions in its various geographic markets. The company is performing well in emerging markets. For example, in Mexico, high construction activity in infrastructure and in low to middle income housing allowed the company to increase both volumes and prices. In contrast, demand remains weak in the US and in Europe, leading to falling volumes and prices. As a result of the high fixed costs in the cement industry, operating EBITDA in the US for the last quarter was actually negative, although only marginally so.

The problem is that the three sectors which rely on Cemex products in the US continue to lag. First, the US residential housing sector remains weak, with housing starts at 529K last December not far from record lows. That number is below even the long-term replacement rate of housing, suggesting that housing construction must pick up eventually; the expected timing of such a recovery, however, seems repeatedly postponed. Meanwhile, office vacancy rates remain at or near record-highs in many US cities (see for example the Cushman & Wakefield data on Bloomberg), suggesting that commercial property construction may not yet be ready for recovery. Finally, the current US political climate favoring fiscal restraint means that infrastructure spending may not increase as much as some would like.

While revenues are compressed by weak demand, costs are rising due to higher transportation costs resulting from higher oil prices.

Unfortunately, the company has traditionally had such a large stake in developed countries, that strength in emerging markets alone is still not enough to turn profits around. As a result, for the entire year, net sales fell 3%, gross profit fell 8%, and free cash flow fell 52%. Cemex did report some positive news with regards to January regarding volume and pricing, though it was unclear whether that was due to drier weather or represented the start of a recovery.

Despite the setbacks last year, debt reduction remains a core part of Cemex's strategy. In 2010, senior debt (including the perpetual bonds) was reduced by \$1.4bn. Additional prepayments of \$2.3bn in 2011 would allow Cemex to avoid a \$200mn increase in annual interest costs. A new equity issue of up to \$2bn, asset sales of up to \$200mn, and expected compensatory payments for expropriation by Venezuela could both help in this regard.

Bond markets continue to shrug off the weak operating results. In the past two months, spreads on both the 16s and the 20s compressed by 200bp even as the equity price of the company has fluctuated without a clear trend. We think that reflects the tremendous amount of risk premia incorporated in the bond pricing, far larger than the actual macroeconomic risk facing the company — a point we elaborated in significant detail back in June. That risk premia is slowly being depleted, however. Analysts will continue to look for any further signs of an inflection in US demand. One worry we have is that housing and construction markets in the US and other developed countries could continue to stagnate and diverge from an economic recovery in other parts of the US economy. That could eventually cause Cemex bonds to underperform, though we are not there yet.

Cemex Bonds vs U.S. 10-Year



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The Case for Colombian Peso Bonds

After a trip to Bogota last week, we explore the case for investing in Colombian peso-denominated bonds. The macro story seems as good as ever and continues to drive currency appreciation. Capital controls may be coming as inflation concerns make central bank intervention more difficult. While long term-yields have been rising in recent months, our econometric analysis finds that to be driven by long-term US yields rather than concerns about the start of the local tightening cycle.

Macro story

The story of how political and macroeconomic stabilization has turned around the country's prospects is well-known to many foreign investors. Rather than repeating much of this information, we thought we would illustrate the current environment with two stories, which are important both in themselves and what they say about the broader context.

The first concerns the oil industry, where production has risen steeply in recent years, from a low of about 530,000 b/d to a current 785,000 b/d, which at today's oil prices has a value of about 8% of GDP. Production is widely expected to continue to increase; extrapolating from last year's growth rate, production could double in the next five years. Increasing oil production is of course good for government revenue as well as external accounts. FDI in the oil and gas sector was \$4.0 billion USD in 2010, nearly half of the total FDI for the year.

Behind this increase in production is a model of openness and reform, symbolic of the country's economy as a whole. Colombia currently has about 150 exploration contracts open, of which more than half are operated by foreign companies. That stands in sharp contrast to a country like Mexico, where foreign participation in exploration and production is severely restricted by the Constitution. What is most interesting about Colombia's oil boom is that it is not just some technological or geological advances that has made it possible. True, 3D seismology has helped, but it is really a series of economic, political, and societal changes that were crucial. Improvements in security made drilling possible where before it would have been too dangerous. Meanwhile, improved fiscal policies and macroeconomic stability helped reassure foreign investors whose capital the country needed to develop its vast oil fields. It is reasonable to assume that these factors have also played an important role in other sectors in the economy. For example, according to an analysis by the Latin American Venture Capital Association, Colombia is the country in Latam that has most improved its operating environment over the past five years.

The second, and related, story is about the reform of the royalties scheme for oil and mining projects. Under the previous system, eight of the country's 32 states received a disproportionate share of oil royalties because they had 80% of the country's natural resources. Under a reform championed by President Santos and scheduled for consideration by Congress in June, the distribution of royalties would be delinked from the source of those funds, presumably allowing the federal government to more efficiently allocate funding to those states that need it most. One would think that such a reform would be politically impossible to implement, given how much those 8 states have to lose. Consider, for example, the internal political problems that the uneven distribution of oil reserves causes in Iraq. Yet, with Santos' coalition holding a two-thirds majority in Congress, this and other difficult reforms seem possible.

Other notable and ambitious reforms pending for this year include the fiscal sustainability amendment, which would enshrine the principle of fiscal responsibility in the Constitution. The rating agencies are certainly taking notice and we would not be surprised to see an upgrade to investment grade soon, increasing the relevance of Colombia bonds to international investors.

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FX appreciation and capital controls

The positive macro story is also responsible for the FX appreciation we are seeing. Good domestic growth rates and a high rate of success in exploratory wildcat wells (48% in 2010) continues to attract FDI, loans and portfolio flows. The central bank intervenes continually, primarily to alleviate FX pressure but also to build reserves. It purchased \$3.06bn USD in 2010 and \$400mn last month. Thus, as long as commodities prices remain high and international conditions do not change, there is reason to expect similar FX pressures going forwards. All things being equal, another appreciation of 5% is possible, just as last year.

There are two opposing forces at work here. On one hand, as the currency continues to appreciate, Colombian exporters will become increasingly vocal in demanding intervention from the Central Bank. Flower growers are notable in this respect because their technology is labor-intensive, employing 300,000 low-income families some of whom stand to lose their livelihood. On the other hand, intervention will become more difficult for the central bank. The current mandate of buying at least \$20mn USD per day runs out on March 15. Until recently, inflation has not been a problem, and the Central has not had to sterilize its dollar purchases. That policy will likely change after the recent elevated inflation numbers. The problem is that sterilization is a costly policy for the central bank (compare the interest rates received on international reserves to those paid on local notes), and moreover, the central bank has still not decided what sterilization mechanism to use. These factors make capital controls more likely as an alternative mechanism.

