Global Views

Weekly commentary on economic and financial market developments

February 25, 2011

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

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Widespread Global Risks Give Cause For Protecting Portfolios Next Week

- **Please see our full data, event, auction and central bank calendars on pp. 20-27.**

Every single region of the world faces material risk in our calendar watch, such that it's not at all clear what will dominate the global risk trade beyond possibly further Middle East developments. A cautious approach to markets — perhaps slanted toward portfolio protection on long positions — has merit.

The outcome of Ireland's general election on Friday will be known over the weekend, and could pose a material risk to peripheral spreads in the Monday open. The main opposition party — Fine Gael — has been somewhat unclear recently over its earlier proposal to seek EU approval to impose hair cuts on senior bank note holders, but it strongly leads the polls and if it doesn't earn a majority then it is likely to lead a coalition. That's a dicey backdrop for next week's peripheral auctions, including a Spanish bond auction, Portuguese bill auctions and bond buybacks. Portugal's PM and central bank governor will weigh in on the country's challenges. Fresh EU growth forecasts hit markets on Tuesday, in advance of the potential for a more hawkish ECB in its rate announcement on Thursday — pending developments in its financial stability mandate over the week. Key ECB speeches follow, and Friday's meeting of EC conservative leaders including German Chancellor Angela Merkel (fresh from a stinging state election defeat) could get attention given its focus on the debt crisis. Rate decisions are expected from Russia and Poland. Euro zone GDP, German and euro zone unemployment, euro zone CPI, and final prints for purchasing managers' indices round out key data risk.

US data risk will be focused on typically market-moving updates for ISM manufacturing that we expect to retain prior gains, job growth that could well accelerate on a weak prior month base effect, and personal spending and income figures that are likely to track retail sales higher. What we think will be a positive fundamentals backdrop will, however, be set in the context of Federal Reserve Chairman Ben Bernanke's semi-annual testimony to the Senate Banking Committee and the House Financial Services Committee that used to be referred to as the Humphrey-Hawkins testimony. Markets will be parsing Bernanke's comments very carefully for updated perspectives on possible alterations to the completion schedule for Treasury purchases particularly on the heels of comments by St. Louis Fed President Bullard, KC President Hoenig and Chicago Fed President Charles Plosser that advocate considering adjustments to the program. Several other FOMC members deliver speeches on the US outlook next week, including NY Fed President William Dudley (voting), Fed Governor Rosengren, Minneapolis Fed President Kocherlakota (voting), Atlanta Fed President Lockhart (alternate in 2011, voting in 2012), and departing KC Fed President Hoenig (non-voting hawk).

Canadian markets will trade off both global and key domestic factors next week. Monday's monthly GDP print for December could well disappoint more bullish expectations in consensus, and tail risks for the quarter as a whole could witness a mildly disappointing reading given uncertainty over how volatile monthly trade figures will ultimately influence the quarterly GDP growth rate against otherwise modest growth assumptions. The Bank of Canada makes a rate decision on Tuesday; we expect no change in rates, and a mildly more dovish tone that acknowledges intensified global risks. We continue to believe that the next rate hike will not occur until Q4 of this year. Canadian banks also report fiscal Q1 earnings next week and the week after. Rounding out North American markets will be expectations for no rate change by the Bank of Mexico on Friday, as per Oscar Sanchez's arguments regarding tame Mexican inflation (see pages 7-8).

The prime source of risk across Asia-Oceania will be China's manufacturing PMI release on Monday evening eastern time, and the private sector version on Wednesday evening. Japan releases retail sales, industrial production, housing starts, household spending, and the jobless rate on Monday. We expect the RBA to remain on hold on Tuesday as the country's central bankers look through the impact of natural disasters. Key in this regard will also be updates on Australian retail sales, Q4 GDP, and new home sales that will likely net out to dovish AUD implications. Bank Indonesia delivers a rate decision on Thursday with expectations calling for a quarter point hike as many Asian central banks grapple with accelerating food and energy inflation.

Risk in Lat-Am markets will be overwhelmingly focused upon Brazil, with expectations for a rate hike on Wednesday accompanied by a solid but slowing GDP growth print on Thursday.

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Saudi Arabia Resumes Its Role As 'Swing' Oil Supplier To Calm Global Markets

- **Oil prices spike US$11 in the past week, as Libyan exports are curtailed.**

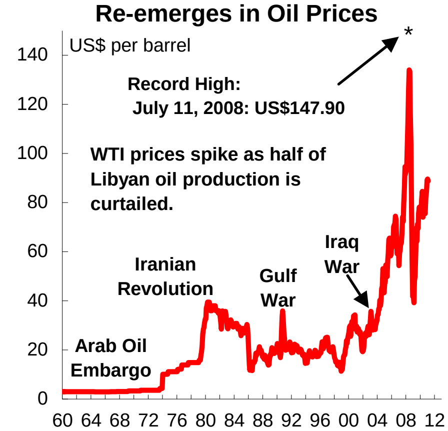
WTI oil prices — which have significantly lagged Brent crude oil (a better indicator of world prices) — jumped by more than US$11 this week to more than US$97. Prices briefly climbed over US$101. Brent near-by futures prices are currently US$111 and have been as high as US$115.

Libyan oil production was about 1.58 mb/d in early 2011, of which roughly 85% was exported. While the IEA estimates that export curtailments have so far been limited to 0.5-0.75 mb/d or roughly half of Libyan production, the bulk of Libyan exports may eventually be lost. Libya supplies 1.5% of world oil consumption. Exports mostly involve high-quality light crude oil, 80% of which is bound for European refining markets (in Italy and Spain), with small volumes also flowing to the United States. While Libyan exports are not huge, unrest in Libya has shifted global market conditions from one of balance to tightness.

To calm global oil markets, Saudi Arabia is resuming its role as 'swing' supplier and is in talks with refiners in Italy and Spain to offset curtailed Libyan supplies. The Kingdom may ship additional volumes of Arab Extra Light to Europe via its East-West pipeline to Yanbu on the Red Sea or enter into a swap arrangement with OPEC producers in West Africa, whereby the Saudis would ship more crude to Asian markets, while Angola/Nigeria would redirect crude from Asia to Europe.

The world is much better prepared to handle an 'oil supply crisis' today than in mid-2008, when WTI oil prices skyrocketed to a record US$147 due to strong global demand and dwindling OPEC 'spare' capacity. Saudi Arabia has made significant investments to boost its capability in recent years and has at least 3.5 mb/d of 'spare' capacity, which can be brought into production within 30 days. It is interesting to note, however, that Saudi Arabia accounts for the vast bulk of OPEC 'spare' capability (at least 71% excluding Iraq). The stability of Saudi Arabian oil supply is therefore of great importance.

'Geopolitical Risk Premium' Re-emerges in Oil Prices



WTI oil February 25, 2011: US$97.20; ICE Brent: US$111.40.

While lost Libyan exports can be easily offset (refiners will have some challenges dealing with different crude oil qualities), traders fear that a similar disruption of supplies from Algeria (producing 1.27 mb/d) or major Persian Gulf countries will begin to strain OPEC capability. In that event, members of the International Energy Agency (which includes the United States) can be expected to temporarily release their 'strategic petroleum stocks', maintained for emergencies. While prices are unlikely to skyrocket to mid-2008 levels, oil prices will stay elevated for some time.

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The Potential Oil Impact On Growth Is Being Under-Estimated

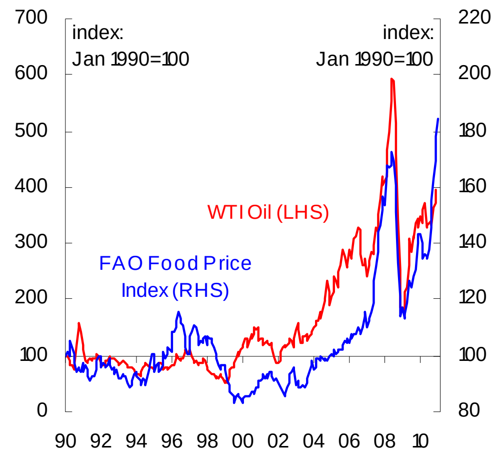
- **5 reasons why the impact of higher oil prices on GDP growth is likely to be greater than the oft-cited lower bound of estimates.**

The backdrop against which an oil price shock is occurring is not as severe as it was in 2008-09 when global deleveraging was commencing and jobs were being rapidly destroyed. But the effects of an oil shock on the economy are likely to be greater than the long-run average estimated effects for five key reasons that we explore. Indeed, the conventional view that oil would have to rise much further for a long period of time before the economy incurs painful effects understates downside risks.

1. Uncertain Growth Effects

First, those long-run effects of a spike in oil prices on growth are highly uncertain as estimates vary widely. At the low end of the estimates, every $10 rise in oil prices tends to shave 0.2-0.3% off US GDP growth. Since WTI oil has risen by US$40 a barrel since early 2009, this estimated effect would shave GDP growth by about one percentage point lower than it would be otherwise. Half of that shock has arrived since September, thereby concentrating much of the effect on a shorter interval. Indeed, higher oil prices since last Fall chop a half point off US GDP growth, and thus largely offset the possible positive impact of President Obama's stimulus extension — assuming that US consumers would spend such stimulus to begin with (versus hoarding it), which we doubted.

Food & Oil Prices



Source: Scotia Capital Economics, FAO, Bloomberg

But studies have shown that the magnitude, lag and duration of the impact of an oil price shock on the real economy is dependent on a number of factors, including the duration (temporary vs. permanent), nature (demand- vs supply-side) and origin (domestic vs. exogenous) of the shock, the type of economy (developed vs. developing, oil-importing vs. oil-producing) and the state of the economy at the time of the shock. For instance, OECD and ECB research tends to argue that the three-year effect of a $10 rise in oil prices involves a cumulative hit to US GDP of about 1%, and less for other countries (see table). Thus, the $40 rise in oil prices since 2009 would involve a 4% cumulative hit to US GDP over three years. Increasingly more research — particularly in the post 2007-era — focuses on the nature of the shock [1] [2] [3]. While findings agree that higher oil prices due to supply shocks could have a large, adverse impact on global growth, conclusions vary on the effect of the demand shocks. Some believe that they have had limited influence on real GDP [4], while others suggest a more persistent hit [5].

Accumulated Response of GDP growth to a US$10 oil price shock *(% decline, effect after 12 quarters)*	
United States	-1.0
Euro area	-0.2
Germany	-0.5
France	-0.4
Italy	-0.5
United Kingdom	-0.6
Canada	-0.1
Norway	0.4

Source: OECD - Brook, Price, Sutherland, Westerlund, Andre (2004), ECB - Jimenez-Rodriguez and Sanchez (2004).

