Scotiabank Group

Global Views

Weekly commentary on economic and financial market developments

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European Election Risk Should Dominate Markets Next Week

- **Please see our full data, auction, event, and central bank calendars on pp.17-23.**

Politics could well trump economics next week, as European elections help to determine the backdrop to the key EU Summit on March 24th-25th, and ongoing tensions in the Middle East risk further escalation.

Sunday's election in Hamburg is the first of seven state elections this year that could well determine the fate of German Chancellor Angela Merkel's centre-right coalition government. Merkel's Christian Democratic Union is itself down in the polls and faces the risk of perhaps losing several if not all of the key state votes this year. Its coalition partner—the Free Democratic Party—is itself on the ropes and faces the material risk of being trounced this year which could put the CDU in search of a new coalition partner.

The Hamburg election is preceded by an election speech by German Chancellor Angela Merkel on Saturday, and followed by elections in Saxony-Anhalt, Baden-Wurttemberg and Rhineland-Palatinate in March, Bremen in May, and finally Mecklenburg-Western Pomerania and Berlin in September. Thus, it is important to recognize that Germany will be in constant election mode throughout much of this year. The outcome of the elections will determine the composition of the Bundesrat, the upper legislative chamber—and thus the possible success or failure of major legislative efforts. They could also determine whether Merkel is fit to face her own re-election in 2013.

The week closes with the Irish general election on Friday. The election had been called on February 1st for February 25th —earlier than previously planned because the Green Party pulled its support. Beyond the resolve to remain steadfastly committed to fiscal retrenchment and reform, a key risk is that Ireland's main opposition party—Fine Gael—has recently commented that it may seek EU approval to impose hair cuts on senior bank note holders. An election victory for Fine Gael or a rise in its share of the vote would add momentum to such concerns and perhaps lead to a negative reaction across peripheral economy spreads.

Against the backdrop of political risk, Europe also faces significant data risk. European purchasing managers' indices are always potentially significant to markets, and Monday's updates will provide fresh perspectives on the health of its manufacturing sector. Germany's IFO reading on business confidence is also on tap for Monday. At a time when markets are increasingly nervous about inflation, French and German CPI figures will capture market attention on Wednesday and Friday, respectively. We continue to think inflation hawks are off base— this is a relative price shock being imposed through higher commodities that are stumbling on pass-through effects, and that if anything stands the chance of crowding out discretionary spending in broadly disinflationary fashion. On that same day, divergent views at the Bank of England will resurface through publication of minutes to the last BoE meeting and a number of BoE speeches. GDP revisions—Germany on Thursday and the UK on Friday—pose added data risk, but with consensus expecting no change.

Canadian markets will be focused on Tuesday's retail sales report that we expect to post a mild dip (see page 15). This will be the last piece of the puzzle in formulating expectations for December monthly GDP and Q4 overall—to be released on February 28th. Canadian markets will be closed on Monday.

To Scotia's clients across the Americas, next week will also be key in evaluating the health of the Mexican economy. GDP on Monday, retail sales on Wednesday, trade on Thursday and the unemployment rate on Friday will round out perspectives on most major sectors of the economy.

US markets will be focused upon low expectations for resale and new home sale prints to do much of anything, but bullish expectations for a solid lift to durable goods orders on Thursday leading into the prospect of small upward revisions to Q4 GDP due out on Friday.

Asian markets will be watching developments elsewhere for much of the week, barring any further policy surprises out of China. Only Asian trade figures are on tap for a number of economies, plus a thirty-year Chinese bond auction and publication of the BoJ minutes.

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Price Level Targeting Could Put The BoC On Hold Throughout 2011

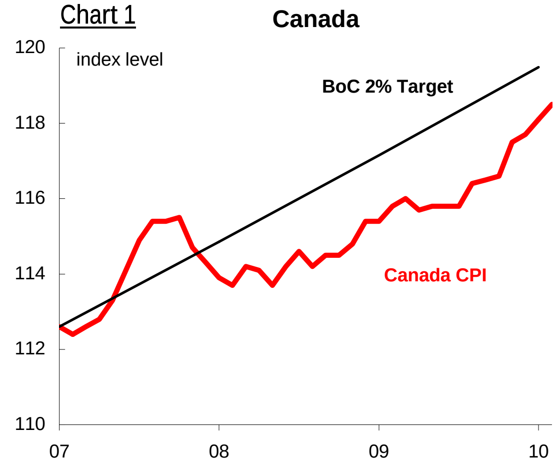
- **We also consider the implications of price level targeting to the Fed, ECB, BoE, RBA and Riksbank, and the scope for policy divergence across central banks in conducting their exit strategies.**

To its great credit, the Bank of Canada is leading a global research agenda that is focused on the relative merits of alternative monetary policy targets. A key reason for this is that the BoC's inflation targeting agreement with the Federal Government expires at the end of this year and must either be renewed under current terms or amended to focus on some other targeting framework. The BoC started this research agenda after 2006 when the last agreement expired, and has since proved to be at the cutting edge in addressing the challenges associated with managing policy transitions after record degrees of global monetary easing since 2008. A new framework will likely be in place late this year, and choosing what to target in future is a hot growth area in applied economics research. At this point the choice between the status quo, lowering the inflation target to perhaps the 1-1.5% mark, adopting price level targeting, or embracing more of a macroprudential focus upon the credit cycle remains unclear.

In our judgement, the notion of lowering the inflation target is the least probable outcome since it would intensify the probability and risks associated with returning to the lower zero bound on the overnight rate; although hitting the lower bound was previously thought to be unlikely, events since then have altered this understanding and global central bankers are likely to be keen on avoiding it in future. A key problem is that once the policy rate hits zero, a central bank's capacity to stimulate the economy is tapped out short of pursuing quantitative easing, which may not be judged to be appropriate and which itself carries uncertain benefits and costs. Furthermore, it isn't clear that the economy will be in a position to adequately trade off the longer-run possible benefits of lower inflation against the short-run costs of wrenching inflation expectations lower yet.

But price level targeting is an intriguing policy option that has been the target of serious research at the BoC and across academic economists. We think it receives too little attention by way of risks to future policy actions by the BoC, so we're focusing on some of its high level potential implications in this article. But the general principle behind price level targeting stands in sharp contrast to targeting a 1-3% band for inflation using the consumer price index implemented through an operational focus upon core CPI since more volatile headline CPI typically converges upon core inflation over time. Under inflation targeting, bygones are bygones in terms of past policy deviations such that only hitting the inflation target in future is what matters. Under price level targeting, policy misses in the past remain important, and the focus is upon getting a price level back up to target. In other words if, say, inflation under-shot the target in the past, then getting the price level back up to target would entail accepting a period of higher inflation. Policy tightening occurs in anticipation of getting back to the targeted price level, not getting back to the targeted inflation rate. A hypothesized benefit of price level targeting is that it yields benefits to agents in the broader economy with respect to long-run planning and contracting if they credibly believe they can be anchored around a stable price trend versus somewhat more volatile inflation readings.

Chart 1



Source: Bloomberg, Scotia Capital Economics.

Chart 1 depicts the issue at hand. The straight trend line evolves from taking the CPI index as at the start of 2007 and growing it at a constant rate of 2% which is the BoC's current inflation target. The chart also plots the actual and hence more volatile CPI level over this time. When the global crisis hit, the CPI level fell materially below the trend line. By corollary, the BoC would remain dovish until it succeeded in getting the level of the

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CPI back to the trend line. This of course assumes that the BoC continues to target 2% annual inflation but does so while being focused upon the trend price target and not the inflation rate itself.

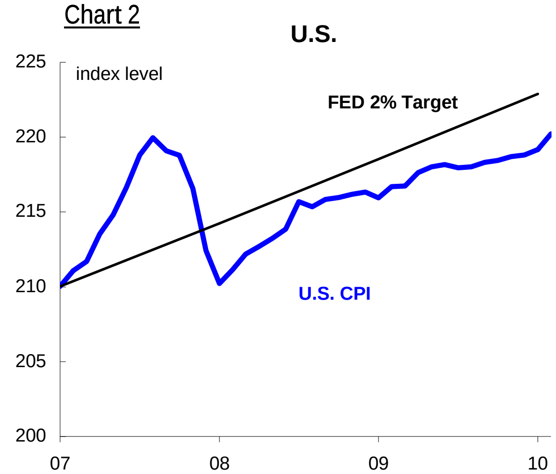
But how much flexibility would price level targeting give the BoC over the medium term? If the trend CPI line is grown at 2% per year assuming this remains the desired target but in smoothed trend terms, then one scenario to get the actual price line back onto the trend would entail using our 2011 inflation forecast of 2.3% followed by 3% inflation in 2012. In other words, the BoC could let inflation stray toward the upper bound of its inflation target range of 1-3%. In reality, its flexibility may be greater than that given research suggesting that CPI over-estimates inflation by 0.6% because it fails to account for substitution effects as price increases in some categories motivate substitution behaviour toward other elements of the price basket. Taking this factor into account would suggest that the BoC would actually have reason not to worry as inflation climbs to 3.6% in a price level targeting framework, since 3.6% CPI inflation would be more in keeping with true inflation of 3%. The BoC would then signal policy tightening during 2012 in order to ensure that the price level remains on target in 2013 and subsequent years. Thus, this scenario would be at least as dovish and possibly more so to the front end of the Canada curve than even our forecast which assumes the BoC is on hold until October of this year. Other shops are more content with a forecast for earlier hikes in line with market pricing.

Further, the risks are skewed toward the BoC being unable to get the CPI index back up to the trend line until significantly later than that, since we doubt 3-3.6% inflation arrives in Canada next year. If inflation only marginally beats the 2% mark in future years, then it could take years to get the price level back to target.

We need to be clear that we are not forecasting such an outcome. At this juncture, it remains unclear what the BoC will ultimately target and that in itself requires further hints at clarity by the BoC.