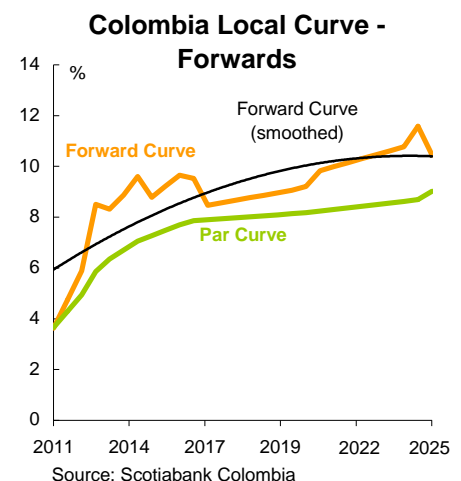
While the initial market reaction to capital controls may be a temporary weakening of the currency, we think they could ultimately be beneficial for local currency denominated bonds. We saw in Peru last year that as the Central Bank blocked foreigners from various short-term instruments useful for speculating on the currency, investors flocked to the soberanos, with non-resident holdings increasing from 18% in May to 46% in November. Meanwhile, Peru's experience demonstrates that capital controls tend only to slow the appreciation of the currency rather than stop it, while the reduced volatility they bring actually decreases the riskiness of speculation to foreigners.

Yield Curve

Local market participants generally assume that the neutral overnight rate in Colombia is 5%, based on an assumption of a 2% neutral real rate and the fact that the central bank targets a band of 2% to 4% for inflation. In contrast, as shown in Figure 1, the implied forward curve is at yields of 9% to 10%. Thus, the middle-to-long end of the curve continues to price significant risk premium. There is even sufficient risk-premium if inflation forces the central bank to tighten beyond the 5% expected neutral rate. Some clients may of course want to compare the risk premia offered with that of other Latin American local markets — an exercise we have not done — but diversification benefits suggests that at least some exposure to local Colombia rates may be warranted.

Is now the right time to enter? Considering that Colombia is just entering the start of its tightening cycle, a natural question is how the long-end of the curve will respond to that cycle. Last week in Bogota, the topic of discussion among all market participants seemed to be the Central Bank's change of stance and the recent elevated inflation numbers. We worry that anticipation of Central Bank rate hikes has caused local 10Y yields to rise, and those 10Y yields could rise even further going forwards.

Figure 1



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Instead, our econometric analysis, finds that so far local long-term yields are actually driven by conditions in the US rather than local monetary policy. Figure 2 shows the response of 10Y local yields to a 1bp increase in US 10-year yields and a 1bp increase in Colombia 2-year yields. The response to US Treasuries rises gradually over a 10-day horizon to about 0.45bp. In contrast, while Colombia 10-year yields may at first move in sympathy with expectations of short-term rates as proxied by the 2Y yield, by day 5, the impact has fallen to zero, and by day 6, it is actually negative. In other words, long-term yields seem to already price enough rate hikes such that the start of the tightening cycle actually just reinforces the view that the Central Bank will act responsibly.

We note that there exists some disagreement on whether the start of the rate hike cycle is imminent. Some analysts believe that because the latest inflation number was caused by rising food prices, as in much of the rest of world, the central bank will not need to respond. Others, concerned about rising inflation expectations, are forecasting overnight rates of 5% or higher by the end of the year.

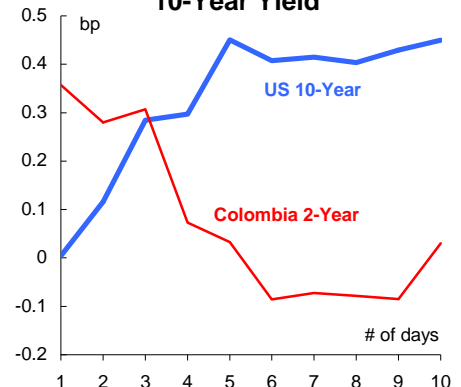
Taxes and Investment options

All local and foreign investors, with the exception of Colombian pension funds, pay a 33% tax on the total return of their holdings. The local 10Y bonds trade at about 130bp wide to the Global 2021 COP-denominated bonds, which are not taxable. Some foreign investors — those with a local presence — can reduce local tax rates by deducting certain business expenses, and there could be some room for claiming a credit in the investor's home jurisdiction against Colombia taxes paid. In the event of selloff in local rates, less tax would be owed, since the tax is based on the total return and not on the coupon. Nevertheless, assuming no change in the yield curve, the effective tax rate would have to fall to below 16% for foreigners in order to make the local bonds more attractive than the global bonds at current market prices, and that doesn't even account for the fact that the Globals are issued under New York Law, which should warrant perhaps an additional 20bp of premium. Other options for local rate exposure are the local utility companies that issued in January; we will assess one of them, Emgesa, in a future report.

Appetite for local EM debt was at record levels last year, driven by high economic growth and conservative fiscal and monetary policies, in contrast to the situation in the U.S. and Europe. As a result, some local markets are becoming saturated with foreign investments. As we mentioned, in Peru, 46% of local currency treasury bonds are held by non-residents. In contrast, the local market in Colombia remains unexploited. According to Ministry of Finance data, foreign ownership was only around 3% of the amount outstanding, though foreign exposure through structured products is probably not included in that figure. In that sense, the Colombian local market could be the next place where EM investors turn for local currency exposure.

Figure 2

Impulse Response of Colombia 10-Year Yield



Source: Scotia Capital Analysis

Graphs shows average response of Colombia 10y yields to a 1 bp movement in US 10Y yields or in Colombia 2Y yields over a 10-day horizon, as estimated by a VAR using data from the last 12 months.

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A New Low In The Trade-Weighted USD Likely To Be Achieved In 2011

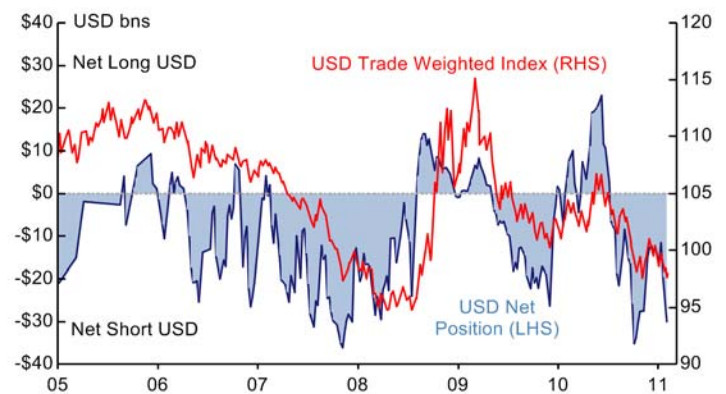
We have laid out in these pages our fundamental view as to why we feel that the secular decline in the USD is not yet over; the fiscal, monetary and employment challenges are obvious. Indeed, the USD on a broad trade-weighted basis has been pushed back to within 5% of its lowest level in decades, achieved early on in the first quarter of 2008. While the fundamental direction seems to be well justified, there has been significant noise in the broad USD's price action over the past year, with sentiment seemingly improving for periods of time thanks to the Eurozone crisis. However the trend has, each and every time, reverted back to the downside when sovereign risk and financial market volatility dissipated.

Given the importance of speculative sentiment in a currency's short term path, reflecting either financial volatility or the impulse of medium to longer term fundamentals, it is important that positioning lines up on the same side as our broad USD view. Thus it is instructive to examine speculative pressures as they persist today in the context of the positioning of early Q2'08. Not only is the aggregate net USD position important, but also important are the underlying dynamics of positioning as they relate to different currency blocs. In this way, we break down overall USD positioning into the so-called commodity currency bloc (AUD, CAD, NZD) that is a proxy for emerging market growth currents and commodity price developments, and the global reserve currency bloc (EUR, JPY, CHF and GBP) that is a proxy for what we view as a long term structural shift in the relative importance of the USD as a reserve vehicle.