Part of the explanation might be embedded in the dual causality that exists between oil demand and economic cycles [6], but the acuteness of the response also depends on whether the demand shock is domestic or exogenous [7] — particularly in the case of the United States and China — whether the study looks at the short- or long-term impact on the economy in question as well as the size of the shock (1% vs. 10%). Finally, it is worth paying attention to the time period examined by the study, since sensitivity of GDP to oil price shocks seems to have decreased over time [8] [9]. With economies adopting more transparent and credible monetary policies, becoming less reliant on oil in both manufacturing and consumption and reducing real wage rigidity [10] [11], the pass-through effect of oil price shocks to import,

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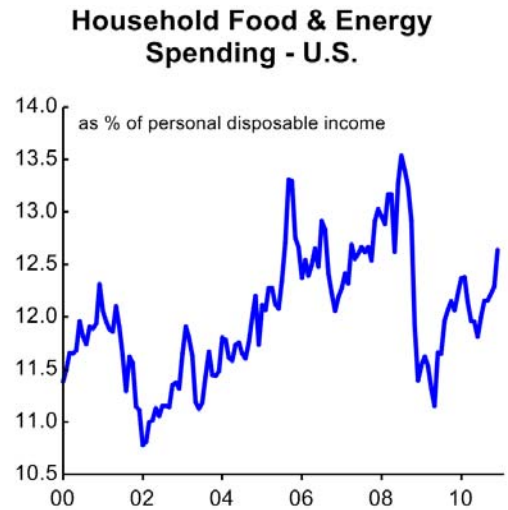
producer and consumer prices has diminished over time — particularly since the 1990s — reducing their second-round effect on the real economy.

Due to the factors discussed above, the magnitude — and sometimes even direction — of the impact depends on individual countries and scenarios studied. The negative impact seems to be the biggest on the United States and the smallest on Canada (see table on previous page), although oil price shocks seem to contribute positively to Norway's and Japan's economies. Digging below the aggregate impact on real GDP, findings suggest that the negative effect of oil price shocks is relatively bigger on household spending and business investment [12] [13], and that their respective price elasticities are likely to get larger with time [14].



Source: BEA, Scotia Capital Economics.

2. A Coincidental Oil And Food Shock

Second, historically, oil shocks often occurred in isolation of other consumer-oriented commodity price shocks, until recent years. As chart 2 demonstrates, global household budgets are being strained by the twin oil and food price shocks. In chart 2, we have indexed the trade-weighted UN Food and Agriculture Organization's index of 55 food prices to the start of 1990, and done likewise for WTI oil. For instance, the early 1990s spike that more than tripled oil prices occurred while global food prices were flat. Indeed, for much of the period until the mid-2000s, food was dirt cheap to much of the world, and prices were going nowhere. Since 2003, however, this index of food prices has risen by a whopping 120%. Growth in emerging market demand for food as tastes broaden out with income growth, rich-world environmental policies oriented toward diverting crop production toward bio-fuel production, financial speculation that treats some commodities and alternative investments interchangeably in increasingly liquid markets, and global government actions toward blocking grain exports and stockpiling food have all combined to drive food prices to record high levels in recent years. If ever there were a time to resurrect the Doha round of global trade talks, developments in recent years offer a compelling case of the need to strike to the heart of trade distortions across developed and developing countries alike.

The combined largely non-discretionary spending categories that are focused on food and energy spending compete for share of wallet against discretionary spending. As chart 3 depicts, what American consumers are spending on food and energy as a share of their incomes is not far off 2008 levels. Americans are now spending an extra $225 billion on food and energy now versus after prices had collapsed by late 2008. Food and energy spending had peaked at US$1.497 trillion in 2008Q2, sat just $36 billion below that level as at the end of 2010 and is likely higher now. As a share of incomes, food and energy spending now sits at 12.6% versus the 13.5% peak in mid-2008. This share has risen by taking away over one-and-a-half percentage points of income since the 2009 trough in oil prices.

3. Household Budget Constraints

Third, historical growth sensitivities to oil prices assume historical levels of access to credit and income growth that are unlikely to apply today following a global banking crisis that still leaves credit much tighter than pre-recession conditions. This is still a credit-constrained environment marked by trivial job and income growth. Without stronger income growth or credit to back into, a commodity shock still crowds out discretionary spending and, in our opinion, is disinflationary for much of the rest of the consumer basket – a key argument we advanced in 2008. This crowding-out effect on discretionary spending is likely to raise the estimated impact of higher energy prices on growth — we just don't know by how much. But the greater the commodity shock,

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the even greater likelihood that US consumers will save rather than spend stimulus. If they spend it, it's likely to cover here-today and gone-tomorrow consumption of essentials, while other spending categories suffer.

This is why we doubt the line of reasoning that says an oil price shock must be long lasting in order to negatively impact consumer spending in a material manner. Historically, consumers backed into home equity or credit or income growth to smooth over the commodity impact. Now, however, household budget constraints are so tight that the cumulative impact of repeated shocks to household finances — even if short-lived — is likely to have a seriously destabilizing impact on consumers and businesses.

4. Limited Impact From Higher Production Levels

The fourth key reason why the actual impact on growth is likely to be materially greater than the lower bound of estimates on the historical effects concerns whether Saudi Arabia and other producers can react swiftly to bring more supply into the market, and thus contain further price upsides. Just because they have more spare capacity to draw upon now than they did when oil prices were high in 2008 doesn't necessarily mean they will be able to contain upward pressure on prices. Supply-side price elasticities are stickier than this assumption of an automatic reaction implies, and a game theoretic approach to changing quotas within OPEC and across non-OPEC producers makes it unclear whether enough other producers would follow suit — or even contravene possible actions by Saudi Arabia. Further, commodities are notorious for overshooting short-run supply and demand dynamics, and concern over instability in the Middle East would not be swept away by simply raising oil production levels. We simply don't know what kind of regimes will ultimately dominate the region, but the early signs from countries like Egypt's military government are not encouraging by way of musing over opening the Gaza border, allowing Iranian naval ships to pass through the Suez canal for the first time in years on their way to Syria and off the coast of Israel, among other moves more radical than generally permitted under the Mubarak regime. One must be extraordinarily cognizant of the potential for developments across the Middle East to unfold in potentially much more destabilizing ways than is thus far apparent — the risk premium in oil will therefore reflect this uncertainty.

5. The Policy Response

How policy makers react to the surge in commodity prices is also key. This is a generalized commodity shock that is focused upon consumers that risks policy responses that could further aggravate the risks. An example is talk of raising rates at central banks like the ECB, just as they did in the midst of the last commodity shock in 2008 when its main refi rate rose to 4.25% in July of 2008 on frankly legitimate fears of a commodity shock sparking rising wage demands, but also on what turned out to be the eve of the severe deterioration in markets and the economy. The policy response to a relative price shock that risks demand destruction may well be materially different from the policy response to generalized inflation pressures.

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Mexican Peso Will Lead Latin America's Currency Race in 2011

- **Mexican securities continue to look attractive from both angles: fixed income and expected equity returns; favourable inflation and growth trends should favour the Mexican peso.**
- **It is the country that stands to gain most from slightly better U.S. growth prospects.**

It is likely that countries within the developing Americas will continue to face appreciating foreign exchange winds during 2011. Comparatively solid fiscal and external account fundamentals, improved terms of trade, and rapid growth relative to developed economies, are almost certain to result in stronger exchange rates vis-à-vis the U.S. dollar. The issue that still remains is which currency will fare better?

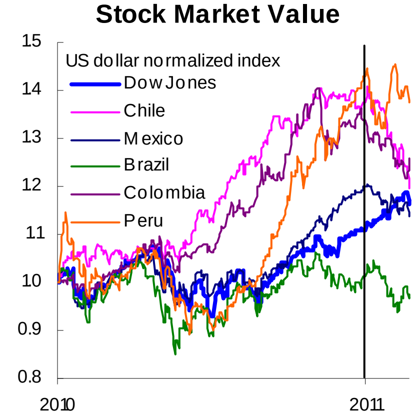
In what follows we compare the prospects for the exchange rates of Brazil, Chile, Colombia, Peru and Mexico in order to gauge which currency will in our view outperform through the end of the year.

Recent events have brought an interesting twist to the issue, as inflationary shocks worldwide have scared foreign investors away from developing country assets, on concerns that tightening monetary policies would lead to sub-par stock market gains as momentum is withdrawn from high growth economies. Moreover, while expectations of further increases in borrowing costs by regional central banks widen yield spreads, sweetening the carry trade, they also deteriorate prospective returns as bond prices shift down compressing anticipated capital gains on fixed income securities.

Private capital flows to Latin America increased for the second consecutive year in 2010 to US$220 billion, approaching the record level set in 2007. We start with a comparative profile of equity market prospects to then dwell into fixed income space.

The economies of Chile, Colombia, Peru and — late in the game — Mexico rendered between 20% and 40% returns in US dollar terms as of January 2010 (chart). Note that the Brazilian Bovespa lies practically flat in this comparison. So far in 2011, however, regional bourses have corrected downwards, having been outpaced by developed country indices. Two months into 2011, the leaders within the region have been Mexico and Peru whose year-to-date losses in U.S. dollars remain below 2% (-1.24% and -1.86%, respectively). The stock exchanges of Brazil, Colombia and Chile have been faring worse so far with -3.5%, -5.8% and -11.1% respectively.

Stock Market Value



Source: Scotia Economics, Bloomberg

The previous analysis can point in the direction of future performance so long as underlying trends behind leading relative returns can be recognized. In fact, while all five economies are estimated to report very respectable annual rates of GDP growth for 2010, it is no coincidence that the Mexican bourse is leading the pack as Mexico is the one displaying significantly better prospects this year (table). As can be judged from the table, while Peru, Brazil and Chile were the clear leaders on average growth, the Brazilian economy accelerated the most at the end of last year, with Mexico and Peru right behind. While all countries are expected to expand at reasonable rates in 2011, to our eye Peru and Mexico hold best prospects in the short term.

Notwithstanding the strength of the sol, Peru's non-mining output continues to perform satisfactorily with output and employment in the manufacturing sector still in expansion. However, the recent rebound in activity is associated with global metal price gains on the back of rebounding quotations for both copper and gold, with the exchange rate having remained relatively unscathed on the back of restrictions on commercial bank foreign currency transactions. Thus, the Peruvian sol strengthened slightly so far in 2011, compensating for some of the stock market losses.

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In order to gauge whether Mexico's economic momentum is bound to continue in the months ahead, it is worth looking at what's beneath the recent performance. A balanced economic recovery finally solidified in the second half of last year. Local demand emerged as consumer and investment spending indicators displayed increasing resilience. The prevalence of low borrowing costs under some currency strength proved just the right dose for the resurgence of firm expansions in both capital and labour. Currency strength proved a favourable element as it propelled purchases of imported machinery, which together with local capital formation, helping boost the lagging construction industry. While corporate bond placements recovered strongly since 2009, local financing by banks to both firms and individuals turned the corner in the second half of 2010. This development parallels the improving labour market performance with payrolls swelling on the back of employment gains. Surprisingly, foreign demand proved resilient as the locomotive of U.S. imports from Mexico regained steam at the turn of the year — piggybacking on a revitalized auto industry — notwithstanding relatively flat U.S. imports from the rest of the world.

GDP Growth

	2010e	2011f	3Q2010	4Q2010e
	Y/Y	Y/Y	Q/Q	Q/Q
Brazil	7.5	4.5	0.3	1.0
Chile	6.0	5.1	2.0	0.6
Colombia	4.7	4.6	0.7	0.8
Mexico	5.5	4.5	0.7	1.3
Peru	9.0	6.3	1.8	2.2

e: estimate.Q/Q is sa. f: forecast, Consensus except Mexico (Scotia Economics).