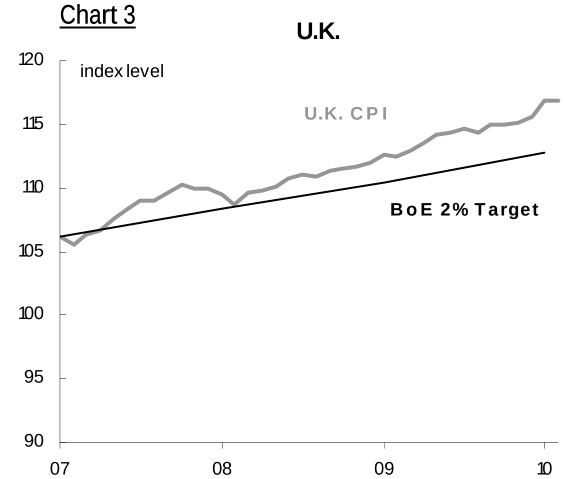
In a broader global context, similar arguments apply in several other countries. Should central banks elsewhere be concerned about imposing policy tightening at a fragile point in the global recovery, then price level targeting would give a great deal of leeway. For instance, consider the Federal Reserve where the price level is materially below target using the Fed's generally understood implicit inflation goal (chart 2). If we take the Scotia Economics

Chart 2



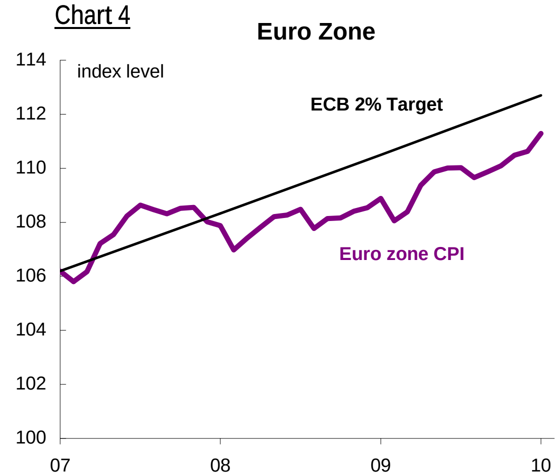
Source: Bloomberg, Scotia Capital Economics.

Chart 3



Source: Bloomberg, Scotia Capital Economics.

Chart 4



Source: Bloomberg, Scotia Capital Economics.

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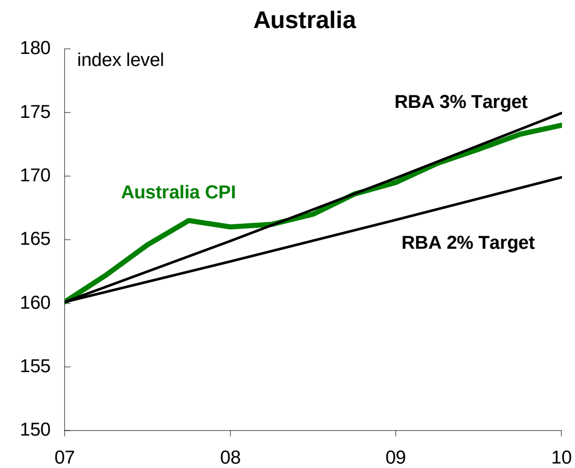
forecast for US CPI inflation to come in at 1.7% this year, then it would take two years of 3% inflation thereafter in order to get the actual CPI level up to the trend line rising at a constant 2% per year. Not hitting a price target until 2013 would suggest a Fed on hold through 2011-12 and perhaps longer. The case for doing so would build upon Fed Chairman Ben Bernanke's past policy advice to Japan to adopt price level targeting by advancing the case at the Fed as opposed to the dual mandate focus upon price stability and full employment. We doubt that the political climate this year and next will be conducive to debating this through a formal alteration of the Fed's dual mandate, but an implicit focus is possible. The scope for such a shift is not to be ignored, just as students of past monetary policy cycles that were largely driven by shifts in the Fed funds target were caught totally unprepared for the arrival of nonconventional monetary policy.

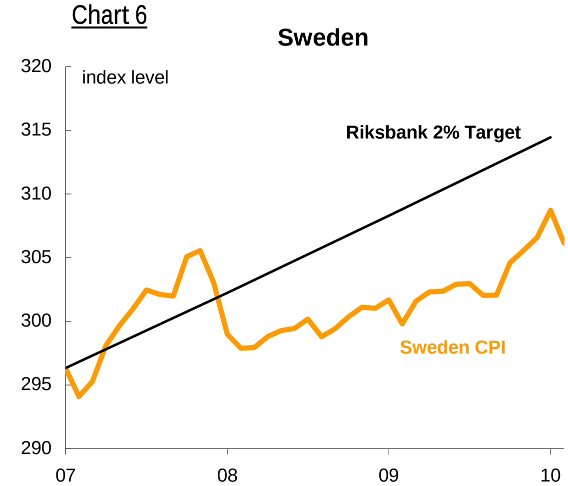
Chart 5



Source: Bloomberg, Scotia Capital Economics.

The Bank of England, however, would not be comforted by a shift to price level targeting, as prices continue to rise above a trend line (chart 3). Indeed, the BoE's focus upon seeing through temporary upward influences beyond its 2% target for the harmonized index of consumer prices before inflation settles down again next year, connotes a very different and dovish policy bias in contrast to what price level targeting would beget. Accordingly, we think price level targeting is unlikely to be preferred by the BoE.

Chart 6



Source: Bloomberg, Scotia Capital Economics.

The ECB would likely be on hold until some point next year in a price level targeting framework with the current price level significantly below an implicit goal (chart 4). If we assume a constant 2% inflation goal, then actual prices would take until 2013 to trend back up to the price level goal assuming 2.3% inflation this year followed by 3% in subsequent years. Once again, shave the risks in either direction according to your inflation views. Because of the Bundesbank roots of the ECB, we judge price level targeting to be a tough sell for the ECB.

Australia's RBA has sharply raised its cash target rate and would continue to tighten under a price level targeting framework because the price level remains toward the upper end of what would be the price level targets should the 2-3% inflation target remain intact (chart 5).

Interestingly, Sweden's Riksbank would be more dovish in a price level targeting framework than is presently the case, since price levels ride beneath trend. It would take two consecutive years of 3% inflation to bring price levels back onto the trend line (chart 6). Sweden's Riksbank is guiding markets toward further policy tightening, but price level targeting could actually justify a longer pause than is being realized. Clearly price level targeting is unlikely to be implemented by the Riksbank, and perhaps a part of the reason for this is that rates are being used in the absence of Canadian or Asian style macroprudential rules to cool housing and household finances that are being distorted by, for example, aggressive use of interest-only mortgages.

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Such central bank comparisons bring us to a key observation. Should price level targeting be adopted, it is likely to be done so unevenly across global central banks. The greatest odds are on the BoC and possibly the Fed to adopt some implicit, hybrid, or explicit price level targeting framework. If that's the case, then given the differential implications for relative spreads and carry trades across markets, the BoC may be able to address its concerns over an elevated currency limiting Canadian competitiveness and the degree to which Canada can leverage off of the US recovery by adopting price level targeting while most global central banks choose not to do so, at least for now. This is unlikely to be a primary policy focus, but a secondary knock-on effect. Further, should the BoC pursue price level targeting over inflation targeting, it may connote a greater degree of policy flexibility apart from possible handicapping effects of Fed policy actions or lack thereof. As one broader outcome, the implications for global central banking may well be to put a halt on the two-decade convergence toward explicit or implicit inflation targeting by many central banks, in favour of a more uncertain patch work of policy focal points.

Of course, throughout it all, there are many complicating factors including which price level to target, and when to start the trend line—whether in the past or at the point of adopting a new target. It's likely that a trend line can only be evaluated in a forward-looking sense since comparing past inflation to past trends does not allow for altered inflation expectations under a price level targeting framework. Further, the literature is sharply divided on the relative pros and cons of various targeting frameworks. Some of the varied uncertainties include the impact of price level targeting on contracting behaviour in the nonfinancial economy as well as across financial services including asset-liability duration decisions, the effects on inflation expectations that strike to the credibility issue, and output volatility. Further, it isn't clear whether central banks would truly react in symmetrical fashion with respect to price level deviations above and below the trend line.

That said, our reading of admittedly only a fraction of a deepening variety of studies suggests that the case for price level targeting needs to be taken seriously. Clearly key related issues include whether the markets lend enough credibility to central banks in order to pull off such a regime shift, whether central banks themselves steadfastly stand by their price targets through potentially volatile inflation readings, and whether the notion is of greater than academic curiosity such that its implications can be practically understood by global markets often not well versed on markets like Canada. At the end of the day, price level targeting would be a grand experiment not undertaken since the very different circumstances that faced Sweden during the Great Depression. A shift to price level targeting would therefore place monetary policy in somewhat uncharted waters. That doesn't mean that it cannot come to fruition, however, since inflation targeting itself was once in such a position before it became generally accepted wisdom either explicitly or implicitly across a majority of the world's central banks. That said, any shift toward PT or some hybrid system would have to be very well communicated in advance through monetary policy reports and the BoC's full communications tools by building on efforts to date. The rest of the world may well be in a position to watch a grand experiment unfold in Canada—one with considerable intellectual appeal particularly in the aftermath of the monetary policy challenges posed by the recent global financial crisis, and the clean-up that lies ahead.

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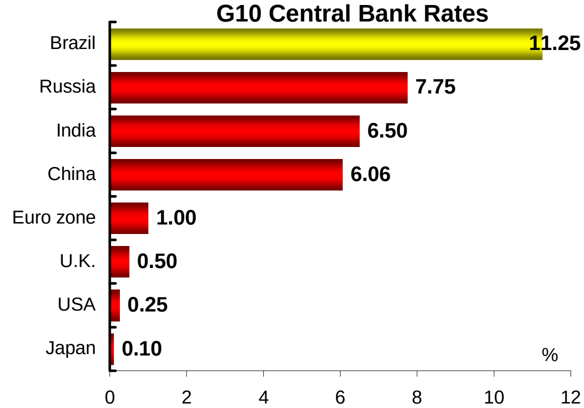
Managing Currency Strength and Fighting Inflation Remain Brazil and Chile's Priorities

- **Inflationary pressures hit Latin America's central banks.**

In 2011 the Brazilian authorities will focus in controlling rising inflation and currency strength

Intensifying inflationary pressures, monetary tightening and intervention in foreign exchange markets have become a common occurrence within the universe of emerging-market countries. In the Americas, Brazil continues to be the most aggressive inflation fighter through punishingly high domestic interest rates. At present, the policy-setting market-sensitive SELIC rate is set at 11.25%. The next policy decision by the Monetary Policy Committee (COPOM) will be announced on March 2nd; current market pricing implies further tightening in the months ahead in the order of 100 to 125 basis points. Based on the ongoing process of global economic rebalancing, Brazil has become the world's 7th largest economy measured both at current prices and on a purchasing-power basis. Brazil's monetary-policy SELIC rate is the highest within the redefined G10 group (please see graph).