Upon examination of the aggregate net speculative USD position (chart 1), with the data covering up to February 1st, we can see that the net short USD position has reached nearly \$30bn, a fairly rare net short position in terms of the total dollar value of bets against the USD. While there is no one-to-one deterministic relationship between the nominal absolute size of the net short USD position and the spot level of the USD, the momentum with which the position changes in conjunction with the nominal absolute size is indicative of broad directional pressures on the USD. Currently, the net short USD position has shown a good deal of persistence over the past six months, with the Eurozone crisis interrupting the trend for a period in the middle of the past 18 months. This bodes well for the continuation of a USD depreciatory trend. Looking at the underlying dynamics of the positioning against the USD via our two currency blocs, in the context of our currency forecasts, provides us with a bit more detail and greater certainty regarding our outlook on the USD reaching a new trade-weighted low over the course of the next year.

The commodity currency bloc is persisting at net-long levels generally in line with what we observed in 2007 through the first half of 2008 (see chart 2), when the trade weighted USD bottomed out, with average net long commodity currency positions of around \$9bn to \$10bn. With our constructive views of further appreciation in this bloc against the USD on EM growth currents and commodity price gains, in the context of still very expansive US monetary policy, all of the pieces are still in place to support a new low in the broad greenback. Examining our currency outlook relative to the commodity currencies, there is a great deal of potential for appreciation in the bloc against the USD (around 4% for CAD from current spot levels, and over 7% for AUD).

Chart 1: Aggregate Net Speculative USD Position



Source: CFTC, Federal Reserve, Scotia FX Strategy.

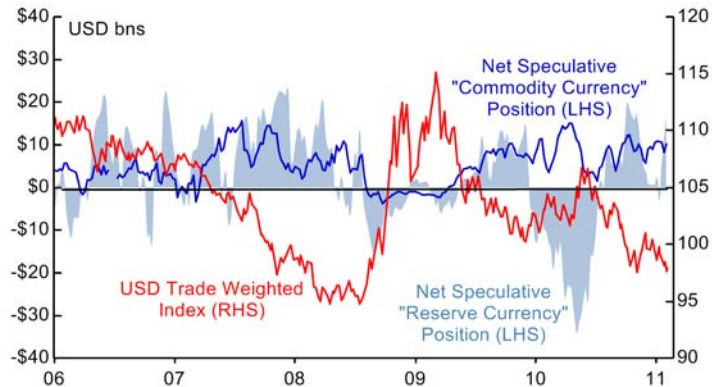
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Looking at the reserve currency bloc (see chart 2), we observe some interesting dynamics. It is no surprise that the speculative sentiment regarding these currencies appears to play the role of “king-maker” in the USD’s fortunes. This is reflective of the greater economic and financial importance of these currencies in USD trade, vis-à-vis the commodity bloc. While the net long reserve currency bloc position against the USD is in line with levels which existed during the 2008 period of USD bottoming, speculators have been more hesitant, driven primarily by the sovereign risk events in the Eurozone. The current data shows that net longs amongst the reserve currencies are rebounding very rapidly, playing a key roll in the mid to late January resumption in broad downside pressure on the USD.

Chart 2: Currency Positioning by Currency Group



Source: CFTC, Federal Reserve, Scotia FX Strategy.

While our outlook for EUR, perhaps the most important currency in the broad USD’s outlook, is not one of extreme upside in the near term, we do look for gradual upside moving into the end of the year (and forecast 1.45 by the end of 2012). However, the short to medium term drivers of EURUSD are just as important in the broad USD’s evolution, and a recently more hawkish shift in ECB rhetoric is emboldening speculative EUR longs, a key force of USD weakness. Shifting to JPY, net longs have been consistently strong and in line with positioning in the first half of 2008. We don’t see this changing in the near term as our forecast for JPY weakness only really picks up steam in early 2012, when US monetary policy is expected by Scotia to tighten while Japanese policy is still expected to remain very accommodative.

One wildcard is the capacity for investor sentiment to push GBP net longs back to levels seen in 2007 and early 2008. Indeed, GBP positioning and sentiment has constituted a significant force of support for the USD as the speculative community was net short GBP for the lion’s share of 2009 and 2010. The past couple of months have, on average, seen more constructive speculative GBP developments that have helped underpin USD weakness. However, positioning remains at average net long levels (since October 2010) of only 10% of the level which persisted in 2007 through early 2008, suggesting that much scope remains for additional pressure to be exerted on the USD via GBP. Our interim GBP outlook remains reserved, suggesting that GBP remains a bit more of a wildcard as a driver of a broad USD decline. The lack of speculative thrust makes sense considering the recent GDP contraction in the UK, which leaves the Bank of England less willing to respond aggressively to what is, in the context of the past fifteen years, relatively high inflation in the country. Still, should growth improve from the weather induced weakness of Q4’10, as is the outlook from Scotia, the market may become more confident that the Bank of England will respond (if only marginally) to higher inflation, thus driving GBP strength against a monetarily challenged USD. Considering that current net long GBP levels remain well below what had been typical before the financial crisis, there seems to be much scope left for speculative strength, boosting the reserve currency current against the USD.

In general, we don’t necessarily foresee the USD setting a new trade-weighted low in the current quarter, though such an event is within the realm of possibility. However, without a significant change in the monetary and/or fiscal stance of the US, there is not enough to fight the forces of secular decline in the greenback. At some point during 2011 we believe that a new multi-decade low in the trade weighted index will be achieved.

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Key Data Preview

CANADA

By the end of next week, we will have a clearer picture of December GDP, missing — of the available leading indicators — only retail sales. So far we know that net trade contributed positively to growth, while housing starts and hours worked acted as a drag. We expect reports on **manufacturing sales** (Wednesday) and **wholesale sales** (Thursday) to show changes of 0.8% each, but key will be the inflation-adjusted readings that flow through to GDP. Manufacturing sales were pulled down in the prior month by a collapse in motor vehicle & parts shipments — a result of retooling in the sector — and the fall-off likely continued through December, with additional plant closures and harsher weather disruptions than reflected in standard seasonal adjustment factors. Though wholesale trade is also affected by auto sector weakness, the passthrough is incomplete, and more than offset by broad-based gains across other subsectors. The resource and services sectors — for which there are no leading indicators — remain the wild cards, though we believe that they have continued to provide positive support.

We are forecasting a gain in total **CPI** (Friday) of 0.3% m/m for January, and an increase of 0.1% at the core level. Higher commodity prices — particularly among gasoline and agriculture goods — were likely the main drivers. The house-only component within the New Housing Price Index fell slightly by 0.1%, acting to curtail shelter costs, the biggest slice of the consumer basket. Overall, upward pressure in headline inflation — caused by higher food and energy prices — is not expected to alter the mood at the Bank of Canada, and our call remains for the Bank to remain on hold until the fourth quarter of this year. As we have argued before — and as studies have shown (e.g., Mishkin) — we think that there will be a limited passthrough effect of higher commodity prices to core CPI.