Source: Scotia Economics

Does the previous synopsis tell anything of what lies ahead? With local private sector spending on expansionary mode supported by swelling employment and adequately capitalized banks battling for market share, domestic economic growth is bound to lead. On the external side, Mexico is the one country with tightest links to a developed market, with upwardly revised growth expectations for the U.S. economy bound to favor it, making what proved a curse during the recession turn out a blessing in the recovery. The interesting fact, once again, is that in the case of Mexico inflation is trending not up, but down. Thus we arrive at our comparative profile of fixed income market prospects.

As can be judged from the adjacent table, between mid-2010 and early-2011, the slope of the yield curve has flattened in all countries; except in Mexico. While long-term interest rates in most of these countries remain linked to U.S. Treasury bonds (making improving prospects of developed country growth still a plus) short-term rates have increased in the past six months due mainly to the rise in local inflationary expectations. Mexico has been the only country amongst these five where expectations have remained stable notwithstanding the rebound in activity. Thus, we now observe a steepening of the yield curve brought about by both a rise in back combined with a fall in the front section of the curve.

Our conclusion is thus that from both sides of the ledger Mexican assets will continue to attract.

Yield Curve Slope*

	Jun-10	Feb-11
	%	%
Brazil	1.6	0.8
Chile	5.3	2.6
Colombia	4.6	4.6
Mexico	2.9	3.2
Peru	3.3	2.5

* Spread between long-term and short-term rate.

Source: Bloomberg

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Thailand at the Outset of a New Business Cycle, the First Since 2004

- **Thailand's economic growth broad based, driven by consumption, investment, government spending and exports.**

Thailand has been plagued by a serious political crisis since 2005 that resulted in a sharp slowdown in the domestic economy, i.e. consumption, investment and government spending. During the past several years, the economy relied purely on export as the economic engine. Due to the crisis, there was very weak multiplier effect from export to other sectors of the economy given the lack of confidence barring re-investment of export money.

Coming to this point, we believe the Thai economy has already started its new up-cycle, the one that just started in 2010. Thanks to an improving political situation, pent-up demand accumulated since 2005 has gradually been released into the market while high farm prices are driving consumption and investment in the provincial economy.

All economic engines are now in the works at the same time. While exports remain strong, against market concern on export slowdown, consumption, investment and government spending are also doing well. The economy grew 7.8% in 2010 and we expect another 4.8% growth this year. The strong growth in 2010 was not purely from the low-base effect of 2009 but also on real turnaround of the economy where consumption and investment in absolute terms were at new high levels.

Consumption (50% of GDP) is now growing at a double rate (5-6%) of the past five years (2-3%) being driven by pent-up demand and provincial economic boom. Investment growth is expected at 15% this year which is similar to last year's level. The drivers are from new investments in electronics, electrical appliances and the auto sector. However, Thailand has yet to be on a full investment cycle yet, as overall utilization level is still below 70%. The government continues to spend aggressively as Thailand is still on stimulus mode, which started in 2009. The fact that this year is an election year helps to push the government to spend more. A new infrastructure cycle has also started, the first time in 15 years, with mass-transit investments being key drivers along with government's stimulus in the provincial areas on other simple infrastructure. Public and private investment accounts for around 25% of GDP.

Exports, which are around 60-65% of GDP, are going against the market worries of strengthening currency and more organic global growth that will slow down Asian trade. Thai exports still grew 22% in January. Many export companies have also indicated that their export orders remain quite strong. There is high chance that our 10% export growth forecast this year will be too conservative. Thailand's exports are quite diversified. The main ones are electronics (20%), agriculture & food (16%), petrochemical (12%), auto & parts (10%) and electrical appliances (7%). The outlook of these sectors remains strong this year.

The main risk for the Thai economy are higher oil prices as the country is known to be quite inefficient with oil usage and it relies heavily on crude oil imports. Thai business operators have become more tolerant of elevated energy costs over the past five years, however, if oil prices reach above US$100/bbl, they can still slow the country's economic growth. Nevertheless, so far this year we haven't seen any signs of a change in business direction overall for Thai corporates despite the fact that oil prices haven risen significantly since 4Q10. However, we believe that they will be impacted soon if oil prices remain at or above US$110/bbl Dubai.

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Challenging Times Ahead for Portugal

- **Should investor confidence deteriorate, Portugal might be forced to seek financial aid despite reasonably sound government finances.**

The confidence crisis surrounding euro zone sovereign debt is reaching Portugal. As the sovereign crisis is predominantly driven by investor sentiment, we assess that the likelihood that the country might be forced to seek funding from the European Union's (EU) and the International Monetary Fund's (IMF) financial assistance pool over the course of the year has increased. For now, however, country officials insist that Portugal will be able to raise its financing needs in the international capital markets.

Fundamentally, Portugal's sovereign debt position is relatively more sustainable than in many of its European counterparts. Its 2010 fiscal deficit is estimated to be around 7% of GDP, less than that of France (7¾% of GDP). While increasing, the government debt level is currently manageable at slightly over 80% of GDP, in line with that of France, while its interest payments on public debt as a percentage of government revenues are 7½%, somewhat more than the average ratio of 6½% of Europe's four largest economies. Despite the fundamentals, global investors' perception of Portugal's creditworthiness has continued to deteriorate. Portugal's credit default swaps (CDS) have faced an increase of 180 basis points (bps) to around 475 bps in a six-month span. Similarly, the country's 10-year sovereign bonds are trading at a yield spread of 415 bps vs. equivalent German bunds, around 100 bps higher than six months ago.

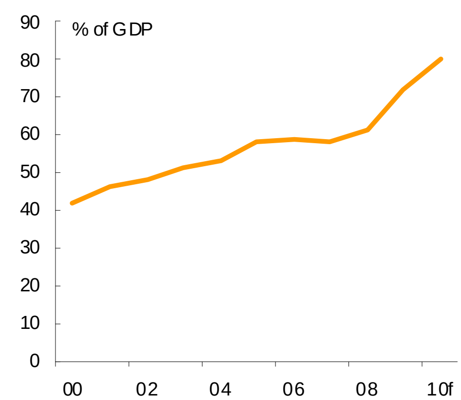
In order to restore investor confidence, the Portuguese administration is decisively embarked on achieving fiscal sustainability. An austerity programme aims to reduce the general government fiscal deficit to 4.6% of GDP in 2011 through such measures as several tax hikes, including a second increase in the value-added tax rate from 21% to 23%, a 5% reduction in public sector wages and further cuts in public spending. Despite very promising data for January 2011 (the central government deficit declined by almost 59% from the previous year), we expect fiscal consolidation to fall slightly short of the target due to weak economic growth prospects. Meanwhile, some concerns remain in place regarding the administration's reliance on one-off measures to improve the fiscal outcome.

Subdued economic performance and the lack of progress on productivity and growth enhancing reforms outline the fundamental challenge for the Portuguese economy. Real GDP expansion averaged 0.7% over the past ten years and similar growth rates are expected in the foreseeable future, making sustainable progress on the fiscal front challenging. Accordingly, should risk aversion spike up again, Portugal's access to capital markets might be impaired, forcing the country to seek financial help from the EU and the IMF. If such an outcome materialized, Portugal would be forced to go through even more strict fiscal consolidation; however, with multilaterals being

Portugal Fiscal Balances

Source: IMF, Scotia Economics.

Portugal Government Debt



Source: IMF, Scotia Economics.

Portugal 10-Year Bond Yield

Source: Bloomberg, Scotia Economics.

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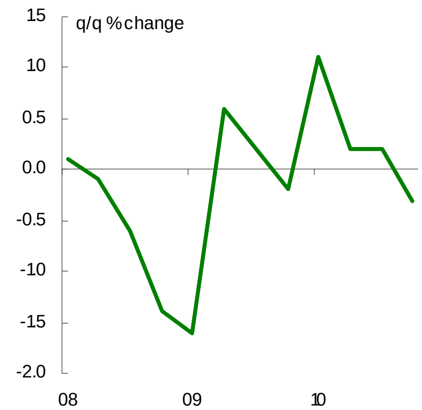
involved, the adjustment process would become more transparent, thereby improving investor confidence.

Portugal Real GDP



Source: Bloomberg, Scotia Economics.

The fiscal challenges of Portugal are significantly different from those of Greece and Ireland. The former practiced significant fiscal mismanagement that yielded complete lack of investor confidence regarding the country's official data, while banking sector problems were at the root of the fiscal crisis in Ireland. In the case of Portugal, the turmoil is predominantly driven by investor sentiment. Portuguese banks were not affected by a real estate sector collapse as was the case in Ireland and Spain. Moreover, the country's banking sector has not required the government to inject capital into it, save for the nationalization of one small bank. The Bank of Portugal assesses that Portuguese banks are in solid shape; nevertheless, sovereign and bank rating downgrade activity has adversely affected the cost of funds to local institutions which will continue to rely on European Central Bank's funding support. In fact, the country's banking system has not been able to raise funding in the markets since the first half of 2010; in early 2011, the sector had borrowed €41 billion from the ECB.

Portugal's economic outlook continues to be challenging. Real GDP growth returned to negative territory (-0.3% q/q) in the October-December period following three quarters of positive growth. The 2010 output expansion of 1.4% will likely be followed by another deceleration this year as austerity measures linked to the fiscal adjustment program under way impair the growth outlook. Domestic demand will continue to be subdued this year and next due to muted business and consumer confidence and a weak labour market (the unemployment rate climbed to 11.1% in the final quarter of 2010). In net terms, foreign trade will contribute to economic activity. We expect the Portuguese economy to record slightly negative growth this year before recovering to around 1.0% expansion in 2012.

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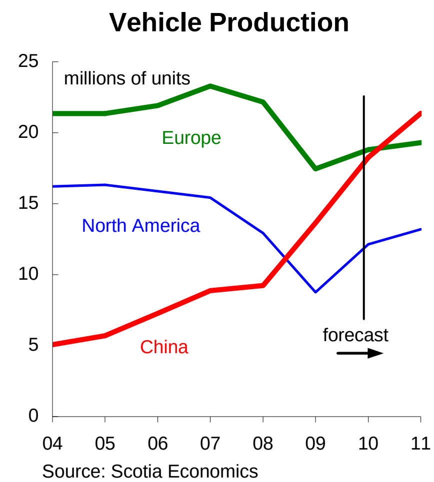
Strengthening Car Sales Drive Global Vehicle Output To Record High

- **Rising global vehicle sales and profitability have encouraged automakers to increase vehicle production, providing the global economy with some positive offset to the dampening impact of the recent surge in energy prices.**

During the latest financial reporting season, virtually every automaker increased their full-year 2011 global sales forecast and boosted their production schedule for the opening months of 2011. We estimate this will lead to a further double-digit year-over-year increase in vehicle production in most countries during the first half of the year.