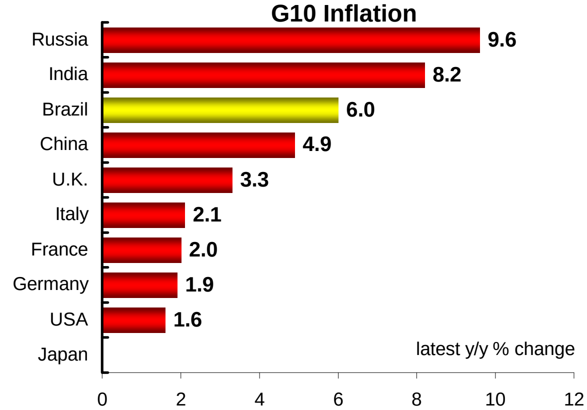
Global Economic Rebalancing- G10 Central Bank Rates



Source: Bloomberg, Scotia Economics.

Within the G10 group, Brazil still maintains a relatively high inflation rate, surpassed only by Russia and India. In short the BRIC group, though increasingly relevant due to their rebalanced economic size, still offer inflation and interest rate differentials which act as an attractive point to foreign capital inflows in search of (higher) yield.

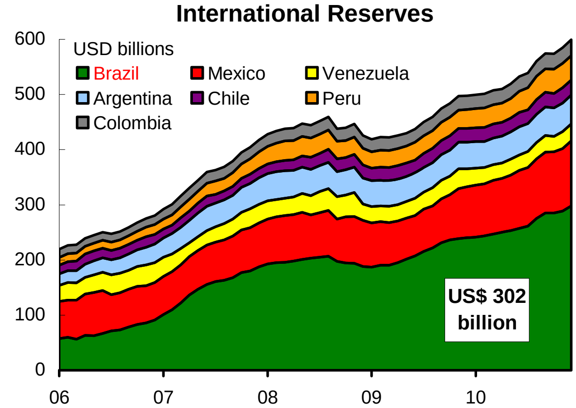
Global Economic Rebalancing- G10 Inflation



Source: Bloomberg, Scotia Economics.

Inflation in Brazil has been trending higher since the second half of last year; the market-sensitive IPCA-based consumer price inflation approached the 6% y/y mark last month (up from 4.6% in July 2010), placing the monetary authorities on alert. Robust domestic consumption, a sharp increase in domestic credit growth in all market segments, persistent employment growth and a sustained phase of import strength due to local currency appreciation (against the US dollar) have all been key factors fuelling price pressures. Market participants positively received the government's intent to reduce budget expenditures by 50 billion *reais* as a way to contain price pressures; in addition, the lower house recently approved a lower-than-expected adjustment to minimum wages, a move that was positively received by investors.

Latin America - Central Bank International Reserves



Source: Bloomberg, Scotia Economics.

Beyond the orthodox focus on maintaining inflationary expectations at bay, the Brazilian monetary authorities are eagerly monitoring capital flows dynamics in an effort to prevent (and/or prepare to) speculative-driven asset-price inflation associated to an unexpected reversal of foreign capital flows. The central bank counts on US$300 billion in

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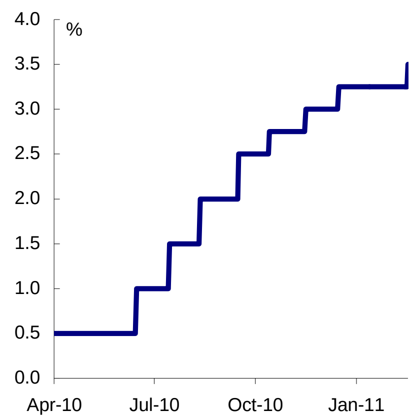
foreign exchange reserves (please see graph) to be deployed in multiple and creative ways to moderate currency volatility in case investors lose faith in the emerging-market asset class and trigger disruptive adjustments in Brazilian currency and securities markets.

Meanwhile, the currency market remains boringly stable; the Brazilian real (BRL) has been trapped in a very narrow trading range during most of the year so far. Growth and interest rate differentials continue to support a bias towards further strengthening; however, non-deliverable forward markets (NDF) are beginning to price in a modest adjustment in nominal terms (the 12-month contract is trading now at BRL 1.81 per USD vs. the spot rate of 1.66).

Chile restarts monetary policy tightening

The central bank of Chile has restarted its tightening monetary cycle, raising again its reference interest rate by 25 basis points on February 17th, after a brief pause in January. Since June 2010, the central bank has increased rates from 0.5% to 3.50% at year-end, in an attempt to reduce the monetary stimulus implemented since the beginning of 2009.

Chilean Overnight Rate



Source: Bloomberg, Scotia Economics.

The central bank's scenario seems to be getting more complicated. The pace of inflation has started to increase, as a result of higher international food prices. January's monthly inflation grew 0.3% leading to an annual rate of 2.7%, which is still bellow the central bank's target of 3.0% +/- 1 percentage point; however expectations have been increasing in the latest months. In the last survey published by the central bank, the expected rate of inflation for the coming 12 months shifted to 3.8%, 0.6 percentages points above the December survey. For the end of the year, consumer prices increased from 3.6% in January's survey to 4.0% (the higher end of the central bank's target). Thereafter, monetary policy rate expectations were also shifted from 5.0% to 5.50% at the end of 2011.

In addition, exchange rate appreciation also sets a new challenge for the central bank and government authorities alike. The Chilean peso (CLP) maintained its appreciating bias despite the decision to purchase US$12 billion in 2011, which brought only a momentary break to CLP strengthening at the beginning of the year. Indeed, the CLP has broken below the 470 per USD trading barrier, fuelling expectations that the central bank could intervene again.

After the intervention announcement, the CLP depreciated by 6.3% versus the USD in one week; however during the last month it has almost recover 100% of the initial losses. Despite this, the IPSA Equity Index has been underperforming the rest of its Latin America's peers, perhaps driven by the possibility of more capital controls and further tightening of monetary policy.

Once again, Latin American central banks are moving in tandem to counteract the intensification of inflation expectations as Chile, Peru and Brazil have entered a tightening cycle, together with other emerging markets such as China, India, Poland and Hungary.

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Commodity-Price Shocks and U.K. Inflation

- **What do the studies say?**

The BoE's Andrew Sentance was in his fine hawkish form on Thursday. In a speech delivered at the Institute of Economic Affairs' State of the Economy conference, Sentance argued that the BoE should target the currency in its rate policy, advocating a stronger pound to stem inflationary pressures in a twist on selling England by the pound.

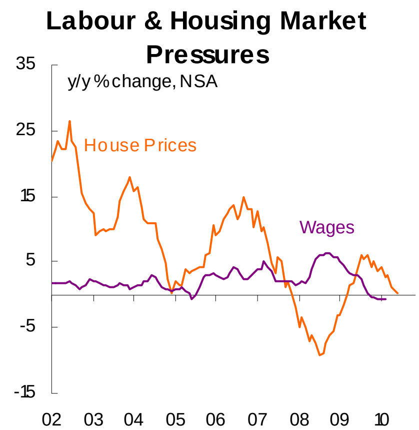
Some of the BoE's own research may provide support for Sentence's concerns, but these findings also acknowledge that the pass-through effects of higher import prices are largely industry specific and have diminished significantly since 1995. Apart from what the BoE expects to be temporary shocks stemming from higher commodity prices and the increase in the value-added tax (VAT) last month, the offsetting influence of the fragile housing and labour markets (chart 1) — among a number of other less cyclical factors — remains at least as material.

Within an advance-economy framework, academic studies have looked at the pass-through story from a number of angles. While their findings have varied, a number of the studies [1] [2] [3] [4] [5] [6] — carried out in the post-1990s period — found that there has been a significant reduction in the pass-through effect, particularly along the distribution chain (chart 2), due to both structural and cyclical factors.

From a structural perspective, as Mishkin points out, price sensitivity of import, producer and consumer price has been reduced through improvement in monetary policy transparency, instrumental to the stability of longer-term inflation expectations. Furthermore, advanced economies have become more immune to the commodity-price shocks, partly by becoming less reliant on the manufacturing sector. In a number of these economies, the services sector — less affected by commodity prices — has overtaken as the key driver of growth. That said, partial pass-through is likely to be somewhat larger in countries with a bigger share of commodity-related imports[2]. The U.K. is one of those economies, as imports still account for roughly a third of all goods and services sold[1]. Of those, some 81% are finished & semi-manufactured products and commodities, while services sit at 24% (chart 3) — explaining the relatively higher correlation between import and producer prices (chart 2).

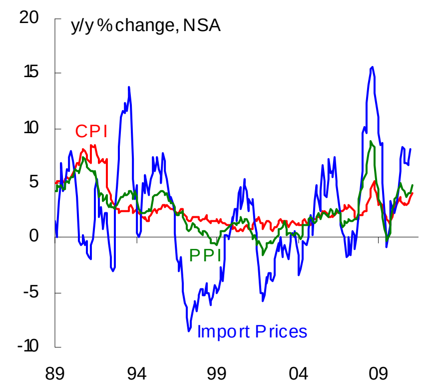
From a cyclical perspective, studies have shown that the strength of the impact of a commodity price-shock on inflation depends on what stage of the economic cycle a country faces. Given that the economic recovery in the United Kingdom is expected to be gradual, tepid wage pressures and excess capacity are likely to hamper the transmission mechanism.

While the strength of the pass-through effect of commodity-price shocks on inflation is debatable — with some studies suggesting a diminished role — one could safely say that these shocks contribute to turning points in inflation[3]. Causality and consequences of inflation are becoming more complex, particularly in an increasingly more globalized environment, making it a more challenging task to develop multivariate models that fully describe the relationship.



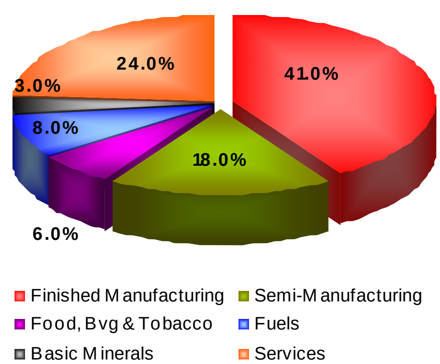
Source: UK Office for National Statistics, Rightmove, Scotia Capital Economics.

Import Prices vs. CPI - Headline



Source: UK Office for National Statistics, Scotia Capital Economics.

UK Imports - Composition (2006)



Source: UK Office for National Statistics, Scotia Capital Economics.

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Provincial Stimulus Reporting

- **Assessing the final effective net cost of recent stimulus initiatives can be complex and lengthy, but recent provincial reports offer insights.**

The Provinces are weighing in on their stimulus initiatives over the past two years as they step up their fiscal repair to unwind the deficits and the additional debt that they have incurred. In some jurisdictions, such as Quebec, the reporting is quite detailed, as illustrated in the side table.