UNITED STATES

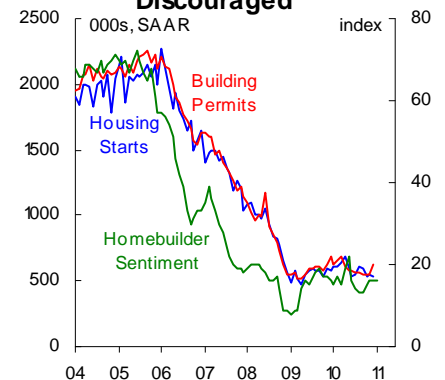
We suspect that **retail sales** (Tuesday) extended the upward trend in January, but at a slower clip — for the second straight month — than the solid average monthly gain of 1.1% seen from August through November. We are forecasting an increase of 0.4% m/m for both the headline and core (ex. auto) prints. While light-vehicle sales were virtually flat in January, stronger chain-store sales and higher gasoline prices were likely the key drivers of growth.

Much like elsewhere around the world, the headline **CPI** (Thursday) is getting a boost from higher commodity prices. Core inflation remains tame, and is expected to see limited spillover from headline pressures, partly due to demand destruction at the discretionary level. We anticipate a topline gain of 0.3% m/m in January, once again supported by higher food and gasoline prices, and for a more modest core increase of 0.1%.

Next week, we will also get the January update on **industrial production** (Wednesday), and the first of the **regional manufacturing surveys** (New York, Philadelphia) for February. We expect industrial production to have advanced 0.5% m/m, partly moderated by a relatively strong base effect from the prior month, but still further evidence that factory activity is recouping strength after stalling in the second half of 2010. Leading indicators (auto production, hiring activity, hours worked, PMIs, active rigs) reaffirm this view. Auto production got a big boost, following the unseasonable retooling shutdowns that took place late last year.

Next week will bring a string of key housing releases, including **homebuilders' confidence** (Tuesday), **housing starts** (Wednesday) and **building permits** (Wednesday). We expect construction activity to continue to move along a stable low level (see chart) first established in late 2008. Homebuilders are pessimistic, discouraged by a fragile labour market, high supply of foreclosure and short-sale properties that are keeping prices low and the difficulty in securing financing. We expect the NAHB Housing Market Index to remain unchanged at 16 and housing starts to increase by 1.0% m/m to 534k annualized units. Building permits could see a decline, on a strong base effect, with our forecast looking for a 11% m/m drop to 558k annualized units.

US Homebuilders Remain Discouraged



Source: NAHB, US Census Bureau, Scotia Capital Economics.

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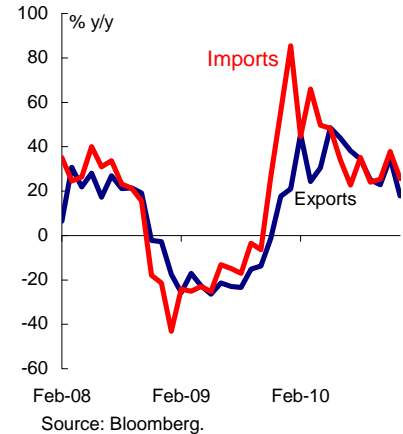
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ASIA

We expect China's exports to continue to propel along on the back of the improved profile of U.S. consumers and solid spending indicators in the rest of Asia. However, we also anticipate the dynamism of foreign sales to continue to be surpassed by the expansion in imports, as Chinese domestic demand has yet to show any sign of abatement.

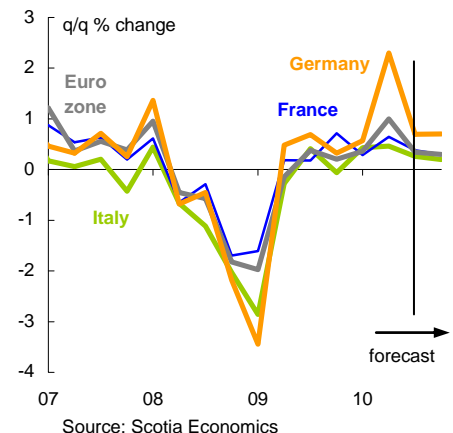
China's Trade



EUROPE

Euro zone countries will release estimates for Q4 2010 real GDP growth next week (February 15th). Germany is set to remain the regional growth leader, expanding by 0.7% q/q (this corresponds to the preliminary 2010 growth estimate of 3.6%). France continues to represent the euro zone norm; output is estimated to have recorded a 0.3% q/q gain in both France and the region as a whole. Italy likely lagged the two largest economies with its 0.2% q/q expansion in the October-December period. We expect a modest slowdown to become evident over the next two quarters as fiscal consolidation efforts intensify and as export sector momentum wanes. Therefore, the euro zone will likely expand by 1.4% this year, following a 1.7% expansion in 2010.

Real GDP Growth



LATIN AMERICA

Brazilian retail sales will be released on February 15th and are expected to keep growing at a strong pace, supporting economic performance. An extraordinarily low unemployment rate and credit growth have spurred local consumption, accelerating monthly retail sales in November to a rate of 1.1%, the highest in three months. On a yearly basis, retail sales grew by 9.9% driven by the automotive sector, which outperformed with a 30.4% y/y expansion. With the inflation rate also increasing on the back of higher commodity prices, the central bank raised interest rate last month to 11.25%, signaling deteriorated inflation expectations. Economic authorities continue to fight against economic overheating by establishing such measures as capital controls, FX intervention and the latest announcement made by the Government to cut the budget by US\$30 billion. Regardless, we expect Brazil to keep leading the economic recovery in Latin America.