China — the world's leading vehicle-producing nation — will lead the increase in vehicle output, with full-year assemblies expected to jump 17% to more than 21 million units. In fact, vehicle output in China will surpass European assemblies — the traditional vehicle production leader — in 2011 and account for about 28% of overall global vehicle output. This is more than double its 13% share as recently as 2008, and a sevenfold jump from only a 4% share a decade ago.

Surging car sales in China will also help assemblies in Germany to surpass their pre-recession peak in 2011 — a first among developed nations. In January, sales in China for Germany's three major automakers – Volkswagen, BMW and Mercedes-Benz — surged 31% y/y. This sharp increase prompted these manufacturers to significantly add to their first-half vehicle production schedules. Full-year vehicle production in Germany will likely climb to 6.3 million units in 2011, overtaking the previous record of 6.2 million set in 2007. This reflects the rising popularity of luxury models, as well the as heavy export-orientation of Germany's automotive sector — roughly 75% of all vehicles produced in Germany are exported.



The auto industry will also add to economic growth in Latin America. Sales continue to advance in Brazil, Argentina, Chile and Peru, leading automakers to plan for an additional 13% increase in vehicle production over the coming year. The auto sector accounts for more than 20% of manufacturing activity in Brazil, and vehicle production is set to surpass 4 million units in 2011, enabling Brazil to challenge South Korea for the title of the fifth-largest vehicle-producing nation.

The NAFTA region — Canada, the United States and Mexico — is also expected to post a solid increase in vehicle assemblies this year. In the United States, the latest U.S. industrial production report confirmed that motor vehicle output jumped 3.2% month-to-month in January — the largest increase among all industrial sectors — and 15% above a year earlier. Further gains lie ahead as automakers have planned a 20% year-over-year jump in first-quarter assemblies to better align output with strengthening demand.

Canada is scheduled to post the largest increase in vehicle output across North America in early 2011, as production ramps up following the late-2010 retooling at a car plant in Brampton, Ontario. The first-quarter jump in Canadian assemblies will be the largest since mid-2009, when the global economic recovery was in its infancy. The jump reflects not only the ramping up of output in Brampton, but also higher assemblies from facilities in Oshawa, as production of the Buick Regal gets underway, and CUV output continues to increase. CUVs became the largest segment in the key U.S. automotive market last year, surpassing mid-size cars — the perennial leader — a development that will continue to benefit Canadian assemblies. Canada produces roughly one-third of all CUVs assembled in North America. We estimate that rising vehicle output will add roughly 1.5 percentage points to economic growth in Canada in the opening months of 2011, significantly higher than the one percentage point contribution expected from the auto sector in both the United States and Mexico.

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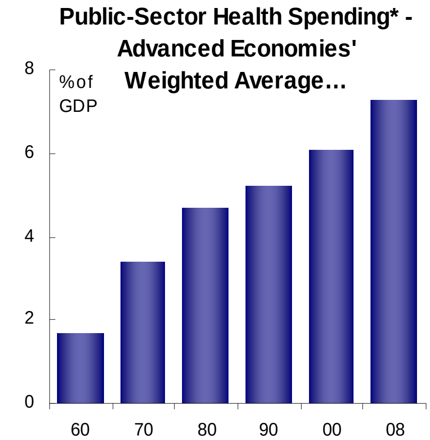
Exploring Global Best Practice in Managing Governments' Health Expenditures

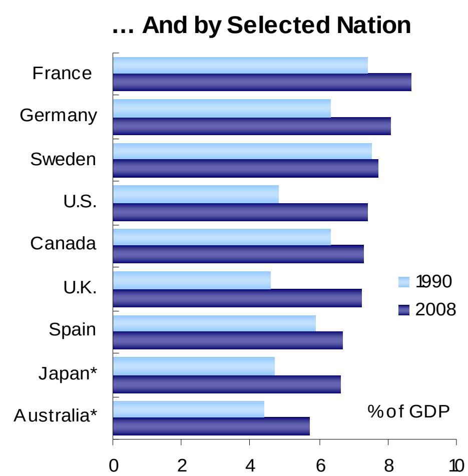
- **In the complex and ultrasensitive health policy area, several options, such as selective market mechanisms and cost-efficiency incentives, are proving effective.**

With the management of health care expenditures a critical component in most advanced economies' fiscal repair strategies, the IMF has summarized the effectiveness of health reforms across developed nations through 2008. IMF data indicate that developed nations' public-sector health outlays climbed from 1.7% of GDP in 1960 to 7.3% in 2008. The forecast rise over the next 20 years is expected to average 3 percentage points of GDP, with an expanding Seniors cohort accounting for about one-third of the jump, a slightly larger share than past experience. Factors contributing to the remaining portion of the increase include technological change, income growth, health policies and the Baumol effect[1]. The escalating health burden occurs as developed nations grapple with the challenge of trimming their gross debt back towards pre-recession levels of approximately 75% of GDP. Across the advanced economies, the IMF's January fiscal update estimates somewhat better-than-expected deficits equal to 7.9% and 7.1% of GDP in 2010 and 2011, respectively, but their gross debt is still expected to top 103% of GDP by the end of 2012.



* Data adjusted for structural breaks; only 2007 available for several nations. Source: IMF, Dec. 2010.

From a combination of case studies, event analysis and econometric estimates, the IMF assesses the evidence to date on a range of health reforms. The classification of the options into macro-level, micro-level and demand-side reforms (see summary on next page) is a very useful framework that underpins the overall recommendation for a mix of macro-level tools such as budget caps to contain costs and micro-level adjustments to increase spending efficiency. Among the macro tools, comprehensive budget caps and central budget oversight were found to be more useful than spending limits on sub-areas, price controls or supply restraints that all tend to be circumvented. Of the micro-level reforms, strengthening market mechanisms was endorsed by both IMF and OECD research. Demand side reforms have been implemented less frequently and they typically raise equity and access issues, but over the next few decades, with public-sector resources increasingly oversubscribed, expanding private insurance and cost-sharing may become more widely appreciated. Importantly, health information technology remains a key area where the benefits have yet to be fully tapped.



* 2007 data. Source: IMF, Dec. 2010.

International comparisons highlight that there is no optimal level of public health care spending — every developed nation faces its own constraints and preferences in shaping its health care framework relative to other government services. Yet increased efficiency that does not unduly impinge on service quality appears to be a common goal among advanced nations, with the savings often reinvested in patient care.

[1] The Baumol effect refers to rising unit labour costs in sectors such as services where it is difficult to achieve (or measure) productivity gains.

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Three-Tier Classification of Public Health-Sector Reforms

Macro-Level Controls

Budget Caps, probably the bluntest expenditure restraint tool, are used in Italy, Japan and Sweden, and can be set on overall healthcare spending or for individual sub-sectors such as hospitals or pharmaceuticals.

Supply Constraints can control input volumes, such as the drugs eligible for pharmacare or the rationing of high-tech equipment. They also can regulate output volumes.

Price Controls can regulate input prices, such as wage controls for health care professionals, or output prices, such as reference prices for pharmacare drugs.

Micro-Level Reforms

Public Management and Co-ordination seek to reduce costs by altering organizational arrangements. This can include reducing overlap, optimizing collaboration between different health agencies and enhancing incentive structures. A current example is the UK government's ambitious *Budget* proposal to slice administrative costs by 45%, with the savings reinvested in patient care.

Contracting focuses on reimbursement details to incent efficiency among service providers. The three high-level options that can be further tailored for specific situations are: salaries and budgets, case-based payment such as capitation, and fee-for-service. Germany and Italy have put in place case-based payment systems.

Market Mechanisms, by interfacing between supply and demand, can be implemented to varying degrees to introduce choice and competition. Both Germany and Japan have strengthened the role of market mechanisms in their systems. Examples include broadening patients' choice of insurer or allowing greater competition between insurers, or service providers.

Demand-Side Reforms

These reforms aim to raise the patients' share of health care costs, in part to prevent the excessive consumption of services. Alternatives include patient co-payments, calculated as a percent share or a lump sum, and the tax treatment of private health insurance. A rather large group of developed nations, including Canada, Australia, France, Ireland, Italy, Spain, the U.S. and the U.K., rely upon private insurance to gain at least some of the services excluded from the public package.

Source: Oxley, H. and M. MacFarlan, (OECD, 1995) and Clements, B. and D. Coady, (IMF, 2010).

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Emgesa: Is It Better Than Colombia?

High profit margins and conservative financial management suggest few credit risks are on the horizon for Colombia's largest electricity generator. In fact, the company may be able to pay its debt even in the unlikely event of a sovereign default, leading us to question whether the 130bp spread differential of Emgesa over the sovereign is justified.

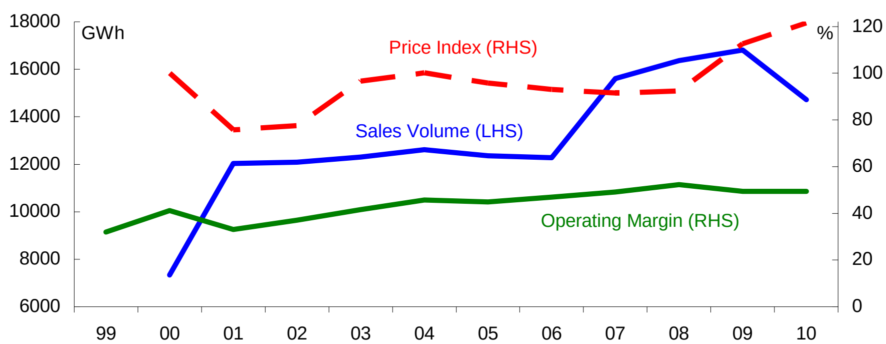
Introduction to the company

Emgesa is the largest electricity generator in Colombia, operating 10 hydroelectric power plants and 2 thermoelectric plants (plants powered by fuel), giving them a 20% market share in the country. Emgesa is owned by Endesa Chile and by Empresa de Energia de Bogota, a Colombian state-owned holding company with participation from the District of Bogota. Control of Emgesa, through a series of holding companies, rests with the Italian utility Enel, which has thirty times the installed capacity of Emgesa and serves over 61 million customers worldwide. Emgesa is also affiliated with Codensa, the largest electricity distribution company in Colombia, which has the same owners as Emgesa, purchases 27% of Emgesa's electricity, and shares certain administrative functions with Emgesa.

Figure 1 summarizes Emgesa's recent financial performance, which includes growth in generation through mergers, stable to rising real prices, and growing operating margins. While electric generation in the first nine months of 2010 fell in part due to low hydrology, those lower volumes were offset by much higher prices, with operating margins remaining stable at 49%.

Figure 1

Summary of Emgesa Financial performance over the past decade



Sales in GWh. Price index calculated as sales divided by generation adjusted by Colombian CPI. 2010 sales and financials are an extrapolation based on the first nine months. No comparable financial data were available for 2006. Source: Emgesa annual reports.

Emgesa's excellent results over the past decade are due, in our opinion, to the following factors: First, Endesa has an above-average share of hydro-plants in its energy mix (85% of total capacity vs. a 67% industry average), which under normal weather conditions are the lowest cost source of electricity. The higher-cost thermoelectric plants serve as backups when water levels are below normal. EPM, a principal competitor in Colombia, reported operating margins of only 38% for 2009, though the companies are not entirely comparable as EPM offers a variety of public utility services in addition to electricity. Second, two-thirds of electricity demand comes from residential consumers whose demand is less sensitive to economic downturns than that of industrial consumers. Third, high economic growth and increasing income per capita ensures continued growth in demand from both industrial and residential customers, leading the government to estimate annual growth rates of 3.2% in electricity demand for the next twenty years.