Quebec estimates that its stimulus totalled $14.2 billion (4.6% of provincial GDP) — $6.4 billion in 2009 and $7.8 billion in 2010 — elevating its real GDP by 1.5 percentage points. For budgetary purposes, the immediate, direct cost of the measures is used, though this likely overstates the eventual net cost, given the additional expenses avoided, such as larger social assistance, the taxes paid by businesses that stayed open and individuals that remained employed, and future productivity gains from accelerating investments in infrastructure and worker training. Estimating the benefit from each measure is particularly difficult following this downturn when Canada, a small open economy, profitted not just from its own domestic stimulus but also from the synchronized stimulus of other nations around the world. As well, the federal, provincial and local governments collaborated on many initiatives. In Quebec for example, in addition to the Province's $200 million refundable Home Renovation Tax Credit, was Ottawa's Renovation Tax Credit plus energy efficiency incentives. The result was a 2.3% gain in Quebec's home renovation activity in 2009, following just a 1.2% advance in 2008.

The Quebec Government's Action Plan

$ millions except where noted

	2009	2010	Total
Additional aid for business, workers	1,510	1,811	3,321
Infrastructure[1]	3,939	4,265	8,204
Support for indivduals	369	585	953
Corporate tax reduction	330	729	1,059
Prepare Quebec for recovery	260	387	647
Total	**6,408**	**7,777**	**14,184**
% of Provincial GDP	**2.1**	**2.5**	**4.6**
Measures to Raise Cash Resources and Capitalization			
Business Recovery Emergency Fund, $500 mn	3	47	50
Stock Savings Plan II[2]	21	75	96
Fostering growth of Fondaction	-	90	90
Deferred repayment of loans to local investment funds	-	25	25
Renfort program[3], $2.0 bn authorized	700	700	1,400
SGF - $1 bn to invest in QC firms	263	337	600
Technology Company Support			
Seed Funds	-	125	125
Venture capital funds ($825 mn)[4]	200	150	350
Commercialization of intellectual proprety, tax holiday	-	0.4	0.4
Forest Sector Assistance			
March 2009 and 2010 Budgets	58	114	172

[1]Excluding infrastructure to develop northern Québec.
[2]Allows Quebec investors to Dec. 2014 to deduct 100% of the cost of shares purchased and held for two years in a firm with assets up to $200 mn, with a 150% superdeduction for stock purchases up to Dec. 31, 2010.
[3]Loans or loan guarantees, especially for small- to mid-sized businesses, to address funding strains due to financial market stress. Authorized as of Nov. 19, 2010, 444 loans, totalling $645.5 million, and 424 loan guarantees, totalling $463.7 million.
[4]Fonds Teralys will continue, investing amounts budgeted in coming years.
Source: Finances Québec, December 2010.

Quebec's downturn was shallow, in part because of the continuing momentum in infrastructure and home renovation spending. Quebec's real GDP dropped just 1½% from Q4 2008 to Q2 2009, and pre-recession activity levels were regained during the first half of 2010. As a result, Quebec's business sector did not fully access the total assistance available. For this business assistance, the final cost will depend upon a number of factors including the share of loans eventually repaid, whether the guarantees are ever required and the return on equity investments. In New Brunswick, the recent Auditor General's report documents the challenges in extending financial assistance to businesses, including in some instances difficulties in obtaining sufficiently timely financial information to address developing issues.

The extension of initiatives beyond the stimulus period also can raise issues. In this recovery, however, the commitment by most Provinces to undertake relatively comprehensive program reviews offers some insurance, particularly when the reviews are extended through the broader public sector. In Quebec, for example, regional development assistance programs have received considerable funding in recent years, but they are now a focus of the Province's effort to consolidate programs, simplify their administration and reduce their management costs.

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Global Car Sales Remain in the Fast Lane

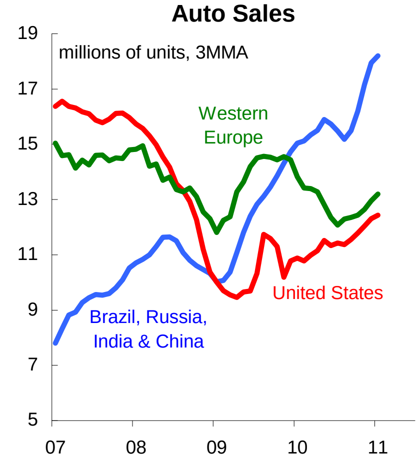
- **Global car sales remain in high gear, driving European vehicle output higher.**

The recovery in global car sales continues, with volumes advancing 6% above a year earlier in January — in line with our full-year 2011 forecast of a 7% increase. The rebound continues to be driven by double-digit increases in emerging nations and improvement in the United States.

Conditions in Western Europe are also stabilizing after a peak-to-trough sales slump of 20% from early 2007 through July 2010. While car sales in Western Europe remained below a year earlier in January, the decline moderated to only 1.5%, from a 5% drop for all of 2010. Highlighting the stabilization in the region, purchases climbed back above an annualized 13 million units in January, up from a cycle-low of only 12 million last July. In addition, volumes in Germany — Europe's largest auto market — jumped 17% above a year earlier, supported by an improving labour market and a rebound in consumer confidence. Employment in Germany surpassed the pre-crisis high last spring, and the ZEW index of consumer confidence is currently at the highest level since mid-2007.

The improvement in Germany combined with robust gains in emerging markets lifted global sales for Germany's three major automakers — Volkswagen, BMW and Mercedes-Benz — 21% above a year earlier. In particular, sales of the three German automakers in China surged 31% y/y in January, prompting these manufacturers to predict record volumes for 2011. These automakers have also significantly raised their European vehicle production schedules for early 2011. We estimate that over the past month, European automakers have boosted their first-quarter output plans by nearly 200,000 units, an increase of more than 4%. This comes on the heels of a double-digit jump in vehicle assemblies in 2010 and, will continue to support economic growth in Western Europe.

Auto Sales



Source: Scotia Economics.

In January, Russia led the improvement in global car sales, with the Kremlin's vehicle scrappage program helping to boost volumes 72% above a year earlier. The main beneficiary of the scrappage scheme continues to be OAO AvtoVAZ, Russia's largest automaker. In January, sales of the company's Lada brand jumped to 36,000 units, double year-earlier levels. However, North American automakers are also benefitting from the strength in Russia. General Motors's Niva, which is built by AvtoVAZ, surged to 7,303 last month — the fourth best-selling model last month, while the Ford Focus is the most popular foreign car in Russia. Ford will begin producing the third generation Focus at its plant near St. Petersburg later this year.

All of the other BRIC nations posted double-digit year-over-year gains in January. However, the performance in China was particularly noteworthy, with volumes climbing to record highs last month, despite the end of a tax incentive for small vehicles and a sharp reduction in licence plate issuance by the city of Beijing. We estimate that car sales in China surpassed an annualized 11.5 million units in January, with continued double-digit income growth lifting volumes above the full-year 2010 total of 9.5 million. Some small car manufacturers in China reported lower sales, due to the increase in the sales tax for fuel-efficient models from 7.5% to 10%. However, General Motors — the market leader in China — indicated that its volumes jumped 22% above a year earlier, led by a 46% surge at its Shanghai GM joint venture.

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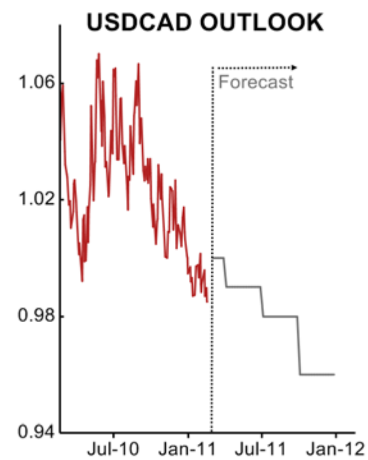
Global FX Themes and How They Influence the Canadian Dollar

1. Rising global inflation, but contained North American inflation, has major FX implications, but minor for CAD as it is the relative US and Canada inflation component that matters.
2. Relative monetary policy is likely to put downward pressure on the USD, with the Fed expected to be on hold into 2012.
3. While monetary policy in the US remains extraordinarily accommodative, global investors will continue to search for higher yields and commodity exposure, supporting commodity currencies like CAD.
4. European, US, UK and Japanese sovereign and fiscal concerns are ongoing. This supports the currencies of the stronger sovereigns (AUD, CAD and CHF).
5. The desire for alternatives to EUR and USD puts upward pressure on other primary currencies, like CAD.
6. EM growth is poised to continue, benefitting pro-cyclical currencies like CAD.
7. However, EM equities have rolled over suggesting that the North American equity rally is vulnerable as soon as the Fed shifts its tone. When this occurs, it is likely to temporarily pressures CAD lower.
8. China continues to be a major influence in FX and capital markets generally. CAD is particularly sensitive to developments in Chinese monetary policy, growth and reserve accumulation.

USDCAD Outlook — 2011 Forecast Q1: 1.00, Q4: 0.96

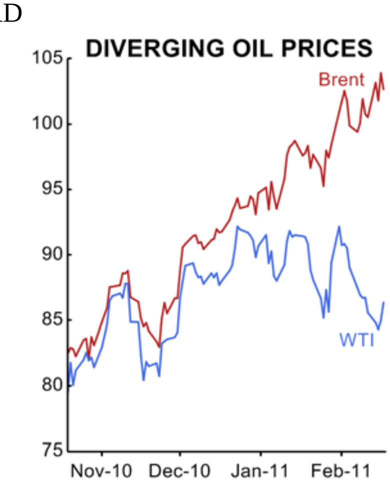
The Canadian dollar (CAD) is poised to appreciate from today's levels, but at a slow and measured pace as we move towards year-end. Currently, CAD's traditional drivers are fairly mixed, which has left the currency unable to move substantially away from parity. On a year-to-date basis, CADUSD has gained just over one percent and is up against JPY, CHF and AUD but is down against GBP, MXN and EUR. However the currency's ability to reach consecutive new highs suggests that the market, like ourselves, is biased for CAD strength.



Source: Scotia FX Strategy, Data Insight

Recent fundamentals have been mixed. GDP, employment and trade data have been strong, but inflation remains contained, suggesting that the Bank of Canada might be slightly less aggressive than the market is currently pricing in. Still, on a relative basis the Canadian fundamental backdrop remains supportive of a strong currency as does the path of interest rates.