Brazilian Retail Sales



Key Indicators for the week of February 14 - 18

North America

Country	Date	Time	Event	Period	BNS	Consensus	Latest
US	FEB 14-18		Mortgage Delinquencies	4Q	--	--	--
US	FEB 14-18		MBA Mortgage Foreclosures	4Q	--	--	--
US	02/15	08:30	Empire Manufacturing	FEB	14.00	15.00	11.92
US	02/15	08:30	Import Price Index (YoY)	JAN	--	0.90%	4.80%
US	02/15	08:30	Advance Retail Sales	JAN	0.40%	0.50%	0.60%
US	02/15	08:30	Retail Sales Less Autos	JAN	0.40%	0.50%	0.50%
US	02/15	08:30	Retail Sales Ex Auto & Gas	JAN	0.30%	0.40%	0.40%
US	02/15	09:00	Total Net TIC Flows	DEC	--	\$40.0B	\$39.0B
US	02/15	10:00	Business Inventories	DEC	--	0.70%	0.20%
US	02/15	10:00	NAHB Housing Market Index	FEB	16	17	16
US	02/16	07:00	MBA Mortgage Applications	11-Feb	--	--	-5.50%
CA	02/16	08:30	Leading Indicators MoM	JAN	--	--	0.50%
CA	02/16	08:30	Int'l Securities Transactions	DEC	--	--	8.005B
CA	02/16	08:30	Manufacturing Sales MoM	DEC	0.8%	2.1%	-0.80%
US	02/16	08:30	Housing Starts (000s)	JAN	534K	540K	529K
US	02/16	08:30	Building Permits (000s)	JAN	558K	570K	627K
US	02/16	08:30	Housing Starts MOM%	JAN	1.00%	2.10%	-4.30%
US	02/16	08:30	Building Permits MOM%	JAN	-11.00%	-9.10%	16.70%
US	02/16	08:30	Producer Price Index (YoY)	JAN	3.00%	3.50%	4.00%
US	02/16	08:30	PPI Ex Food & Energy (YoY)	JAN	1.00%	1.20%	1.30%
US	02/16	09:15	Capacity Utilization	JAN	76.20%	76.40%	76.00%
US	02/16	09:15	Industrial Production	JAN	0.50%	0.50%	0.80%
US	02/16	14:00	Minutes of FOMC Meeting				
CA	02/17	08:30	Wholesale Sales MoM	DEC	0.80%	--	1.20%
US	02/17	08:30	Consumer Price Index (MoM)	JAN	0.30%	0.30%	0.50%
US	02/17	08:30	CPI Ex Food & Energy (MoM)	JAN	0.10%	0.10%	0.10%
US	02/17	08:30	Consumer Price Index (YoY)	JAN	1.60%	1.60%	1.50%
US	02/17	08:30	CPI Ex Food & Energy (YoY)	JAN	0.90%	0.90%	0.80%
US	02/17	08:30	Initial Jobless Claims	12-Feb	410K	400K	383K
US	02/17	08:30	Continuing Claims	5-Feb	3920K	3895K	3888K
US	02/17	10:00	Leading Indicators	JAN	--	0.30%	1.00%
US	02/17	10:00	Philadelphia Fed.	FEB	22.0	21.0	19.3
CA	02/18	07:00	Consumer Price Index MoM	JAN	0.30%	0.30%	0.00%
CA	02/18	07:00	Consumer Price Index YoY	JAN	2.40%	2.40%	2.40%
CA	02/18	07:00	Bank Canada CPI Core MoM	JAN	0.10%	0.10%	-0.30%
CA	02/18	07:00	Bank Canada CPI Core YoY	JAN	1.50%	1.50%	1.50%

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

Key Indicators for the week of February 14 - 18

Europe								
Country	Date	Time	Event	Period	BNS	Consensus	Latest	
EC	02/14	05:00	Euro-Zone Ind. Prod. sa (MoM)	DEC	--	0.00%	1.40%	
FR	02/15	01:30	Gross Domestic Product (QoQ)	4Q P	0.30%	0.60%	0.30%	
GE	02/15	02:00	GDP s.a. (QOQ)	4Q P	0.70%	0.50%	0.70%	
SW	02/15	03:30	Riksbank Interest Rate	FEB	1.50%	1.50%	1.25%	
IT	02/15	04:00	GDP sa and wda (QoQ)	4Q P	0.20%	0.20%	0.30%	
NO	02/15	04:00	Trade Balance (Krone)	JAN	--	--	35.6B	
UK	02/15	04:30	DCLG UK House Prices (YoY)	DEC	--	2.90%	4.00%	
UK	02/15	04:30	CPI (MoM)	JAN	0.10%	0.10%	1.00%	
UK	02/15	04:30	CPI (YoY)	JAN	4.00%	4.00%	3.70%	
UK	02/15	04:30	Core CPI YOY	JAN	--	3.10%	2.90%	
EC	02/15	05:00	Euro-Zone GDP s.a. (QoQ)	4Q A	0.30%	0.40%	0.30%	
GE	02/15	05:00	Zew Survey (Current Situation)	FEB	--	83.0	82.8	
EC	02/15	05:00	ZEW Survey (Econ. Sentiment)	FEB	--	28.5	25.4	
GE	02/15	05:00	ZEW Survey (Econ. Sentiment)	FEB	--	20.0	15.4	
IT	02/15	05:00	Trade Balance (Total) (Euros)	DEC	--	--	-3382M	
EC	02/15	05:00	Euro-Zone Trade Balance sa	DEC	--	-0.2B	-1.9B	
TU	02/15	07:00	Benchmark Repo Rate	15-Feb	6.25%	--	6.25%	
UK	02/15	19:01	Nationwide Consumer Confidence	JAN	--	50	53	
GR	02/15		GDP QoQ	4Q P	--	-1.60%	-1.30%	
RU	FEB 15-16		Industrial Production (YoY)	JAN	--	6.00%	6.30%	
EC	02/16	02:00	EU 25 New Car Registrations	JAN	--	--	-3.20%	
SP	02/16	03:00	GDP (Constant SA) (QoQ)	4Q F	0.20%	--	0.20%	
UK	02/16	04:30	Claimant Count Rate	JAN	--	4.50%	4.50%	
UK	02/16	04:30	Jobless Claims Change	JAN	--	-2.0K	-4.1K	
UK	02/16	04:30	Average Weekly Earnings 3M/YoY	DEC	--	2.00%	2.10%	
UK	02/16	04:30	ILO Unemployment Rate (3mths)	DEC	--	7.90%	7.90%	
IT	02/16	05:00	Current Account (mlns euro)	DEC	--	--	-5007M	
UK	02/16	05:30	Bank of England Inflation Report					
EC	02/17	04:00	ECB Euro-Zone Current Account SA (Euros)	DEC	--	--	-11.2B	
EC	02/17	05:00	Construction Output SA MoM	DEC	--	--	-0.90%	
EC	02/17	10:00	Euro-Zone Consumer Confidence	FEB A	--	-11.0	-11.2	
RU	02/17		Gold & Forex Reserve USD	11-Feb	--	--	487.0B	
GE	02/18	02:00	Producer Prices (YoY)	JAN	--	5.10%	5.30%	
FR	02/18	02:45	Business Confidence Indicator	FEB	--	109	108	
IT	02/18	04:00	Industrial Orders s.a. (MoM)	DEC	--	2.10%	-4.30%	
IT	02/18	04:00	Industrial Sales s.a. (MoM)	DEC	--	--	0.20%	
UK	02/18	04:30	Retail Sales Ex Auto Fuel (MoM)	JAN	--	0.20%	-0.30%	
UK	02/18	04:30	Retail Sales w/Auto Fuel (MoM)	JAN	--	0.50%	-0.80%	
FR	FEB 18-19		G20 Finance Chiefs Meet in Paris					