The firm maintains low financial leverage, with total debt to EBITDA of 1.6x, and a debt to equity ratio of 33%. New funds obtained from the recent bond issue will be used both to increase installed capacity to meet the country's rising energy needs as well as to repay existing indebtedness. Preliminary reports of 4Q10 results released this week show net income growing by 6% thanks to lower financial expenses. We see few credit risks on the horizon for Emgesa.

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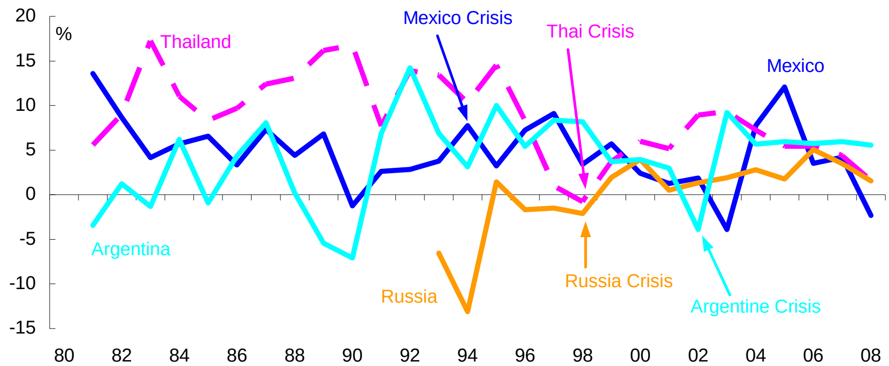
Can Emgesa survive a sovereign crisis?

A natural question is where the company should trade relative to the sovereign were it not for differences in liquidity. S&P actually gave Emgesa an issuer rating that was one notch higher than that of the Republic of Colombia. The market seems to disagree. Emgesa bonds are currently trading at about 130bp wide to the sovereign's Global peso bonds, having already rallied about 60bp from their January issuance yields of 8.75%. An important question then is how Emgesa would fare in a sovereign crisis. We ask this question not because we are actually expecting a sovereign crisis in Colombia, but rather because the sovereign risk component probably plays the biggest role in setting Emgesa bond prices.

History provides some important lessons regarding the fate of utilities during country crises. As shown in Figure 2, the demand for electricity is generally growing and is incredibly resilient in the face of country crisis. During the Russian default, Russian electricity consumption fell just 2% while during the Mexican Tequila crisis, Mexican electricity consumption actually grew by 8%. The corresponding numbers for Thailand and Argentina were -1% and -4%. In all of the countries, electricity consumption quickly recovered.

Figure 2

Insensitivity of electricity demand to financial crisis



Graph shows annual growth in electricity consumption by country. Source: US Energy Information Administration (EIA).

While part of the explanation for this relationship surely lies with the short-term inelasticity of energy demand, another important factor was that government regulations forced the real price of electricity to fall. Argentina was probably the most egregious example. The country had privatized a number of utilities in the early 1990s, thereby attracting significant foreign investment. Regulations enacted at the time allowed some utilities, like gas distribution companies, to set tariffs in US dollars and then convert them to Argentine pesos at the time of customer billing. In 2002, when Argentina was no longer able to maintain the peso at parity with the dollar, it terminated dollar-denominated tariffs. The authorities froze tariffs at the previous rates, but in pesos, while the peso depreciated to one-quarter of its value against the dollar. As a result, most Argentine utilities defaulted on their dollar-denominated bonds.

Countries like Thailand that were directly affected by the Asian crisis had a similar experience. Utility prices were frozen in nominal terms for at least the first year; after that, nominal tariffs increased much slower than the pace of domestic inflation and also lagged the appreciation of the US dollar against the local Asian currencies.

The case of Argentina is particularly troublesome because private utilities had explicit guarantees in their contracts that protected their ability to charge high enough tariffs to earn a reasonable rate of return, only to see the government renege on those guarantees once they were actually needed. That experience suggests there is no enforceable guarantee that Colombia can provide to ensure that the current system of determining electricity rates via free market mechanisms would remain in place in the event of a crisis. In contrast to Argentine utilities, however, Emgesa has only peso-denominated debt. Most of its expenses are also in pesos, with the exception of insurance and the purchase of equipment for new plants. As a result, currency depreciation in itself is not a significant threat.

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Consider one "worst-case" scenario for Emgesa. Suppose, in a crisis, that the government invalidates the inflation-indexation of Emgesa's electricity supply contracts, freezing nominal electricity prices while inflation decimates Emgesa's costs and the indexation in some of Emgesa's variable rate debt causes interest costs to rise as well. By our admittedly rough calculation, Emgesa's margins are so high that the company could sustain a 65% inflation rate for one year while still earning enough profits to pay its debt. In comparison, Argentina's inflation rate was only 40% in the year after its crisis, and it was probably exacerbated by a currency board that kept the currency overvalued for too long, a problem that Colombia does not have.

Another adverse scenario involves simultaneous defaults by Emgesa customers. Current regulations give Emgesa the right to cut off industrial users who have not paid and resell their electricity in the spot market. Since electricity is a crucial input to most industries, Emgesa almost never needs to exercise that right. In the case where the customer is a distributor serving retail customers, the distributor must post a guarantee underwritten by a bank in order to assure payment. What would happen if the government were forced by economic conditions to relax regulations on customers, leading to a greater rate of non-payment? Again, we think Emgesa's profitability leaves a large enough buffer to absorb the losses. Thus, there is reason to believe that in many scenarios of sovereign default, Emgesa could survive intact.

Of course, in assessing the fair spread for Emgesa relative to Colombia, we should also consider the potential for the converse scenario where Emgesa defaults but Colombia does not. One could certainly think of a variety of highly unlikely but catastrophic risks such as a multi-year draught or a resurgence of rebel activity that threatens the operation of Emgesa plants; however, many of these catastrophic risks would also threaten the solvency of the sovereign. We note that utilities in the US are also exposed to some of the same catastrophic risks, but the better rated power utilities in the US have 5Y CDS trading at spreads as low as 50bp, suggesting that there is nothing inherently risky in the industry itself.

We should also point out that utilities are normally the industry that historically provides the highest recovery rates to bonds in the event of default. One academic study found the recovery rate for public utilities to be 70, which is significantly higher than the historical median recovery rate for sovereign defaults of 50. We imagine that the higher recovery rate results from the fact that most utilities continue to operate and to generate revenue after a default, while the assets of companies in other industries lose most of their value during a liquidation.

Finally, bond market prices must take into account liquidity. Emgesa's recent issuance consisted of about $400 million USD-equivalent, some of which was purchased by local Colombian institutions rather than by foreigners. In contrast, there are USD$1.3bn of 10Y COP-denominated sovereign bonds. Nevertheless, traders report that those sovereign bonds are not that liquid either. In addition, the stable nature of Emgesa's business decreases monitoring costs for investors, since we do not expect either positive or negative news about the company anytime soon. That stability mitigates one of the disadvantages of buying illiquid bonds. We think that the current spread differential of Emgesa over Colombia is too high and should continue to compress.

See also our recent article, "The case for Colombian peso bonds," February 11, 2011.

Endnotes:

[1] Examples based on the following articles: Jose E. Alvarez and Kathryn Khamsi, "The Argentine Crisis and Foreign Investors"; Santiago Urbiztondo, "Renegotiation with Public Utilities in Argentina: analysis and Proposal," August 2003.
[2] Based on 56 defaults by public utilities during the years 1971-1995. Eward Altman and Vellore Kishore, "Almost Everything You Wanted to know about Recoveries on Defaulted bonds," *Financial Analysts Journal*, Nov/Dec 1996. (As cited by Eric Falkenstein).

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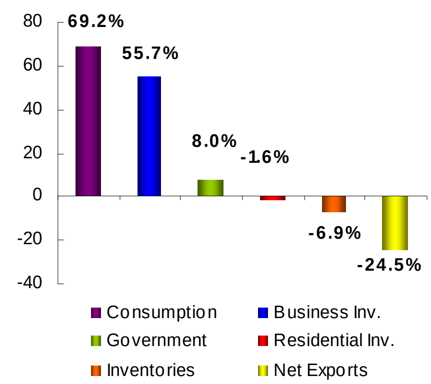
Key Data Preview

CANADA

The December **GDP** (Monday) report will round out the fourth quarter. We are looking for the monthly headline to come in flat, while the quarter as a whole is expected to yield a gain of 2.5% q/q annualized. So far we know that the only positives in December are feeding through net exports and wholesale trade, and potentially via the yet unknown effect of the resource, utilities and services sectors for which there are no leading indicators. All the other observables (retail sales, manufacturing shipments, housing starts, hours worked) are dragging the headline lower. Turning to the quarterly figures, much of the growth momentum is likely to be upwardly skewed by a strong November report and a soft base effect from the prior quarter, which points to a lack of convincing momentum on a going-forward basis. While modest household spending and stronger business investment are expected to drive growth in 2011 (see chart), we remain of the view that there are sizeable downside risks for Canada, including limited pent-up consumer demand and inventory restocking, stretched household finances, an inflated housing market, fiscal drag and weaker export competitiveness.

Canadian Growth Drivers For 2011

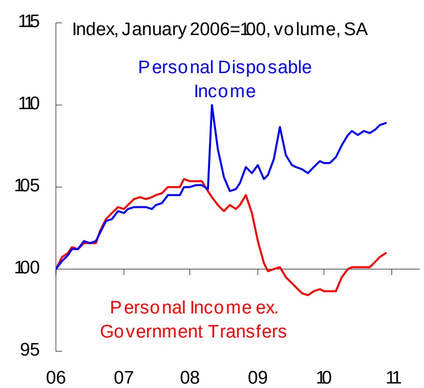


Statistics Canada, Scotia Capital Economics.

UNITED STATES

The **nonfarm payrolls** (Friday) for February will be the next crucial piece of data for the markets, clarifying whether the prior month's disappointing print of 36k was a weather-distorted event or a sign that businesses remain cautious, as we argued at the time. The consensus range is widespread across reputable shops, spanning from 120k to 260k, with our forecast at 170k. No doubt, the soft base effect from the prior month will provide a sizeable boost, but leading indicators (jobless claims, regional surveys, corporate tax receipts) also point to a modest improvement. While the private sector is expected to lead hiring activity, the unemployment rate could edge higher, as more Americans re-enter the labour market looking for work. Though notoriously volatile, labour force composition is worth digging into, following last month's drop of over 500k concentrated among males aged 20 and older who held a high school diploma, but no college degree.

Tepid Wage Growth



Source: Bureau of Economic Analysis, Scotia Capital Economics.