CAD is an important input in the Bank of Canada's monetary policy decision making process. However it is not just the level and pace of appreciation that is important but also the reasons behind its strength. A CAD that has appreciated on the back of rising aggregate demand will be absorbed more naturally into the system (ie: aggregate demand will level out with the appreciation in the currency). However currency appreciation that is due to other factors, (broad USD weakness, a decline in risk aversion, financial inflows into Canada, etc.) will add substantial monetary tightening into the system and therefore will likely push out the need for the BoC to increase interest rates. The recent appreciation in CAD has been a bit of both. This is likely to have the Bank less focused on CAD strength than they would otherwise be, as the move in the currency has not done the monetary tightening work for them.



Source: Scotia FX Strategy, Data Insight

Global themes, highlighted above, suggest that CAD is likely to appreciate further from current levels. Strong EM growth, fiscal concerns in the US, Fed policy, upward pressure on commodity prices and investor interest in CAD are all supportive of the currency over the medium term.

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An interesting development for CAD has been the divergence between WTI and brent crude. On a year-to-date basis WTI oil is down 6%, mainly on oversupply at Cushing, while brent crude is up 9%. Unfortunately, the majority of Canadian oil flows to the US and therefore it is the price of WTI oil that is important for Canada and CAD. However, even though WTI oil prices are not as supportive of CAD as the rise in brent would be, WTI oil prices remain historically high. On a supportive note for CAD, other commodity prices have remained strong, with the CRB index reaching a new high in early February, which is positive for CAD.

The key risks to our expectation of a slow appreciation of CAD is a spike in risk aversion, potentially triggered by escalating problems in Europe, a sudden shift in tone at the Federal Reserve and/or a slowing in the outlook for EM growth. These are the risk, but our base case remains that CAD is well positioned in 2011, and should close the year at higher levels than it is currently trading at.

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Bill C-501

Bill C-501, originally titled “An Act to amend the Bankruptcy and Insolvency Act and other Acts (pension protection)” has been amended this week by the Federal Standing Committee on Industry, Science, and Technology. The amendments have removed all reference to pension liabilities, which we think should be a huge relief to the Canadian corporate bond market. The initial proposal to grant super-priority to pension liabilities in insolvency proceedings likely would have led to many ratings downgrades and very significant valuation losses in the Canadian corporate bond market, in our opinion. (For background information, please refer to the research from October 29th, 2010 Pension Legislation Bill C-501, at http://sconline.multexexpress.com/SCOnline/getDoc.asp?udoc=NTAwMDI1NDQ=&ctbid=82&type=pdf&action=view&refresh=20110218103056) The Bill, as amended this week, now treats only severance and termination pay, placing these employee claims ahead of secured creditors. While still negative for unsecured and even secured bondholders, and other creditors such as banks, we believe the amounts at stake are far less material. The Bill’s title has been changed to remove reference to pension protection, and replaced it with “Termination and Severance Pay”. We understand that the Bill will now proceed to the House of Commons for third reading.

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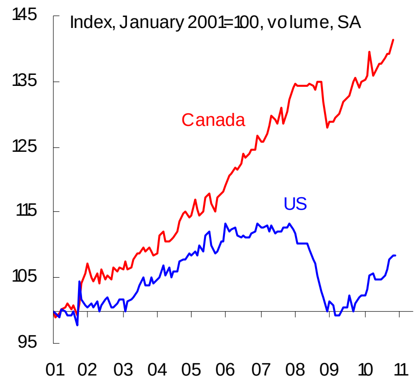
Key Data Preview

CANADA

Retail sales (Tuesday) will round out the available leading indicators ahead of the December GDP report, due out on February 28. So far we know that net exports and wholesale trade added to economic growth, while housing starts, hours worked and manufacturing sales acted as a drag. We expect headline retail sales to post a decline of -0.1% m/m, in large part due to a sharp 4.8% drop in motor vehicle sales — which could shave up to 1.0ppt off the headline — and the strong base effect from the prior month. These factors will be only partly offset by higher retail gasoline prices and gains in core components, with our view looking for a core (ex. auto) gain of 0.4%. Although household spending is expected to add 1.8ppts to GDP in 2011, the widening retail gap between Canada and the United States (see chart) adds further evidence to our argument that there may be little pent-up consumer demand in Canada, posing downside risk to economic growth.

Canadian vs. US Retail Sales



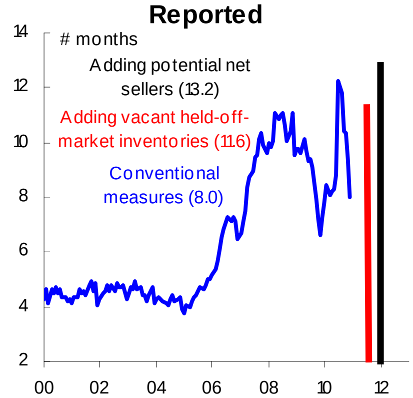
Source: Statistics Canada, St. Louis Fed, Scotia Capital Economics.

Teranet/National Bank House Price Index (HPI) — the Canadian equivalent of the S&P/Case-Shiller index, the preferred gauge of house prices — is due out next Wednesday. This repeat-sales HPI has been declining for three months, rolling back to a seven-month low in November. We expect this gauge to have extended the downward trend in December, down 0.3% m/m, in line with our view that the Canadian housing market is at a cycle's peak by a number of measures, including affordability, leverage and prices, among others. Since the start of 2000, resale house prices are up 101% nationwide.

UNITED STATES

Data released to date suggest that the first round of revisions to **Q4 real GDP** growth (Friday) could produce a slightly higher headline gain. The consensus view ranges from 2.9% to 3.6% q/q annualized, with our forecast looking for 3.4%, up from the original estimate of 3.2%. Higher-than-expected business investment and government outlays should provide the most support, only partly offset by disappointing residential investment in December.

Months' Supply Higher Than Reported



Source: US Census Bureau, Scotia Capital Economics.

Helped by a strong negative base effect — as a result of declines in four of the past five months — leading indicators suggest that headline **durable goods orders** (Thursday) are likely to have improved in January, with our forecast looking for a rebound of 3.0% m/m. According to the latest ISM manufacturing index — strongly correlated with durable goods orders — growth in orders accelerated to the fastest pace since early 2004. Our view is further reaffirmed by the auto sector — which accounts for nearly 15% of the overall durable goods orders — as it recovered from unseasonable retooling and snowstorms that took place late last year. That said, softer commercial aircraft orders and defense spending are likely to have counterbalanced some of the strength. We expect a more modest core (ex. transportation) improvement of 0.5%, helped by capital spending.

Although **existing home sales** (Wednesday) have shown some improvement since bottoming in July, following the expiry of the extended first-time homebuyers' tax credit, they remain some 30% below peak. **New home sales** (Thursday) continue to struggle, trending along the floor since May, some 80% below their cycle's high. Pending home sales and purchase mortgage applications point to weaker resale activity in January — our view is for a 5.3% m/m correction to 5.0 million annualized units — and are likely to decline further on rising mortgage rates and still-high shadow inventories (see chart). Leading indicators suggest that demand for new homes fell to a similar fate, down 5.8% to 310k on the month.

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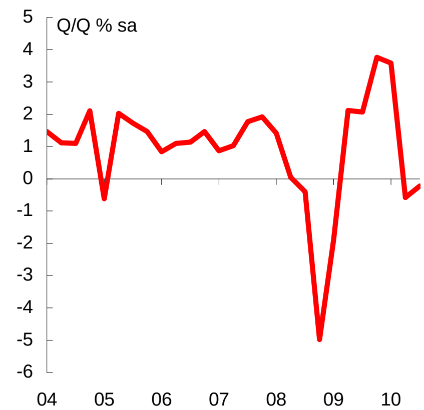
ASIA

Thailand's GDP Growth

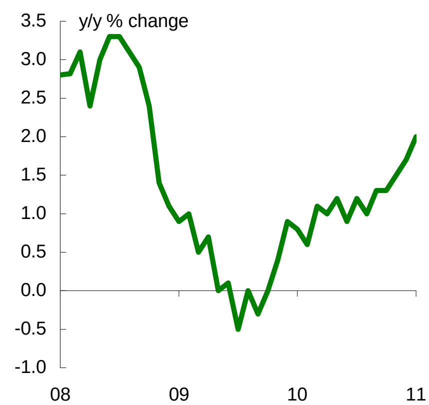


Source: Bloomberg, Scotia Economics.

Thailand's economy is currently firing on all cylinders as a healthy domestic demand expansion is running alongside rising foreign sales. Manufacturing activity improved during the three months to December, reversing a mid-year soft spot, with GDP likely rebounding as well after two quarters of negative sequential growth. We anticipate output to have gained 0.5% q/q during the final three months of 2010. A major recovery in exports (which account for two thirds of the economy) remains at the core of the economic rebound, with positive implications for Thai manufacturers. Consumer and investment spending are currently advancing at an over 5% yearly rate attesting to the solidity of the domestic demand picture. While Thailand's GDP is estimated to have advanced at least 7.7% in 2010, convergence to a more sustainable 4.5% rate of yearly expansion appears inevitable for 2011-12.

EUROPE

German Inflation



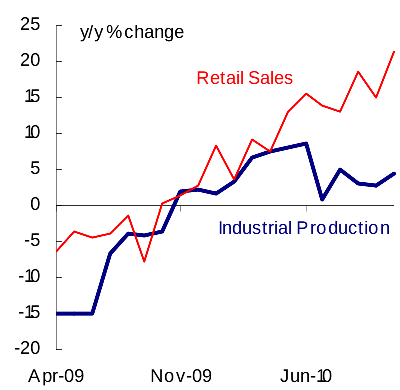
Source: Bloomberg, Scotia Economics.

Inflationary pressures across Europe continue to intensify in the last few months, forcing the authorities to turn to a more hawkish message in their most recent speeches. Energy and food prices have increased worldwide and Europe hasn't been the exception. Preliminary data for Germany will be released on February 25th, which has caught the attention of the monetary authorities. Germany's January inflation data remained at 2.0% y/y, the highest rate since October 2008 attracting market's attention.

Purchasing Managers Index in the euro zone will be released on February 21st. Economic activity has been increasing in the last few months supported by the service sector while manufacturing remains strong but at a slower pace. We expect this trend to continue.

LATIN AMERICA

Colombian Industrial Production and Retail Sales



Source: Bloomberg, Scotia Economics.