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

Key Indicators for the week of February 14 - 18

Asia Pacific

Country	Date	Time	Event	Period	BNS	Consensus	Latest
CH	FEB 09-15		China Property Prices	JAN	--	5.5	6.4
CH	FEB 10-15		New Yuan Loans	JAN	--	1200.0B	480.7B
CH	FEB 10-15		Money Supply - M0 (YoY)	JAN	--	--	16.70%
CH	FEB 10-15		Money Supply - M1 (YoY)	JAN	--	19.60%	21.20%
CH	FEB 10-15		Money Supply - M2 (YoY)	JAN	--	19.00%	19.70%
VN	FEB 10-16		Domestic Vehicle Sales (YoY)	JAN	--	--	-17.10%
TH	FEB 13-18		Total Car Sales	JAN	--	--	93122
JN	FEB 14-15		BOJ Target Rate	15-Feb	0.10%	0.10%	0.10%
IN	02/14	01:30	Monthly Wholesale Prices YoY%	JAN	--	8.06%	8.43%
AU	02/14	19:30	Reserve Bank's Board February Minutes				
CH	02/14	21:00	Producer Price Index (YoY)	JAN	--	6.20%	5.90%
CH	02/14	21:00	Consumer Price Index (YoY)	JAN	5.20%	5.40%	4.60%
CH	02/14	21:00	Actual FDI (YoY)	JAN	--	17.20%	15.60%
JN	02/14	23:30	Industrial Production (MoM)	DEC F	--	--	3.10%
JN	02/14	23:30	Industrial Production YOY%	DEC F	--	--	4.60%
JN	02/14	23:30	Capacity Utilization (MoM)	DEC F	--	--	1.60%
SI	02/15		Retail Sales (YoY)	DEC	--	0.90%	-2.40%
SK	02/15	18:00	Unemployment Rate (SA)	JAN	3.50%	3.70%	3.60%
AU	02/15	19:30	New Motor Vehicle Sales MoM	JAN	--	--	0.80%
SI	02/16	19:00	GDP (QoQ)	4Q	--	5.20%	6.90%
SI	02/17		Non-oil Domestic Exp SA (MoM)	JAN	--	-4.40%	8.90%
MA	02/18	05:00	GDP YoY%	4Q	--	--	5.30%

Latin America

Country	Date	Time	Event	Period	BNS	Consensus	Latest
BZ	02/14	08:00	Trade Balance (FOB) - Weekly	13-Feb	--	--	\$432M
BZ	02/15	06:00	Broad Retail Sales (YoY)	DEC	--	--	17.00%
BZ	02/15	06:00	Retail Sales (MoM)	DEC	--	0.60%	1.10%
BZ	02/15	06:00	Retail Sales (YoY)	DEC	--	11.90%	9.90%
PE	02/15		GDP YoY NSA	DEC	--	9.00%	10.00%
PE	02/15		Unemployment	JAN	--	--	7.20%
CO	02/16	16:00	Trade Balance (USD)	DEC	--	-78.5M	-161.1M
CL	02/17	16:00	Nominal Overnight Rate Target	17-Feb	3.50%	3.50%	3.25%

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

Global Auctions for the week of February 14 - 18

North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	02/14	11:30	U.S. to Sell 3-Month Bills
US	02/14	11:30	U.S. to Sell 6-Month Bills
CA	02/15	10:30	Canada to Sell CAD4.65 Bln 98-Day Bills
CA	02/15	10:30	Canada to Sell CAD1.8 Bln 182-Day Bills
CA	02/15	10:30	Canada to Sell CAD1.8 Bln 364-Day Bills
US	02/15	11:30	U.S. to Sell 4-Week Bills
US	02/17	13:00	U.S. to Sell 30-Year TIPS

Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
IT	02/14	05:00	Italy to Sell Up to EUR3.5 Bln 3% 2015 Bonds
IT	02/14	05:00	Italy to Sell Up to EUR1.75 Bln 5% 2040 Bonds
SW	02/14	05:10	Sweden to Sell SEK5 Bln Bonds via Exchange Auction
HU	02/14	05:30	Hungary to Sell 6-Week Bills
PD	02/14	06:00	Poland to Sell Up to PLN1.7 Bln 50-Week T-bills
FR	02/14	09:00	France to Sell EUR4 Bln 84-Day Bills
FR	02/14	09:00	France to Sell EUR2 Bln 175-Day Bills
FR	02/14	09:00	France to Sell EUR2 Bln 357-Day Bills
SW	02/15	05:10	Sweden to Sell SEK5 Bln Bonds via Exchange Auction
HU	02/15	05:30	Hungary to Sell 3-Month Bills
TU	02/15	05:30	Turkey to Sell 3% I/L 2021 Bonds
BE	02/15	06:00	Belgium to Sell Bills
HU	02/15	06:00	Hungary's Central Bank to Sell 2-Week Bills
SW	02/16	05:10	Sweden to Sell SEK10 Bln 89-Day Bills
GE	02/16	05:15	Germany to Sell Add'l EU4 Bln 10-Year Notes
PO	02/16	05:30	Portugal to Sell Up to EUR1 Bln 364-Day Bills
PO	02/16	05:30	Portugal's IGCP Holds Auction of Feb. 2012 Bills
RU	02/16	06:00	Russia to Sell Up to RUB30 Bln OFZ Bonds
PD	02/16	06:00	Poland to Sell Up to PLN3 Bln Bonds
SP	02/17	04:30	Spain to Sell 4.85% 2020 Bonds
SP	02/17	04:30	Spain to Sell 4.2% 2037 Bonds
FR	02/17	05:00	France to Sell Bonds/Notes
HU	02/17	05:30	Hungary to Sell 12-Month Bills
UK	02/17	05:30	U.K. to Sell GBP2.75 Bln 3.75% 2020 Bonds
UK	02/18	06:10	U.K. to Sell Bills
IC	02/18	06:45	Iceland to Sell Bonds

Source: Bloomberg, Scotia Economics.

Global Auctions for the week of February 14 - 18

Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
TH	02/14	22:00	Bank of Thailand to Sell THB25 Bln 28D Bills
TH	02/14	22:00	Bank of Thailand to Sell THB22 Bln 91D Bills
TH	02/14	22:00	Bank of Thailand to Sell THB15 Bln 182D Bills
TH	02/14	22:00	Bank of Thailand to Sell THB30 Bln 2-Year Bonds
HK	02/14	22:30	Hong Kong to Sell HKD1.2 Bln 0.58% 2-Year Notes
HK	02/14	22:30	Hong Kong to Sell HKD25.591 Bln 91-Day Bills
HK	02/14	22:30	Hong Kong to Sell HKD9 Bln 182-Day Bills H1160
PH	02/15		Philippines to Sell PHP 9 Bln 25-Yr Govt Bonds
IN	02/15	06:30	India to Sell INR 50Bln 91-Day Bills
IN	02/15	06:30	India to Sell INR 20Bln 182-Day Bills
TH	02/15	22:00	Thailand to Sell THB5 Bln Bonds due 2041
CH	02/15	22:00	China Government to Sell CNY30 billion 5-Year Bond
JN	02/15	22:35	Japan to Sell 3-Month Bills
JN	02/15	22:45	Japan to Sell 5-Year Bond
MA	02/15	23:00	Bank Negara to Sell MYR1.5 Bln 131-Day Islamic Notes
MA	02/15	23:00	Bank Negara to Sell MYR1.5 Bln 91-Day Islamic Notes (12/11)
MA	02/15	23:00	Bank Negara to Sell MYR1 Bln 364-Day Notes (74/10)
MA	02/15	23:00	Bank Negara to Sell MYR2.5 Bln 210-Day Notes (50/10)
NZ	02/16	20:30	New Zealand Plans to Sell Government Bonds
MA	02/16	23:00	Malaysia to Sell MYR100 Mln 182-Day Bills (08/11)
TA	02/16	23:30	Taiwan to Sell TWD30 Bln 30-Year Bonds
JN	02/18	03:00	Japan Auction for Enhanced-Liquidity

Source: Bloomberg, Scotia Economics.