Our call is for **personal income** (Monday) to post a modest gain of 0.2% m/m in January, on higher dividend payout and rental income, offset by lower labour earnings and government transfers. We expect more modest growth of 0.4% m/m in nominal **personal consumption expenditure**, as headline retail sales advanced for the sixth straight month in January, but at their weakest pace since June. What's more, unseasonably cold temperatures and higher energy prices are likely to have lifted the utilities component higher. The personal savings rate is expected to extend the downward move, as wage growth remains weak and households are using their savings to supplement disposable income for purchases and debt repayment.

Activity in the manufacturing and services sectors has been ramping up since September. While we do not expect a significant change in either direction in February, a weaker USD and improving regional indices point to further strengthening in the manufacturing sector, while services could see a modest slowdown on softer retail revenue. A strong base effect from the prior month is likely to provide some offset. For the **ISM Manufacturing Index** (Tuesday), we anticipate a small gain to 61.1, while the **ISM Services Index** (Thursday) may have held steady at 59.4. The spread between orders and inventories for both sectors has been widening since September, particularly over the past two months, suggesting that the demand is higher than inventories can keep up — a sign of stronger production activity in the months ahead. Business will likely remain concerned about elevated input costs resulting from rising commodity prices.

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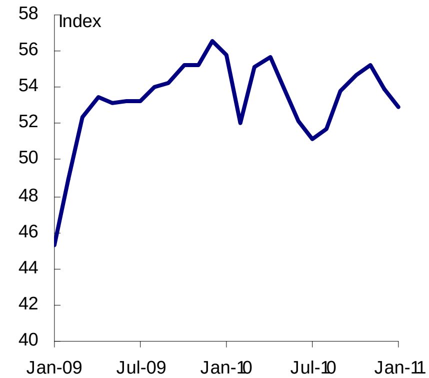
ASIA

China's Purchasing Manager's Index is bound to bounce back in February. While the index has been trending down as of late, there is no indication of a slowdown in activity in an economy that is being propelled mainly from hard to control credit flows from state-owned banks. While the latest credit tightening measures will stabilize the rate of growth of funds into the economy we see no reason for activity to have slowed so far. Moreover, exports have remained strong as developed country prospects have lately improved. We expect the index to rebound to a 53.7 level.

China's PMI



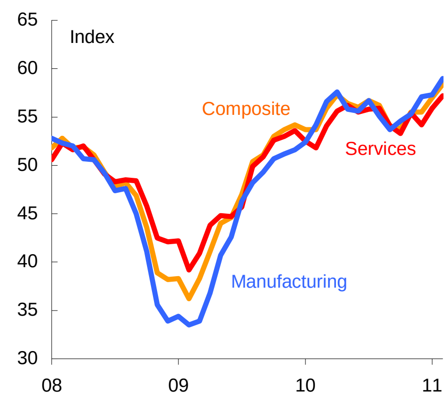
Source: Bloomberg

EUROPE

The total **euro zone retail sales** in volume terms (to be released on Thursday) have remained subdued in recent months as consumers continue to be cautious, and we expect this trend to continue in the coming months. Following a decline of 0.6% m/m in December, retail sales likely recorded a modest increase of 0.2% m/m in January. However, divergence between economic performances in the euro zone core economies and the periphery will likely continue to be reflected in the retail sales figures.

The underlying momentum of the euro zone economy remains positive despite the ongoing sovereign credit turmoil. The preliminary estimate for the composite **purchasing managers' index** indicated accelerating economic activity in the euro zone in February, supported by significantly stronger performance in the services and manufacturing sectors. We don't expect any significant revisions to the data next week.

Euro Zone PMI

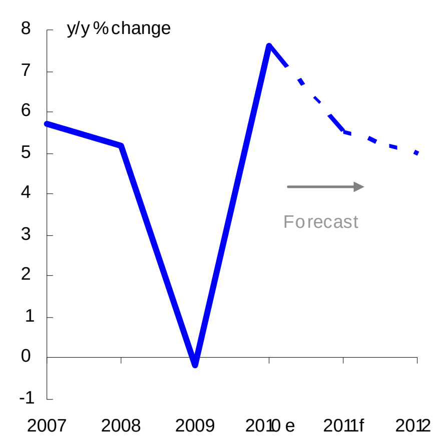


Source: Bloomberg, Scotia Economics.

LATIN AMERICA

Brazil, one of the strongest emerging economies in the world and the leader in Latin America's recovery will post its final 2010 GDP data on March 4. Notwithstanding the minor growth that the Brazilian economy recorded during the third quarter of 2010 (0.5% q/q seasonally adjusted and 6.7% y/y) we maintain a positive perspective for the Q4 outcome, taking the quarterly year-over-year rate to 5.2%, slightly above the consensus of 5.0%. We expect a 7.6% annual GDP growth for 2010, one of the highest in the region, despite the government's efforts to limit foreign investment and capital inflows. However, rising inflation, especially related to food and beverages, has lead the central bank to start another round of monetary tightening, which is expected to continue during most part of this year, cooling economic activity in 2011. We anticipate real GDP growth of 5.5% and 5.0% for 2011 and 2012, respectively.

Brazilian GDP growth



Source: IBGE, Scotia Economics.

Key Indicators for the week of February 28 - March 4

North America

Country	Date	Time	Event	Period	BNS	Consensus	Latest
CA	02/28	08:30	Current Account (BOP), C$ bn	4Q	- -	-9.8	-17.5
CA	02/28	08:30	Gross Domestic Product MoM	DEC	0.0	0.3	0.4
CA	02/28	08:30	Gross Domestic Product YoY	DEC	--	2.8	3.0
CA	02/28	08:30	Quarterly GDP Annualized, %	4Q	2.5	3.0	1.0
US	02/28	08:30	PCE Core (MoM)	JAN	0.1	0.1	0.0
US	02/28	08:30	Personal Spending MoM	JAN	0.4	0.4	0.7
US	02/28	08:30	PCE Core (YoY)	JAN	0.7	0.8	0.7
US	02/28	08:30	PCE Deflator (YoY)	JAN	- -	1.3	1.2
US	02/28	08:30	Personal Income MoM	JAN	0.2	0.4	0.4
US	02/28	09:45	Chicago Purchasing Manager	FEB	- -	67.5	68.8
US	02/28	10:00	NAPM-Milwaukee	FEB	- -	60.0	57.0
US	02/28	10:00	Pending Home Sales MoM	JAN	-2.0	-2.0	2.0
US	02/28	10:00	Pending Home Sales YoY	JAN	- -	--	-3.6
US	02/28	10:30	Dallas Fed Manf. Activity, %	FEB	- -	12.6	10.9
CA	03/01	09:00	Bank of Canada Rate, %	1-Mar	1.00	1.00	1.00
MX	03/01	10:00	Central Bank Economists Survey				
US	03/01	10:00	Construction Spending MoM	JAN	- -	-0.4	-2.5
US	03/01	10:00	ISM Manufacturing	FEB	61.1	60.8	60.8
US	03/01	10:00	ISM Prices Paid	FEB	- -	83.0	81.5
US	03/01	17:00	Domestic Vehicle Sales, unit mns	FEB	9.7	9.7	9.6
US	03/01	17:00	Total Vehicle Sales, unit mns	FEB	12.7	12.7	12.5
US	03/02	00:00	Fed's Beige Book				
US	03/02	07:00	MBA Mortgage Applications WoW	25-Feb	- -	--	13.2
US	03/02	07:30	Challenger Job Cuts YoY	FEB	- -	--	-46.1
US	03/02	08:15	ADP Employment Change, 000s	FEB	160	175	187
CA	03/02	08:30	Industrial Product Price MoM	JAN	0.6	0.6	0.7
CA	03/02	08:30	Raw Materials Price Index MoM	JAN	3.8	3.0	4.2
MX	03/02	15:30	Budget Balance (Year to date), Peso bns	JAN	- -	--	-370.6
US	03/03	08:30	Unit Labor Costs, QoQ SAAR	4Q F	-0.6	-0.6	-0.6
US	03/03	08:30	Initial Jobless Claims, 000s	26-Feb	405	395	391
US	03/03	08:30	Continuing Claims, 000s	19-Feb	3820	3850	3790
US	03/03	08:30	Nonfarm Productivity, QoQ SA	4Q F	2.6	2.6	2.6
US	03/03	10:00	ISM Non-Manf. Composite	FEB	59.4	59.5	59.4
MX	03/03	13:00	IMEF Manufacturing Index	FEB	- -	--	50.4
MX	03/03	13:00	IMEF Non Manufacturing Index	FEB	- -	--	52.1
US	03/03		ICSC Chain Store Sales YoY	FEB	- -	--	4.8
US	03/04	08:30	Change in Nonfarm Payrolls, 000s	FEB	170	183	36
US	03/04	08:30	Change in Private Payrolls, 000s	FEB	165	191	50
US	03/04	08:30	Change in Manufact. Payrolls, 000s	FEB	- -	25	49
US	03/04	08:30	Unemployment Rate, %	FEB	9.2	9.1	9.0
US	03/04	08:30	Avg Hourly Earning MOM All Emp	FEB	- -	0.2	0.4
US	03/04	08:30	Avg Hourly Earning YOY All Emp	FEB	- -	1.9	1.9
US	03/04	08:30	Avg Weekly Hours All Employees	FEB	- -	34.3	34.2
MX	03/04	09:00	Consumer Confidence	FEB	- -	92.0	92.3
CA	03/04	10:00	Ivey Purchasing Managers Index	FEB	- -	50.5	41.4
MX	03/04	10:00	Overnight Rate, %	4-Mar	4.50	4.50	4.50
US	03/04	10:00	Factory Orders MoM	JAN	2.0	2.0	0.2