In the week ahead (February 21st to 25th) Colombia will be central stage on the macroeconomic data front in Latin America. The Central Bank will announce its monetary policy decision (February 25th); we expect the reference rate to be kept unchanged at 3.0%, while concerns over rising inflation will likely be highlighted. Additionally, December 2010 data on industrial production and retail sales will be published on February 24th. Industrial production grew 4.5% y/y during November, its fastest pace in three months while retail sales jumped to a record of 21.4% y/y in November, leading to a year-to-date rate of 12.9%, one percentage point above October's data. Both indicators are showing a positive end of the year for the economy, a trend which we expect to remain in place during the first months of 2011.

Key Indicators for the week of February 21 - 25

North America

Country	Date	Time	Event	Period	BNS	Consensus	Latest
MX	02/21	09:00	GDP Constant $ YoY%	4Q	4.0	4.6	5.3
CA	02/22	08:30	Retail Sales MoM%	DEC	-0.1	0.0	1.3
CA	02/22	08:30	Retail Sales Less Autos MoM%	DEC	0.4	0.8	1.0
US	02/22	09:00	S&P/CS 20 City MoM% SA	DEC	-0.5	-0.5	-0.5
US	02/22	10:00	Consumer Confidence Index	FEB	64	64.0	65.6
US	02/22	10:00	Richmond Fed Manufacturing Index	FEB	18.0	17.0	18.0
US	02/23	07:00	MBA Mortgage Applications, WoW%	18-Feb	- -	--	-9.5
MX	02/23	09:00	Retail Sales (INEGI) YoY%	DEC	- -	3.5	2.4
CA	02/23	09:00	Teranet/National Bank HPI MoM%	DEC	-0.3	0.0	-0.2
US	02/23	10:00	Existing Home Sales, mns	JAN	5.0	5.2	5.3
US	02/23	10:00	Existing Home Sales MoM%	JAN	-5.3	-1.1	12.3
US	02/24	08:30	Chicago Fed Nat Activity Index	JAN	- -	--	0.0
US	02/24	08:30	Durable Goods Orders MoM%	JAN	3.0	3.0	-2.3
US	02/24	08:30	Durables Ex Transportation MoM%	JAN	0.5	0.4	0.8
US	02/24	08:30	Cap Goods Orders Nondef Ex Air MoM%	JAN	- -	-1.0	1.9
US	02/24	08:30	Initial Jobless Claims (000s)	19-Feb	400	402.5	410
US	02/24	08:30	Continuing Claims (000s)	12-Feb	3850	3880.0	3911
MX	02/24	09:00	Trade Balance (USD mns)	JAN P	- -	--	-218.2
US	02/24	10:00	House Price Purchase Index QoQ%	4Q	- -	--	-1.6
US	02/24	10:00	House Price Index MoM%	DEC	- -	-0.1	0.0
US	02/24	10:00	New Home Sales MoM%	JAN	-5.8	-8.8	17.5
US	02/24	10:00	New Home Sales, 000s	JAN	310	300	329
US	02/25	08:30	GDP QoQ (Annualized)	4Q S	3.4	3.3	3.2
MX	02/25	09:00	Unemployment Rate, %	JAN	5.56	5.6	4.9
US	02/25	09:55	U. of Michigan Confidence	FEB F	- -	75.4	75.1
MX	02/25	10:00	Current Account Balance (USD mns)	4Q	- -	-1705.0	-1849.0

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

Key Indicators for the week of February 21 - 25

Europe

Country	Date	Time	Event	Period	BNS	Consensus	Latest
RU	FEB 18-24		GDP YoY%	4Q A	- -	4.8	2.7
UK	02/20	19:01	Rightmove House Prices (YoY%)	FEB	- -	--	0.4
FR	02/21	03:00	PMI Manufacturing	FEB P	- -	55.3	54.9
FR	02/21	03:00	PMI Services	FEB P	- -	58.0	57.8
GE	02/21	03:30	PMI Manufacturing	FEB A	- -	60.3	60.5
GE	02/21	03:30	PMI Services	FEB A	- -	60.2	60.3
EC	02/21	04:00	PMI Composite	FEB A	- -	56.9	57.0
GE	02/21	04:00	IFO - Business Climate	FEB	- -	110.3	110.3
EC	02/21	04:00	PMI Manufacturing	FEB A	- -	57.2	57.3
EC	02/21	04:00	PMI Services	FEB A	- -	55.9	55.9
HU	02/21	08:00	Hungary Base Rate Announcement, %	22-Feb	6.25	6.00	6.00
IT	02/22	04:00	Consumer Confidence Ind. sa	FEB	- -	106.0	105.9
UK	02/22	04:30	Public Finances (PSNCR) (£ bns)	JAN	- -	-6.0	25.5
SP	02/22		Trade Balance (Euro mns)	DEC	- -	--	-3879.8
FR	02/23	01:30	CPI - EU Harmonised (MoM%)	JAN	- -	-0.1	0.5
FR	02/23	01:30	CPI - EU Harmonised (YoY%)	JAN	- -	2.2	2.0
SP	02/23	03:00	Mortgages on Houses (YoY%)	DEC	- -	--	-14.6
UK	02/23	04:30	Bank of England Minutes				
UK	02/23	04:30	BBA Loans for House Purchase	JAN	- -	29250	28726
EC	02/23	05:00	Industrial New Orders SA (MoM%)	DEC	- -	-1.0	2.1
GE	02/24	02:00	GfK Consumer Confidence Survey	MAR	- -	--	5.7
GE	02/24	02:00	GDP s.a. (QoQ%)	4Q F	0.6	0.4	0.4
FR	02/24	02:45	Consumer Confidence Indicator	FEB	- -	85.0	85.0
IT	02/24	04:00	Retail Sales s.a. (MoM%)	DEC	- -	0.2	-0.3
IT	02/24	05:00	Business Confidence	FEB	- -	103.8	103.6
FR	02/24	12:00	Jobseekers- Net Change, 000s	JAN	- -	--	27.1
FR	02/24	12:00	Total Jobseekers, 000s	JAN	- -	--	2725.2
UK	02/24	19:01	GfK Consumer Confidence Survey	FEB	- -	-27.0	-29.0
RU	02/24		Gold & Forex Reserve (USD bns)	18-Feb	- -	--	486.1
FR	02/25	02:45	Consumer Spending (MoM%)	JAN	- -	-0.7	0.6
SP	02/25	03:00	Producer Prices (YoY%)	JAN	- -	5.7	5.3
UK	02/25	04:30	GDP (QoQ%)	4Q P	-0.5	-0.5	-0.5
GE	02/25		CPI - EU Harmonised (MoM%)	FEB P	- -	--	-0.5
GE	02/25		CPI - EU Harmonised (YoY%)	FEB P	- -	--	2.0

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

Key Indicators for the week of February 21 - 25

Asia Pacific

Country	Date	Time	Event	Period	BNS	Consensus	Latest
TH	02/20	21:30	Gross Domestic Product SA (QoQ%%)	4Q	0.5	0.9	-0.2
JN	02/20	23:30	All Industry Activity Index (MoM%)	DEC	- -	--	-0.1
PH	FEB 20-25		Budget Deficit/Surplus (PHP bns)	JAN	- -	--	0.5
TH	FEB 20-25		Customs Exports (YoY%)	JAN	- -	23.5	18.8
TH	FEB 20-25		Customs Imports (YoY%)	JAN	- -	20.8	11.5
TH	FEB 20-25		Customs Trade Balance (USD mns)	JAN	- -	840.0	1295.1
VN	FEB 20-23		Exports YTD (YoY%)	FEB	- -	--	18.1
VN	FEB 20-23		Imports YTD (YoY%)	FEB	- -	--	15.5
VN	FEB 20-24		CPI (YoY%)	FEB	- -	--	12.2
TA	02/21	03:00	Export Orders (YoY%)	JAN	- -	18.0	15.3
TA	02/21	03:20	Current Account Balance (USD mns)	4Q	- -	8500.0	8990.0
HK	02/21	03:30	Unemployment Rate SA, %	JAN	- -	4.0	4.0
VN	FEB 21-25		Industrial Output YTD (YoY%)	FEB	- -	--	16.1
VN	FEB 21-25		Retail Sales YTD (YoY%)	FEB	- -	--	22.1
HK	02/22	03:30	CPI - Composite Index (YoY%)	JAN	- -	3.3	3.1
JN	02/22	18:50	Merchnds Trade Balance Total (¥ bns)	JAN	- -	49.3	725.9
AU	02/22	19:30	Construction Work Done QoQ%	4Q	- -	1.5	-2.1
AU	02/22	19:30	Wage Cost Index QoQ%	4Q	- -	0.9	1.1
SI	02/23	00:00	CPI (YoY%)	JAN	- -	4.4	4.6
HK	02/23	03:30	GDP sa (QoQ%)	4Q	- -	1.2	0.7
SK	02/23	16:00	SK Consumer Confidence	FEB	- -	--	108.0
AU	02/23	19:30	Private Capital Expenditure QoQ%	4Q	- -	2.2	6.2
TA	02/24	03:00	Unemployment Rate SA, %	JAN	- -	4.7	4.7
HK	02/24	03:30	Trade Balance (HKD bns)	JAN	- -	-40.1	-43.5
SK	02/24	18:00	Goods Balance (USD mns)	JAN	- -	--	3680.0
JN	02/24	18:30	Natl CPI YoY%	JAN	- -	-0.1	0.0
JN	02/24	18:30	Natl CPI Ex Food, Energy YoY%	JAN	- -	-0.6	-0.7
PH	02/24	20:00	Trade Balance (USD mns)	DEC	- -	--	-798.0
SI	02/25	00:00	Industrial Production MoM% SA	JAN	- -	4.4	-11.8

Latin America

Country	Date	Time	Event	Period	BNS	Consensus	Latest
BZ	FEB 15-21		CAGED Formal Job Creation	JAN	- -	--	-407510
BZ	02/21	09:00	Trade Balance (FOB) - Weekly (USD mns)	20-Feb	- -	--	548.0
BZ	02/22	07:00	IBGE CPI IPCA-15 (MoM%)	FEB	- -	1.0	0.8
BZ	02/23	08:30	Current Account - Monthly (USD mns)	JAN	- -	-4900.0	-3493.1
BZ	02/23	08:30	Foreign Investment (USD mns)	JAN	- -	--	15364.0
BZ	02/24	06:00	FGV Consumer Confidence	FEB	- -	--	121.6
BZ	02/24	07:00	Unemployment Rate, %	JAN	- -	6.0	5.3
CO	02/24	16:00	Industrial Production (YoY%)	DEC	- -	--	4.5
CO	02/24	16:00	Retail Sales (YoY%)	DEC	- -	--	21.4
CO	02/25		Overnight Lending Rate, %	25-Feb	3.00	3.00	3.00