Events for the week of February 14 - 18

North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	02/14	10:00	NY Fed President Dudley Speaks at Regional Economic Briefing
US	02/15	10:00	Fed's Pinalto Speaks on Economic Conditions in Akron, Ohio
US	02/16	14:00	Fed Releases Minutes of Jan. 25-26 FOMC Meeting
US	02/17	10:00	Bernanke, Bair, Schapiro Testify on Dodd-Frank
US	02/17	12:00	Fed's Lockhart to Speak on Ireland and the U.S. in Atlanta
US	02/17	12:30	Fed's Evans Speaks on Economy in Rockford, Illinois
US	02/17	13:10	Fed's Fisher Speaks in Houston on the Fed, Economy

Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
EC	02/14	11:00	Euro-Area Finance Ministers Meet in Brussels
EC	02/15	03:00	EU Finance Ministers Meet in Brussels
SW	02/15	03:30	Riksbank Interest Rate
TU	02/15	07:00	Benchmark Repo Rate
EC	02/16	03:15	ECB's Mersch Speaks At Event in Luxembourg
UK	02/16	05:30	Bank of England Releases Quarterly Inflation Report
FR	FEB 18-19		G20 Finance Ministers & Central Bank Heads Meet in Paris

Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
AU	02/14	19:30	Reserve Bank's Board February Minutes
JN	FEB 14-15		BOJ Target Rate
AU	02/16	20:00	RBA's Lowe Gives Speech in Sydney on 2011 Economic, Politics
NZ	02/16		Finance Minister English Speaks
HK	FEB 16-17		Composite Interest Rate

Latin America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
CL	02/17	16:00	Nominal Overnight Rate Target

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	March 15, 2011	0.25	--
Banco de México – Overnight Rate	4.50	March 4, 2011	4.50	--

The BoC's concerns about weak productivity growth and a strong currency - which act to constrain export competitiveness - limit the ability of the country to leverage the US recovery, sparking dovish central bank talk. We are of the view that higher commodity prices will have limited passthrough effect on core consumer inflation. In an environment of weak wage growth, higher commodity prices are likely to lead to a bigger portion of disposable income being spent on food and energy, acting in a disinflationary manner on the core CPI.

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	March 3, 2011	1.00	--
Bank of England – Bank Rate	0.50	March 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	7.75	--
Hungarian National Bank – Base Rate	6.00	February 21, 2011	6.25	6.00
Central Bank of the Republic of Turkey – 1 Week Repo Rate	6.25	February 15, 2011	6.25	6.25

Despite increasing inflationary pressures, we maintain our view that both the ECB and the BoE will keep monetary conditions accommodative for an extended period of time. We assess that the Central Bank of Turkey does not have room to ease monetary conditions any further.

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	February 15, 2011	0.10	0.10
Reserve Bank of Australia – Cash Target Rate	4.75	February 28, 2011	4.75	--
Reserve Bank of New Zealand – Cash Rate	3.00	March 9, 2011	--	--
People's Bank of China – Lending Rate	6.06	TBA	--	--
Reserve Bank of India – Repo Rate	6.50	March 17, 2011	--	--
Hong Kong Monetary Authority – Base Rate	0.50	TBA	--	--
Bank Negara Malaysia – Overnight Policy Rate	2.75	March 11, 2011	--	--
Bank of Korea – Bank Rate	2.75	March 9, 2011	3.00	--
Bank of Thailand – Repo Rate	2.25	March 9, 2011	--	--
Bank Indonesia – Reference Interest Rate	6.75	March 4, 2011	6.75	--

The Bank of Japan will leave the target interest rate unchanged next week. The central bank persists in its loose monetary policy stance further widening the array of securities that are subject to liquidity injections. This is consistent with an economy that is likely to have slowed at the turn of the year on the back of lacklustre domestic spending growth.

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	3.50	3.50
Banco de la República de Colombia – Lending Rate	3.00	February 25, 2011	3.00	3.00
Banco Central de Reserva del Perú – Reference Rate	3.50	March 10, 2011	3.50	--

After a surprising break in January, we expect the Central Bank of Chile to start another tightening cycle and raise the interest rate by 25 basis points to 3.50%. Inflation expectations for the next 11 months have worsened from 3.2% in December to 3.8%, according to a Central Bank survey, prompting a higher forecast for the reference rate at the end of the year from 5.0% in the previous survey to 5.50%.