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

Key Indicators for the week of February 28 - March 4

Europe

Country	Date	Time	Event	Period	BNS	Consensus	Latest
FR	02/28	02:45	Producer Prices (YoY)	JAN	- -	5.6	5.4
SP	02/28	03:00	CPI (EU Harmonised) (YoY)	FEB P	- -	3.2	3.0
EC	02/28	05:00	Euro-Zone CPI - Core (YoY)	JAN	- -	1.2	1.1
EC	02/28	05:00	Euro-Zone CPI (MoM)	JAN	-0.6	-0.6	0.6
EC	02/28	05:00	Euro-Zone CPI (YoY)	JAN	2.4	2.4	2.2
SP	02/28		Total Housing Permits (MoM)	DEC	- -	--	24.1
SP	02/28		Current Account (€ bns)	DEC	- -	--	-3.5
RU	03/01	00:00	Russian Manufacturing PMI for February				
UK	03/01	02:00	Nat'wide House prices sa (MoM)	FEB	- -	-0.2	-0.1
SP	03/01	03:15	Spain February Manufacturing PMI				
IT	03/01	03:45	PMI Manufacturing	FEB	- -	57.0	56.6
FR	03/01	03:50	PMI Manufacturing	FEB F	55.3	55.3	55.3
GE	03/01	03:55	Unemployment Change (000's)	FEB	- -	-18.0	-13.0
GE	03/01	03:55	Unemployment Rate, % (s.a)	FEB	- -	7.4	7.4
GE	03/01	03:55	PMI Manufacturing	FEB F	62.6	62.6	62.6
EC	03/01	04:00	PMI Manufacturing	FEB F	59.0	59.0	59.0
IT	03/01	04:00	Unemployment Rate, % (SA)	JAN P	- -	8.6	8.6
UK	03/01	04:30	PMI Manufacturing	FEB	- -	61.0	62.0
UK	03/01	04:30	Net Consumer Credit, £ bns	JAN	- -	0.2	0.2
UK	03/01	04:30	Net Lending Sec. on Dwellings, £ bns	JAN	- -	0.1	-0.3
EC	03/01	05:00	Euro-Zone Unemployment Rate, %	JAN	10.0	10.0	10.0
IT	03/01	05:00	CPI - EU Harmonized (MoM)	FEB P	0.0	0.1	-1.6
IT	03/01	05:00	CPI - EU Harmonized (YoY)	FEB P	2.0	2.1	1.9
IT	03/01	06:00	Deficit to GDP, %	31-Dec	5.0	5.0	5.3
IT	03/01	12:00	New Car Registrations (YoY)	FEB	- -	--	-20.7
IT	03/01	13:00	Budget Balance, € bns	FEB	- -	--	-2.0
SP	03/02	03:00	Unemployment MoM Net ('000s)	FEB	- -	--	130.9
SP	03/02	04:00	Spain Consumer Confidence	FEB	- -	--	70.7
UK	03/02	04:30	PMI Construction	FEB	- -	52.8	53.7
EC	03/02	05:00	Euro-Zone PPI (YoY)	JAN	- -	5.7	5.3
UK	03/02	19:01	Hometrack Housing Survey (MoM)	FEB	- -	--	-0.5
RU	03/03	00:00	Russian Services PMI for February				
FR	03/03	01:30	ILO Unemployment Rate, %	4Q	- -	9.7	9.7
SP	03/03	03:15	Spain February Services PMI				
IT	03/03	03:45	PMI Services	FEB	- -	51.1	49.9
FR	03/03	03:50	PMI Services	FEB F	58.0	60.8	60.8
GE	03/03	03:55	PMI Services	FEB F	59.5	59.5	59.5
EC	03/03	04:00	PMI Composite	FEB F	58.4	58.4	58.4
EC	03/03	04:00	PMI Services	FEB F	57.2	57.2	57.2
UK	03/03	04:30	PMI Services	FEB	- -	53.7	54.5
EC	03/03	05:00	Euro-Zone GDP s.a. (QoQ)	4Q P	0.3	0.3	0.3
IT	03/03	05:00	PPI (YoY)	JAN	- -	4.6	4.6
EC	03/03	05:00	Euro-Zone Govt Expend (QoQ)	4Q P	- -	0.2	0.4
EC	03/03	05:00	Euro-Zone Retail Sales (MoM)	JAN	0.2	0.3	-0.6
EC	03/03	07:45	ECB Announces Interest Rates, %	3-Mar	1.00	1.00	1.00
RU	03/03		Gold & Forex Reserve USD bns	25-Feb	- -	--	487.4
SP	03/04	03:00	Industrial Output WDA (YoY)	JAN	- -	0.5	-0.1
UK	03/04		New Car Registrations (YoY)	FEB	- -	--	-11.5

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

Key Indicators for the week of February 28 - March 4

Asia Pacific

Country	Date	Time	Event	Period	BNS	Consensus	Latest
SK	02/27	16:00	Business Survey- Manufacturing	MAR	- -	--	91.0
SK	02/27	16:00	Business Survey- Non-Manufacturing	MAR	- -	--	84.0
NZ	02/27	16:45	Trade Balance NZD mns	JAN	- -	-25.0	-250.0
JN	02/27	18:50	Industrial Production (MoM)	JAN P	- -	4.0	3.3
JN	02/27	18:50	Retail Trade MoM SA	JAN	- -	2.7	-4.1
AU	02/27	19:00	CBAHIA House Affordability	4Q	- -	--	54.4
AU	02/27	19:30	Company Operating Profit QoQ%	4Q	- -	1.0	-1.5
AU	02/27	19:30	Private Sector Credit MoM%	JAN	- -	0.3	0.2
AU	02/27	19:30	Inventories QoQ%	4Q	- -	-0.5	-0.8
NZ	02/27	21:00	NBNZ Business Confidence	FEB	- -	--	29.5
JN	02/27	23:00	Vehicle Production (YoY)	JAN	- -	--	-5.1
IN	FEB 27-28		Qtrly GDP YoY%	4Q	8.5	8.6	8.9
MA	FEB 27-28		Unemployment Rate %	4Q	- -	--	3.2
PH	02/27	00:00	Budget Deficit/Surplus	JAN	- -	--	0.5
JN	02/28	00:00	Housing Starts (YoY)	JAN	- -	5.1	7.5
JN	02/28	00:00	Construction Orders (YoY)	JAN	- -	--	13.1
TH	02/28	02:30	Total Trade Balance USD mns	JAN	- -	--	1310.0
TH	02/28	02:30	Business Sentiment Index	JAN	- -	--	51.6
HK	02/28	04:00	Govt Mthly Budget Surp/Def HK$	JAN	- -	--	41.8
SL	02/28	05:00	CPI (YoY)	FEB	- -	7.3	6.8
NZ	02/28	16:45	Terms of Trade Index (QoQ)	4Q	- -	--	3.0
JN	02/28	18:30	Job-To-Applicant Ratio	JAN	- -	0.6	0.6
JN	02/28	18:30	Overall Hhold Spending (YoY)	JAN	- -	-1.4	-3.3
JN	02/28	18:30	Jobless Rate, %	JAN	- -	4.9	4.9
AU	02/28	19:30	Current Account Balance AUD mns	4Q	- -	-7000	-7830
AU	02/28	19:30	Retail Sales s.a. (MoM)	JAN	- -	0.3	0.2
CH	02/28	20:00	PMI Manufacturing	FEB	53.5	52.1	52.9
SK	02/28	20:00	Ext Trade - Balance in USD mns	FEB	- -	1839.0	2915.0
JN	02/28	20:30	Labor Cash Earnings YoY	JAN	- -	0.3	0.1
TA	02/28	21:00	HSBC Taiwan Manufacturing PMI	FEB	- -	--	59.8
CH	02/28	21:30	HSBC Manufacturing PMI	FEB	- -	52.5	54.5
AU	02/28	22:30	RBA Cash Target Rate ,%	1-Mar	4.75	4.75	4.75
ID	02/28	23:00	Total Trade Balance, USD mns	JAN	- -	2770.0	3693.9
ID	02/28	23:00	Inflation (YoY)	FEB	- -	7.1	7.0
ID	02/28	23:00	Core Inflation (YoY)	FEB	- -	4.3	4.2
IN	03/01	00:00	India February Markit Manufacturing PMI				
JN	03/01	00:00	Vehicle Sales (YoY)	FEB	- -	--	-22.0
TH	03/01	02:00	Consumer Price Index (YoY)	FEB	- -	3.0	3.0
TH	03/01	02:00	Core CPI (YoY)	FEB	- -	1.5	1.3
SI	03/01	08:30	Purchasing Managers Index	FEB	- -	50.0	50.5
SK	03/01	18:00	Consumer Price Index (YoY)	FEB	- -	4.3	4.1
SK	03/01	18:00	Core Consumer Price Index(YoY)	FEB	- -	--	2.6
SK	02/28	19:00	HSBC Manufacturing PMI	FEB	- -	--	53.5
AU	03/01	19:00	HIA New Home Sales (MoM)	JAN	- -	--	-0.6
AU	03/01	19:30	Gross Domestic Product (QoQ)	4Q	- -	0.6	0.2
SK	03/02	18:00	Industrial Production (YoY)	JAN	- -	12.4	9.8
SK	03/02	18:00	Service Industry Output YoY	JAN	- -	--	2.1
JN	03/02	18:50	Capital Spending YoY	4Q	- -	5.9	5.0
AU	03/02	19:30	Building Approvals (MoM)	JAN	- -	-3.3	8.7
AU	03/02	19:30	Trade Balance AUD mns	JAN	- -	1550.0	1981.0
CH	03/02	20:00	China Non-manufacturing PMI	FEB	- -	--	56.4
CH	03/02	21:30	China HSBC Services PMI	FEB	- -	--	52.0
IN	03/03	00:00	India February Markit Services PMI				
HK	03/03	03:30	Retail Sales - Volume (YoY)	JAN	- -	17.0	15.9
NZ	03/03	16:45	Building Permits MoM	JAN	- -	--	-18.6
PH	03/03	20:00	Consumer Price Index (YoY)	FEB	- -	3.7	3.5
ID	MAR 3-4		Bank Indonesia Reference Rate, %	4-Mar	- -	6.9	6.8
MA	03/04	05:01	Trade Balance, MYR bns	JAN	- -	9.1	9.7

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

Key Indicators for the week of February 28 - March 4

Latin America

Country	Date	Time	Event	Period	BNS	Consensus	Latest
CL	02/28	07:00	Industrial Production (YoY)	JAN	- -	4.5	3.8
CL	02/28	07:00	Industrial Sales YoY	JAN	- -	4.9	5.4
CL	02/28	07:00	Unemployment Rate, %	JAN	- -	7.1	7.1
CO	02/28	11:00	Urban Unemployment Rate, %	JAN	- -	13.8	11.3
PE	02/28		GDP YoY	4Q	- -	9.1	9.5
BZ	03/01	08:00	PMI Manufacturing	FEB	- -	--	53.1
BZ	03/01	09:00	Trade Balance (FOB) - Monthly (USD mns)	FEB	- -	1800.0	424.0
PE	03/01		Consumer Price Index (MoM)	FEB	- -	0.4	0.4
PE	03/01		Consumer Price Index (YoY)	FEB	- -	2.2	2.2
BZ	03/02	07:00	Industrial Production sa (MoM)	JAN	- -	-0.3	-0.7
BZ	03/02	07:00	Industrial Production YoY	JAN	- -	1.5	2.7
BZ	03/02		SELIC Target - Central Bank, %	2-Mar	11.75	11.8	11.3
BZ	03/03	07:00	GDP (IBGE) QoQ	4Q	- -	0.8	0.5
BZ	03/03	07:00	GDP (IBGE) YoY	4Q	5.2	5.0	6.7
CL	03/04	06:30	Central Bank Meeting Minutes				
BZ	03/04	07:00	IBGE Inflation IPCA (MoM)	FEB	- -	0.8	0.8
BZ	03/04	07:00	IBGE Inflation IPCA (YoY)	FEB	- -	6.0	6.0
CO	03/04	16:00	Producer Price Index (MoM)	FEB	- -	--	1.2
CO	03/04	16:00	Producer Price Index (YoY)	FEB	- -	--	4.4