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

Global Auctions for the week of February 21 - 25

North America

Country	Date	Time	Event
US	02/22	11:00	U.S. Fed to Purchase USD6-8 Bln Notes/Bonds
US	02/22	11:30	U.S. to Sell USD32 Bln 3-Month Bills
US	02/22	11:30	U.S. to Sell USD30 Bln 6-Month Bills
US	02/22	13:00	U.S. to Sell USD35 Bln 2-Year Notes
US	02/23	11:00	U.S. Fed to Purchase USD1.5-2.5 Bln Notes/Bonds
US	02/23	11:30	U.S. to Sell 4-Week Bills
CA	02/23	12:00	Canada to Sell 30-Year Real Return Bonds
US	02/23	13:00	U.S. to Sell USD35 Bln 5-Year Notes
US	02/24	11:00	U.S. Fed to Purchase USD4-6 Bln Notes/Bonds
US	02/24	13:00	U.S. to Sell USD29 Bln 7-Year Notes
US	02/25	11:00	U.S. Fed to Purchase USD6-8 Bln Notes/Bonds

Europe

Country	Date	Time	Event
GE	02/21	05:15	Germany to Sell Add'l EU2 Bln 9-Mth Bills
HU	02/21	05:30	Hungary to Sell 6-Week Bills
PD	02/21	06:00	Poland to Sell Up to PLN2 Bln 49-Week T-bills
NE	02/21	06:00	Netherlands to Sell up to EUR3 Bln 65-Day Bills
NE	02/21	06:00	Netherlands to Sell up to EUR2 Bln 97-Day Bills
NE	02/21	06:00	Netherlands to Sell up to EUR2 Bln 310-Day Bills
FR	02/21	09:00	France to Sell EUR3.5 Bln 91-Day Bills
FR	02/21	09:00	France to Sell EUR2 Bln 350-Day Bills
FR	02/21	09:00	France to Sell EUR2 Bln 168-Day Bills
UK	FEB 21-25		U.K. Mini Tender Gilt Cancelled
DE	02/22	04:15	Denmark to Sell 3% 2021 Bonds
DE	02/22	04:15	Denmark to Sell 2.5% 2016 Bonds
HU	02/22	05:30	Hungary to Sell 3-Month Bills
SZ	02/22	05:30	Switzerland to Sell 6-Month Bills
HU	02/22	06:00	Hungary's Central Bank to Sell 2-Week Bills
IT	02/23	05:00	Italy to Sell Bills & Zero Coupon Notes
SW	02/23	05:10	Sweden to Sell Bonds
GE	02/23	05:15	Germany to Sell EU7 Bln 2-Year Notes
HU	02/23	05:30	Hungary to Buy Back Bonds
IT	02/24	05:00	Italy to Sell I/L Bonds
HU	02/24	05:30	Hungary to Sell Bonds
IT	02/25	05:00	Italy to Sell Bonds/Floating Rate Notes
UK	02/25	06:10	U.K. to Sell Bills

Source: Bloomberg, Scotia Economics.

Global Auctions for the week of February 21 - 25

Asia Pacific

Country	Date	Time	Event
SK	02/20	21:30	Korea to Sell KRW1.6 Tln 10-Year Bonds
MA	02/20	23:00	Bank Negara to Sell MYR1 Bln 364-Day Notes (09/11)
MA	02/20	23:00	Bank Negara to Sell MYR2 Bln 205-Day Notes (76/10)
MA	02/20	23:00	Bank Negara to Sell MYR500 Mln 170-Day Islamic Notes
SI	02/20	23:00	Singapore To Sell S$3.9 billion 91-Day T-Bills
PH	02/21	00:00	Philippines to Sell PHP 1 Bln 91D T-bills
PH	02/21	00:00	Philippines to Sell PHP 3.5 Bln 182D T-bills
PH	02/21	00:00	Philippines to Sell PHP 4 Bln 364D T-bills
AU	02/21	19:00	Australia Plans to Sell CIB Bonds
TH	02/21	22:00	Bank of Thailand to Sell THB25 Bln 28D Bills
TH	02/21	22:00	Bank of Thailand to Sell THB22 Bln 91D Bills
TH	02/21	22:00	Bank of Thailand to Sell THB15 Bln 182D Bills
TH	02/21	22:00	Bank of Thailand to Sell THB15 Bln 4-Year Bonds
HK	02/21	22:30	Hong Kong to Sell HKD25.204 Bln 91-Day Bills
HK	02/21	22:30	Hong Kong to Sell HKD8 Bln 182-Day Bills
JN	02/21	22:45	Japan to Sell 20-Year Bond
ID	02/22	03:30	Indonesia to Sell 10 Year to Maturity Govt Bond
ID	02/22	03:30	Indonesia to Sell 20 Year to Maturity Govt Bond
ID	02/22	03:30	Indonesia to Sell 1 Year Treasury Bills
TH	02/22	22:00	Thailand to Sell THB8 Bln Bonds due 2025
CH	02/22	22:00	China Government to Sell CNY28 billion 30-Year Bond
JN	02/22	22:35	Japan to Sell 3-Month Bills
MA	02/22	23:00	Bank Negara to Sell MYR500 Mln 210-Day Islamic Notes
IN	02/23	06:30	India to Sell INR 50Bln 91-Day Bills
IN	02/23	06:30	India to Sell INR 30Bln 364-Day Bills
NZ	02/23	20:30	New Zealand Plans to Sell Government Bonds
CH	02/23	22:00	Export-Import BOC to Sell CNY10 Bln 3-Year Bond
HK	02/23	22:30	Hong Kong to Sell HKD600 Mln 3.32% 15-Year Notes
JN	02/23	22:45	Japan to Sell 2-Year Bond
SI	02/23	23:00	Singapore to sell 20-Year Bonds
MA	02/23	23:00	Malaysia to Sell MYR100 Mln 364-Day Bills (09/11)
TA	02/23	23:30	Taiwan to Sell TWD25 Bln 182-Day T-Bills
SK	02/27	21:30	Korea to Sell KRW1 Tln 20-Year Bonds
SI	02/27	23:00	Singapore to sell 91-Day T-Bills

Source: Bloomberg, Scotia Economics.

Events for the week of February 21 - 25

North America

Country	Date	Time	Event
US	02/19	10:30	Treasury's Geithner at G-20 News Conference
US	02/22	13:00	Fed's Kocherlakota Speaks in Pierre, South Dakota
US	02/23	12:30	Kansas City Fed's Hoenig Speaks on Economy in Washington
US	02/23	13:30	Fed's Plosser Speaks on Economic Outlook in Alabama
US	02/24	08:30	Fed's Bullard Speaks in Bowling Green, Kentucky
US	02/25	10:15	Fed's Lacker, Diamond Discuss Report on Stress Tests
US	02/25	13:30	Fed's Yellen, BOE's Bean, ECB's Constancio Speak in NY

Europe

Country	Date	Time	Event
GE	02/19	05:00	Merkel Holds State Election Speech in Halle an der Saale
GE	02/20		Hamburg Holds State Election, First of Seven This Year
HU	02/21	08:00	Hungary Base Rate Announcement
EC	02/21	09:30	ECB Announces Bond Purchases
IT	02/21	11:00	Mario Draghi Speaks at Conference in Bologna
GE	02/21	12:00	ECB's Stark Speaks in Frankfurt
EC	02/21	12:00	ECB's Weber Speaks in Dusseldorf
CH	02/22	04:00	ECB's Bini Smaghi Speaks in Hong Kong
UK	02/22	12:00	BoE's Posen Speaks in Oxford
UK	02/23	04:30	Bank of England Releases Monetary Policy Committee Minutes
EC	02/23	12:00	ECB's Trichet, Quaden Speak in Liege, Belgium
EC	02/23	12:15	ECB's Axel Weber Speaks At Zurich University
UK	02/23	13:30	BoE's Miles Speaks in London
UK	02/23	10:30	BoE's Weale Speaks in Oxford
UK	02/23	13:30	BoE's Andrew Sentance Speaks in London
IR	02/24	19:00	Ireland Holds National Elections
UK	02/23	23:00	BoE's Posen Speaks in Mumbai
EC	02/24		Russia's Putin Meets EU Commission Officials in Brussels
US	02/25	13:30	ECB's Constancio Speaks in New York

Asia Pacific

Country	Date	Time	Event
PH	FEB 20-22		Budget Deficit/Surplus
JN	02/21	18:50	BOJ to Release Jan. 24-25 Board Meeting Minutes
AU	02/22	17:00	RBA's Stevens Speaks at Victoria University Conference
NZ	02/22	18:30	Finance Minister English Speaks
JN	02/22	20:30	BOJ Deputy Governor Yamaguchi to Speak in Aomori City
PH	FEB 22-25		Budget Deficit/Surplus

Latin America

Country	Date	Time	Event
CO	02/25		Overnight Lending Rate

Source: Bloomberg, Scotia Economics.

Global Central Bank Watch

North America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Canada – Overnight Target Rate	1.00	March 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	4.50

Higher food and energy prices continued to skew headline consumer inflation in Canada. Core pressures remains in check, leaving our forecast for the BoC to remain on hold until October unchanged. In the United States, minutes from the January FOMC meeting revealed a slightly more optimistic Fed. The outlook for the economy and inflation - at the headline and core level - was revised modestly higher for the current year, but otherwise remained virtually unchanged through 2013. We retain the view that the Fed is likely to remain on hold until at least early 2012.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
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	March 23, 2011	6.25	--

Monetary tightening is expected to continue in Hungary on the back of persistent inflationary pressures and elevated risk aversion towards Hungarian assets.

Asia Pacific

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

No major central bank monetary meetings scheduled for the coming week. Monetary normalization is expected to continue, but we believe that the urge to raise benchmark interest rates will be tamed going forward by lack of evidence of transmission from rising fuel and food costs to the rest of the economy. Exchange rate developments will also play a role, accentuating the focus on overall monetary conditions.

Latin America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	11.25	March 2, 2011	11.75	11.75
Banco Central de Chile – Overnight Rate	3.50	March 17, 2011	3.75	--
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	--

We expect the central bank of Colombia to maintain its interest rate at 3.0% on February 25th; nonetheless we anticipate more signs of inflationary concerns. In the last central bank's minutes published on February 14th, the board analyzed scenarios in which monetary policy could turn less expansive; reflecting more worries on rising international food and energy prices.