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	2.7	2.6	2.1	1.8	2.3	2.1
United States	1.8	2.9	3.1	2.7	2.6	1.6	1.7	1.8
Mexico	1.9	5.2	4.0	4.0	4.9	4.4	4.1	3.5
United Kingdom	2.7	1.5	1.4	1.7	2.2	3.7	3.4	2.8
Euro zone	1.2	1.8	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	0.1	1.0
Australia	3.0	3.0	3.5	3.3	3.2	3.0	2.8	2.5
China	10.2	10.3	9.5	9.7	2.0	3.5	4.5	4.0
India	7.2	8.3	8.5	8.8	5.7	8.4	7.0	5.0
Korea	4.5	5.8	5.5	5.3	3.2	3.0	3.3	3.0
Brazil	2.9	7.6	5.5	5.0	6.6	5.9	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)	1.35	1.37	1.38	1.39	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	6.4	6.2	6.1	6.0	5.9	5.8	5.8
Mexican Peso (USDMXN)	12.2	12.2	12.2	12.5	12.6	12.5	12.6	12.8
Brazilian Real (USDBRL)	1.67	1.68	1.69	1.70	1.71	1.72	1.74	1.75
Commodities (US\$, annual average)	2000-09	2010	2011f	2012f				
WTI Oil (/bbl)	51	80	95	98				
Nymex Natural Gas (/mmbtu)	5.95	4.40	4.40	4.75				
Copper (/lb)	1.78	3.42	4.50	4.25				
Zinc (/lb)	0.73	0.98	1.03	1.05				
Nickel (/lb)	7.11	9.89	10.00	8.00				
Gold, London PM Fix (/oz)	522	1,225	1,485	1,400				
Pulp (/tonne)	668	960	875	960				
Newsprint (/tonne)	572	607	685	710				
Lumber (/mfbm)	275	254	265	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	3.2 Q4
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	-10.5	-27.7	36.0 (Dec)	Merch. Trade Bal. (US\$B, ar)	-507	-677	-683	-643 (Dec)
Industrial Production	-9.4	6.1	7.9	5.0 (Nov)	Industrial Production	-9.3	7.8	6.9	5.7 (Dec)
Housing Starts (000s)	149	198	192	170 (Jan)	Housing Starts (millions)	0.55	0.60	0.59	0.53 (Dec)
Employment	-1.6	1.5	1.8	2.0 (Jan)	Employment	-4.4	-0.8	-0.1	0.7 (Jan)
Unemployment Rate (%)	8.3	8.0	8.0	7.8 (Jan)	Unemployment Rate (%)	9.3	9.6	9.6	9.0 (Jan)
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	12.6 (Jan)
CPI	0.3	1.4	1.8	2.4 (Dec)	CPI	-0.4	1.8	1.2	1.5 (Dec)
IPPI	-3.5	0.7	1.0	-2.9 (Dec)	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	-7.3		Current Acc. Bal. (US\$B, ar)	-24.3	-47.6	-45.6	
Merch. Trade Bal. (US\$B, ar)	-4.6	-0.2	-9.2	-2.6 (Dec)	Merch. Trade Bal. (US\$B, ar)	25.3	28.0	19.6	5.1 (Jan)
Industrial Production	-7.4	8.0	6.2	4.9 (Dec)	Industrial Production	-7.3	14.2	8.1	2.9 (Dec)
CPI	5.3	4.0	3.7	3.8 (Jan)	CPI	5.2	5.5	5.0	7.1 (Jan)
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)	-0.04	-0.06	-0.05	-0.08 (Nov)
Merch. Trade Bal. (US\$B, ar)	16.9	21.4	12.0	2.9 (Dec)	Merch. Trade Bal. (US\$B, ar)	-8.0	-32.1	-22.9	-55.5 (Nov)
Industrial Production	0.1	10.1	9.3	10.6 (Dec)	Industrial Production	-18.2	7.7	6.3	5.7 (Dec)
CPI	-26.9	93.3	89.8	0.0 (Jun)	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	133.6	149.8	279.1 (Dec)	Current Acc. Bal. (US\$B, ar)	-52.2	-58.3	-41.8	-59.3 (Dec)
Merch. Trade Bal. (US\$B, ar)	193.4	181.0	207.6	221.6 (Dec)	Merch. Trade Bal. (US\$B, ar)	-31.5	-41.9	-40.1	-45.9 (Dec)
Industrial Production	-15.5	12.2	10.3	9.9 (Dec)	Industrial Production	-13.5	7.2	5.1	6.6 (Dec)
Unemployment Rate (%)	8.2	7.7	7.6	7.4 (Jan)	Unemployment Rate (%)	9.5	9.7	9.7	9.7 (Dec)
CPI	0.3	1.1	1.2	2.0 (Jan)	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	-135.7	-160.5	-173.3 (Dec)
Industrial Production	-14.8	9.0	7.1	7.7 (Nov)	Industrial Production	-10.1	1.5	3.1	3.7 (Dec)
Unemployment Rate (%)	9.4	9.9	10.0	9.9 (Dec)	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	171.9 (Dec)	Current Acc. Bal. (US\$B, ar)	-41.4	-12.3	-33.5	
Merch. Trade Bal. (US\$B, ar)	29.6	55.6	91.5	101.7 (Dec)	Merch. Trade Bal. (US\$B, ar)	-3.2	31.9	27.3	36.7 (Dec)
Industrial Production	-21.8	21.1	12.9	4.6 (Dec)	Industrial Production	-1.6	6.9	5.0	
Unemployment Rate (%)	5.1	5.2	5.1	4.9 (Dec)	Unemployment Rate (%)	5.6	5.2	5.2	5.0 (Jan)
CPI	-1.4	-0.9	-0.8	0.0 (Dec)	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	35.4	39.7	25.4 (Dec)
Merch. Trade Bal. (US\$B, ar)	195.7	164.2	261.0	157.0 (Dec)	Merch. Trade Bal. (US\$B, ar)	40.4	58.0	45.7	35.5 (Jan)
Industrial Production	18.5	13.7	13.3	13.5 (Dec)	Industrial Production	-1.3	19.5	14.1	9.7 (Dec)
CPI	1.9	2.9	3.6	4.6 (Dec)	CPI	2.8	2.6	2.9	4.1 (Jan)

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

Source: Bloomberg, Scotia Economics.

Interest Rates (% , end of period)

Canada	10Q3	10Q4	Feb/04	Feb/11*	United States	10Q3	10Q4	Feb/04	Feb/11*
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	0.96	1.03	3-mo. T-bill	0.15	0.12	0.15	0.11
10-yr Gov't Bond	2.76	3.12	3.46	3.47	10-yr Gov't Bond	2.51	3.29	3.64	3.63
30-yr Gov't Bond	3.36	3.53	3.82	3.83	30-yr Gov't Bond	3.68	4.33	4.73	4.70
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US\$B)	59.4	57.0	57.0	(Dec)	FX Reserves (US\$B)	122.1	121.4	121.4	(Dec)
Germany					France				
3-mo. Interbank	0.86	0.96	1.01	1.07	3-mo. T-bill	0.51	0.40	0.60	0.65
10-yr Gov't Bond	2.28	2.96	3.26	3.29	10-yr Gov't Bond	2.66	3.36	3.62	3.66
FX Reserves (US\$B)	62.4	62.3	62.3	(Dec)	FX Reserves (US\$B)	52.2	55.8	55.8	(Dec)
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	0.53	1.02	3-mo. T-bill	4.85	4.85	4.85	4.85
FX Reserves (US\$B)	300.1	300.4	300.4	(Dec)	10-yr Gov't Bond	2.95	3.40	3.82	3.87
Japan					FX Reserves (US\$B)	67.2	68.3	68.3	(Dec)
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	4.75	4.75	4.75
10-yr Gov't Bond	0.94	1.13	1.25	1.32	10-yr Gov't Bond	4.96	5.55	5.73	5.69
FX Reserves (US\$B)	1077.4	1061.5	1061.5	(Dec)	FX Reserves (US\$B)	38.1	38.7	38.7	(Dec)

Exchange Rates (end of period)

USDCAD	1.03	1.00	0.99	0.99	¥/US\$	83.53	81.12	82.18	83.47
CADUSD	0.97	1.00	1.01	1.01	US\$/Australian\$	96.71	102.33	101.38	100.10
GBPUSD	1.572	1.561	1.611	1.601	Chinese Yuan/US\$	6.69	6.61	6.58	6.59
EURUSD	1.363	1.338	1.358	1.354	South Korean Won/US\$	1140	1126	1103	1128
JPYEUR	0.88	0.92	0.90	0.88	Mexican Peso/US\$	12.594	12.340	11.986	12.073
USDCHF	0.98	0.94	0.96	0.97	Brazilian Real/US\$	1.687	1.661	1.674	1.668

Equity Markets (index, end of period)

United States (DJIA)	10788	11578	12092	12241	U.K. (FT100)	5549	5900	5997	6068
United States (S&P500)	1141	1258	1311	1326	Germany (Dax)	6229	6914	7216	7382
Canada (S&P/TSX)	12369	13443	13792	13836	France (CAC40)	3715	3805	4047	4113
Mexico (Bolsa)	33330	38551	37739	36820	Japan (Nikkei)	9369	10229	10431	10606
Brazil (Bovespa)	69430	69305	65269	65845	Hong Kong (Hang Seng)	22358	23035	23909	22829
Italy (BCI)	1033	1048	1136	1137	South Korea (Composite)	1873	2051	2072	1977

Commodity Prices (end of period)

Pulp (US\$/tonne)	990	960	960	960	Copper (US\$/lb)	3.65	4.42	4.53	4.50
Newsprint (US\$/tonne)	638	640	640	640	Zinc (US\$/lb)	0.99	1.10	1.12	1.10
Lumber (US\$/mfbm)	236	308	292	288	Gold (US\$/oz)	1307.00	1405.50	1355.00	1364.00
WTI Oil (US\$/bbl)	79.97	91.38	89.03	86.05	Silver (US\$/oz)	22.07	30.63	28.91	30.00
Natural Gas (US\$/mmbtu)	3.87	4.41	4.31	3.94	CRB (index)	286.86	332.80	338.92	338.83

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

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