Africa

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
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 Prices[2]**		
World[1]	3.6	4.9	4.4	4.5				
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	
Real GDP (annual rates)	-2.5	2.3	1.0		
Current Acc. Bal. (C$B, ar)	-43.5	-51.9	-70.1		
Merch. Trade Bal. (C$B, ar)	-4.6	-10.5	-27.7	36.0	(Dec)
Industrial Production	-9.4	6.1	7.9	5.0	(Nov)
Housing Starts (000s)	149	198	192	170	(Jan)
Employment	-1.6	1.5	1.8	2.0	(Jan)
Unemployment Rate (%)	8.3	8.0	8.0	7.8	(Jan)
Retail Sales	-2.9	4.9	3.6	5.3	(Nov)
Auto Sales (000s)	1459	1518	1609	1513	(Dec)
CPI	0.3	1.4	1.8	2.3	(Jan)
IPPI	-3.5	0.7	1.0	-2.9	(Dec)
Pre-tax Corp. Profits	-32.3	26.3	16.0		

United States	2009	10Q2	10Q3	Latest	
Real GDP (annual rates)	-2.6	1.7	2.6	3.2	Q4
Current Acc. Bal. (US$B, ar)	-378	-493	-509		
Merch. Trade Bal. (US$B, ar)	-507	-677	-683	-643	(Dec)
Industrial Production	-9.3	7.8	6.9	5.1	(Jan)
Housing Starts (millions)	0.55	0.60	0.59	0.60	(Jan)
Employment	-4.4	-0.8	-0.1	0.7	(Jan)
Unemployment Rate (%)	9.3	9.6	9.6	9.0	(Jan)
Retail Sales	-7.1	7.5	6.1	8.3	(Jan)
Auto Sales (millions)	10.4	11.3	11.6	12.6	(Jan)
CPI	-0.4	1.8	1.2	1.6	(Jan)
PPI	-2.6	4.4	3.8	3.6	(Jan)
Pre-tax Corp. Profits	-1.2	46.7	34.8		

Mexico					
Real GDP	-6.1	7.6	5.3		
Current Acc. Bal. (US$B, ar)	-6.2	-2.5	-7.3		
Merch. Trade Bal. (US$B, ar)	-4.6	-0.2	-9.2	-2.6	(Dec)
Industrial Production	-7.4	8.0	6.2	4.9	(Dec)
CPI	5.3	4.0	3.7	3.8	(Jan)

Brazil					
Real GDP	-0.6	8.5	5.9		
Current Acc. Bal. (US$B, ar)	-24.3	-47.6	-45.6		
Merch. Trade Bal. (US$B, ar)	25.3	28.0	19.6	5.1	(Jan)
Industrial Production	-7.3	14.2	8.1	2.9	(Dec)
CPI	5.2	5.5	5.0	7.1	(Jan)

Argentina					
Real GDP	0.9	11.8	8.6		
Current Acc. Bal. (US$B, ar)	11.0	12.8	3.6		
Merch. Trade Bal. (US$B, ar)	16.9	21.4	12.0	2.9	(Dec)
Industrial Production	0.1	10.1	9.3	10.6	(Dec)
CPI	-26.9	93.3	89.8	0.0	(Jun)

Italy					
Real GDP	-5.1	1.3	1.2		
Current Acc. Bal. (US$B, ar)	-0.04	-0.06	-0.05	-0.09	(Dec)
Merch. Trade Bal. (US$B, ar)	-8.0	-32.1	-22.9	-43.2	(Dec)
Industrial Production	-18.2	7.7	6.3	5.7	(Dec)
CPI	0.8	1.5	1.6	1.9	(Dec)

Germany					
Real GDP	-4.7	3.9	3.9		
Current Acc. Bal. (US$B, ar)	168.9	133.6	149.8	279.1	(Dec)
Merch. Trade Bal. (US$B, ar)	193.4	181.0	207.6	221.6	(Dec)
Industrial Production	-15.5	12.2	10.3	9.9	(Dec)
Unemployment Rate (%)	8.2	7.7	7.6	7.4	(Jan)
CPI	0.3	1.1	1.2	2.0	(Jan)

France					
Real GDP	-2.8	1.9	2.0		
Current Acc. Bal. (US$B, ar)	-52.2	-58.3	-41.8	-59.3	(Dec)
Merch. Trade Bal. (US$B, ar)	-31.5	-41.9	-40.1	-45.9	(Dec)
Industrial Production	-13.5	7.2	5.1	6.6	(Dec)
Unemployment Rate (%)	9.5	9.7	9.7	9.7	(Dec)
CPI	0.1	1.6	1.5	1.8	(Dec)

Euro Zone					
Real GDP	-4.0	1.9	1.9		
Current Acc. Bal. (US$B, ar)	-69.2	-104	-43	-2	(Dec)
Merch. Trade Bal. (US$B, ar)	54.7	17.1	43.0	43.8	(Dec)
Industrial Production	-14.8	9.0	7.1	8.2	(Dec)
Unemployment Rate (%)	9.4	9.9	10.0	9.9	(Dec)
CPI	0.3	1.5	1.7	2.2	(Dec)

United Kingdom					
Real GDP	-4.9	1.6	2.7		
Current Acc. Bal. (US$B, ar)	-37.1	-28.3	-63.9		
Merch. Trade Bal. (US$B, ar)	-128.7	-135.7	-160.5	-173.3	(Dec)
Industrial Production	-10.1	1.5	3.1	3.7	(Dec)
Unemployment Rate (%)	7.6	7.8	7.8	7.9	(Nov)
CPI	2.2	3.4	3.1	4.0	(Jan)

Japan					
Real GDP	-6.3	3.3	4.7		
Current Acc. Bal. (US$B, ar)	141.8	156.9	227.5	171.9	(Dec)
Merch. Trade Bal. (US$B, ar)	29.6	55.6	91.5	101.7	(Dec)
Industrial Production	-21.8	21.1	12.9	4.9	(Dec)
Unemployment Rate (%)	5.1	5.2	5.1	4.9	(Dec)
CPI	-1.4	-0.9	-0.8	0.0	(Dec)

Australia					
Real GDP	1.3	3.1	2.7		
Current Acc. Bal. (US$B, ar)	-41.4	-12.3	-33.5		
Merch. Trade Bal. (US$B, ar)	-3.2	31.9	27.3	36.4	(Dec)
Industrial Production	-1.6	6.9	5.0		
Unemployment Rate (%)	5.6	5.2	5.2	5.0	(Jan)
CPI	1.8	3.1	2.8		

China					
Real GDP	9.1	10.3	9.6		
Current Acc. Bal. (US$B, ar)	297.1				
Merch. Trade Bal. (US$B, ar)	195.7	164.2	261.0	77.5	(Jan)
Industrial Production	18.5	13.7	13.3	13.5	(Dec)
CPI	1.9	2.9	3.6	4.6	(Dec)

South Korea					
Real GDP	0.2	7.2	4.4		
Current Acc. Bal. (US$B, ar)	32.8	35.4	39.7	25.4	(Dec)
Merch. Trade Bal. (US$B, ar)	40.4	58.4	42.5	35.0	(Jan)
Industrial Production	-1.3	19.5	14.1	9.7	(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/11	Feb/18*	United States	10Q3	10Q4	Feb/11	Feb/18*
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	0.96	3-mo. T-bill	0.15	0.12	0.11	0.09
10-yr Gov't Bond	2.76	3.12	3.47	3.47	10-yr Gov't Bond	2.51	3.29	3.63	3.61
30-yr Gov't Bond	3.36	3.53	3.83	3.86	30-yr Gov't Bond	3.68	4.33	4.69	4.71
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	1.07	1.07	3-mo. T-bill	0.51	0.40	0.65	0.64
10-yr Gov't Bond	2.28	2.96	3.29	3.25	10-yr Gov't Bond	2.66	3.36	3.67	3.62
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	1.02	0.63	3-mo. T-bill	4.85	4.85	4.85	4.85
FX Reserves (US$B)	300.1	300.4	300.4	(Dec)	10-yr Gov't Bond	2.95	3.40	3.87	3.80
					FX Reserves (US$B)	67.2	68.3	68.3	(Dec)
Japan					**Australia**				
Discount Rate	0.30	0.30	0.30	0.30	Cash Rate	4.50	4.75	4.75	4.75
3-mo. Libor	0.15	0.13	0.13	0.13	10-yr Gov't Bond	4.96	5.55	5.68	5.64
10-yr Gov't Bond	0.94	1.13	1.31	1.31	FX Reserves (US$B)	38.1	38.7	38.7	(Dec)
FX Reserves (US$B)	1077.4	1061.5	1061.5	(Dec)					

Exchange Rates (end of period)

USDCAD	1.03	1.00	0.99	0.98	¥/US$	83.53	81.12	83.43	83.24
CADUSD	0.97	1.00	1.01	1.02	US¢/Australian$	96.71	102.33	100.21	101.36
GBPUSD	1.572	1.561	1.601	1.623	Chinese Yuan/US$	6.69	6.61	6.59	6.57
EURUSD	1.363	1.338	1.355	1.366	South Korean Won/US$	1140	1126	1128	1112
JPYEUR	0.88	0.92	0.88	0.88	Mexican Peso/US$	12.594	12.340	12.031	12.008
USDCHF	0.98	0.94	0.97	0.95	Brazilian Real/US$	1.687	1.661	1.666	1.667

Equity Markets (index, end of period)

United States (DJIA)	10788	11578	12273	12357	U.K. (FT100)	5549	5900	6063	6072
United States (S&P500)	1141	1258	1329	1343	Germany (Dax)	6229	6914	7371	7418
Canada (S&P/TSX)	12369	13443	13767	14143	France (CAC40)	3715	3805	4101	4153
Mexico (Bolsa)	33330	38551	37011	37542	Japan (Nikkei)	9369	10229	10606	10843
Brazil (Bovespa)	69430	69305	65756	68200	Hong Kong (Hang Seng)	22358	23035	22829	23595
Italy (BCI)	1033	1048	1137	1165	South Korea (Composite)	1873	2051	1977	2013

Commodity Prices (end of period)

Pulp (US$/tonne)	990	960	960	960	Copper (US$/lb)	3.65	4.42	4.50	4.45
Newsprint (US$/tonne)	638	640	640	640	Zinc (US$/lb)	0.99	1.10	1.10	1.14
Lumber (US$/mfbm)	236	308	288	288	Gold (US$/oz)	1307.00	1405.50	1364.00	1383.50
WTI Oil (US$/bbl)	79.97	91.38	85.58	87.87	Silver (US$/oz)	22.07	30.63	30.00	31.94
Natural Gas (US$/mmbtu)	3.87	4.41	3.91	3.87	CRB (index)	286.86	332.80	337.78	343.09

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

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