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

Global Auctions for the week of February 28 - March 4

North America

Country	Date	Time	Event
US	02/28	11:00	U.S. Fed to Purchase USD5-7 Bln Notes/Bonds
US	02/28	11:30	U.S. to Sell 3-Month Bills
US	02/28	11:30	U.S. to Sell 6-Month Bills
CA	03/01	10:30	Canada to Sell CAD7.1 Bln 98-Day Bills
CA	03/01	10:30	Canada to Sell CAD2.7 Bln 168-Day Bills
CA	03/01	10:30	Canada to Sell CAD2.7 Bln 350-Day Bills
US	03/01	11:00	U.S. Fed to Purchase USD1.5-2.5 Bln Notes/Bonds
US	03/01	11:30	U.S. to Sell 4-Week Bills
US	03/02	11:00	U.S. Fed to Purchase USD5-7 Bln Notes/Bonds
CA	03/02	12:00	Canada to Sell 5-Year Notes
US	03/03	11:00	U.S. Fed to Purchase USD6-8 Bln Notes/Bonds
US	03/04	11:00	U.S. Fed to Purchase USD1-2 Bln TIPS

Europe

Country	Date	Time	Event
GE	02/28	05:15	Germany to Sell EU3 Bln 12-Mth Bills
HU	02/28	05:30	Hungary to Sell 6-Week Bills
BE	02/28	05:30	Belgium to Sell 5.5% 2028 Bonds
BE	02/28	05:30	Belgium to Sell 4.25% 2021 Bonds
BE	02/28	05:30	Belgium to Sell 4% 2014 Bonds
FR	02/28	09:00	France to Sell EUR4.5 Bln 84-Day Bills
FR	02/28	09:00	France to Sell EUR2 Bln 189-Day Bills
FR	02/28	09:00	France to Sell EUR1.5 Bln 287-Day Bills
NE	03/01	04:00	Netherlands to Sell 2021 Bond on March 1
AS	03/01	05:00	Austria to Sell 3.65% 2022 Bonds
AS	03/01	05:00	Austria to Sell 3.5% 2015 Bonds
HU	03/01	05:30	Hungary to Sell 3-Month Bills
SZ	03/01	05:30	Switzerland to Sell 3-Month Bills
UK	03/01	05:30	U.K. to Sell GBP4 Bln 2% 2016 Bonds
BE	03/01	06:00	Belgium to Sell Bills
HU	03/01	06:00	Hungary's Central Bank to Sell 2-Week Bills
PO	03/02	04:30	Portugal's IGCP Holds Reverse Auction to Buy Back 2011 Bonds
PO	03/02	04:30	Portugal to Buy Back 3.2% 2011 Bonds
PO	03/02	04:30	Portugal to Buy Back 5.15% 2011 Bonds
SW	03/02	05:10	Sweden to Sell SEK5 Bln 103-Day Bills
SW	03/02	05:10	Sweden to Sell SEK10 Bln 201-Day Bills
GE	03/02	05:15	Germany to Sell Add'l EU5 Bln 5-Year Notes
PO	03/02	05:30	Portugal to Sell Bills
PO	03/02	05:30	Portugal's IGCP Holds Auction of Sept. 2011, Feb. 2012 Bills
PO	03/02	05:30	Portugal to Sell 203-Day Bills
PO	03/02	05:30	Portugal to Sell 350-Day Bills
RU	03/02	06:00	Russia Cancels OFZ Bond Auction
RU	03/02	06:00	Russia to Sell Up to RUB20 Bln OFZ Bonds
SP	03/03	04:30	Spain to Sell 3.25% 2016 Bonds
FR	03/03	05:00	France to Sell Bonds
HU	03/03	05:30	Hungary to Sell 12-Month Bills
HU	03/03	05:30	Hungary to Sell Bonds
UK	03/03	05:30	U.K. to Sell GBP2.25 Bln 4.25% 2055 Bonds
UK	03/04	06:10	U.K. to Sell Bills

Source: Bloomberg, Scotia Economics.

Global Auctions for the week of February 28 - March 4

Asia Pacific

Country	Date	Time	Event
SK	02/27	21:30	Korea to Sell KRW1 Tln 20-Year Bonds
MA	02/27	23:00	Bank Negara to Sell MYR2.5 Bln 128-Day Notes (07/11)
MA	02/27	23:00	Bank Negara to Sell MYR1.5 Bln 210-Day Notes (05/11)
MA	02/27	23:00	Bank Negara to Sell MYR1 Bln 91-Day Islamic Notes (16/11)
SI	02/27	23:00	Singapore To Sell S$3.9 billion 91-Day T-Bills
HK	02/28	22:30	Hong Kong to Sell HKD25.828 Bln 91-Day Bills Q1109
HK	02/28	22:30	Hong Kong to Sell HKD1.3 Bln 364-Day Bills
JN	02/28	22:45	Japan to Sell 10-Year Bond
PH	03/01	00:00	Philippines Cancels 5-Yr Bonds Auction
ID	03/01	03:30	Indonesia to Sell Additional 6 Yr to Mty Govt Sukuk
ID	03/01	03:30	Indonesia to Sell Additional 14 Yr to Mty Govt Sukuk
ID	03/01	03:30	Indonesia to Sell Additional 10 Yr to Mty Govt Sukuk
ID	03/01	03:30	Indonesia to Sell Additional 25 Yr to Mty Govt Sukuk
IN	03/01	06:30	India to Sell INR 50Bln 91-Day Bills
IN	03/01	06:30	India to Sell INR 20Bln 182-Day Bills
TH	03/01	22:00	Thailand to Sell THB3.5 Bln Bonds due 2061
TH	03/01	22:00	Thailand to Sell THB7 Bln Bonds due 2021
CH	03/01	22:00	China Government Bond to Sell CNY30 Bln 7-Year Bonds
HK	03/01	22:30	Hong Kong to Sell HKD3.5 Bln 0.85% 2-Year Bonds
JN	03/01	22:35	Japan to Sell 3-Month Bills
MA	03/01	23:00	Bank Negara to Sell MYR500 Mln 152-Day Islamic Notes
MA	03/01	23:00	Bank Negara to Sell MYR1 Bln 308-Day Notes (06/11)
MA	03/01	23:00	Bank Negara to Sell MYR2.5 Bln 210-Day Notes (64/10)
NZ	03/02	20:30	New Zealand Plans to Sell Government Bonds
JN	03/03	03:00	Japan Auction for Enhanced-Liquidity

Source: Bloomberg, Scotia Economics.

Events for the week of February 28 - March 4

North America

Country	Date	Time	Event
US	02/28	08:30	Fed's Dudley to Speak on Economic Outlook in New York
US	02/28	08:45	Fed's Rosengren Speaks on Panel in Boston
CA	03/01	09:00	Bank of Canada Releases Interest Rate Announcement
US	03/01	10:00	Bernanke to Give Semiannual Testimony at Senate
US	03/02	08:00	Fed's Hoenig Speaks at Council on Foreign Relations
US	03/02	10:00	Bernanke to Give Semiannual Testimony at House
US	03/02	14:00	Fed Releases Beige Book Economic Survey
US	03/02	14:15	Fed's Lockhart Speaks on U.S. Economic Outlook in Atlanta
US	03/02	20:00	Bernanke Speaks on State and Local Challenges in New York
US	03/03	11:00	Fed's Kocherlakota Speaks in St. Cloud, Minnesota
US	03/03	12:15	Fed's Lockhart Speaks in Tallahassee on Economy
US	03/03	15:00	Fed's Kocherlakota Speaks to Reporters in Minnesota
MX	03/04	10:00	Banco de Mexico Overnight Rate Announcement
US	03/04	16:00	Fed's Yellen Speaks on International System in Paris

Europe

Country	Date	Time	Event
IT	02/26	05:30	Bank of Italy Mario Draghi Speaks at Conference in Verona
PO	02/28	03:00	Bank of Portugal Governor, Prime Minister Speak at Conference
HU	02/28	04:00	Hungarian Parliament's Economy Committee Meets
EC	02/28		EU Energy Ministers Meet in Brussels
BP	02/28		Bulgaria Base Rate Announcement
GE	03/01	04:00	Ifo's Sinn Speaks on Economic Governance in Europe, Berlin
EC	03/01		EU Issues Interim Economic Forecasts
PD	MAR 1-2		Poland's Monetary Policy Council Rate Meeting
PD	03/02	08:00	Poland Base Rate Announcement
GE	03/02	11:30	Rogoff Addresses Debt Crisis at German Finance Ministry Event
NE	03/02		Dutch Provincial Elections
EC	03/03	07:45	ECB Announces Interest Rates
EC	03/03	08:30	Trichet Speaks at ECB Monthly News Conference
EC	03/03	09:45	ECB's Mersch Speaks in Frankfurt
EC	03/04	02:45	ECB's Noyer Speaks in Paris
EC	03/04	03:00	ECB's Weber Speaks in Paris
FR	03/04	05:15	ECB's Bini Smaghi Speaks in Paris
EC	03/04	05:15	ECB's Draghi Speaks in Paris
SA	03/04	06:50	ECB's Gonzalez-Paramo Speaks in Cape Town
EC	03/04	08:00	ECB's Orphanides Speaks in Paris
EC	03/04	10:25	ECB's Trichet Speaks in Paris
EC	03/04	12:10	ECB's Noyer Speaks in Paris
EC	03/04		EU Conservative Leaders Meet in Finland on Debt Crisis
GE	03/04		Merkel Attends Meeting in Helsinki of Conservative EU Leaders

Asia Pacific

Country	Date	Time	Event
IN	02/28	00:30	Finance Minister Pranab Mukherjee. Budget Speech
IN	02/28	00:30	India Union Budget FY12
AU	02/28	22:30	RBA Cash Target Rate Announcement
IN	03/01	23:15	Trade ministers of Asean nations and India inaugurate fair
IN	MAR 1-2		Conference on Aligning To The New Economic World Order.
JN	03/02	20:30	BOJ Board Member Tadao Noda to Speak in Kumamoto
ID	MAR 3-4		Bank Indonesia Reference Rate Announcement

Latin America

Country	Date	Time	Event
BZ	03/02		SELIC Target - Central Bank Announcement

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	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

Alongside subdued core consumer inflation, downside risks to the economy - posed by limited pent-up consumer demand and inventory restocking, stretched household finances, inflated housing market and weaker export competitiveness - are expected to keep the BoC on hold until October. Monetary policy in Mexico is expected to remain unchanged, leaving the reference rate at 4.50% for the 16th consecutive month. Notwithstanding recent monetary policy actions in Latin America and other emerging markets, Mexico's central bank seems to have a more accommodative policy stance as inflation remains on a downward trend and no intent of intervention has been observed for the FX market.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	1.00	March 3, 2011	1.00	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	8.00	March 25, 2011	8.00	--
Hungarian National Bank – Base Rate	6.00	March 28, 2011	6.25	--
Central Bank of the Republic of Turkey – 1 Week Repo Rate	6.25	March 23, 2011	6.25	--

Despite the fact that the policymakers of the European Central Bank are becoming somewhat more concerned about intensifying inflationary pressures, we expect the refinancing rate to remain at 1.0% for an extended period of time.

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	2.88
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	6.88

The Reserve Bank of Australia (RBA) is expected to maintain the status quo after its monetary policy meeting. The economy is regaining its footing after some momentum was lost due to the Queensland floods. The economic outlook remains favourable on the back of solid terms of trade gains and strong linkages within Asia. Inflation remained subdued at the turn of the year leaving plenty of elbow room for the RBA.

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 Monetary Policy Committee (COPOM) in Brazil to continue with its monetary tightening cycle, raising the benchmark interest rate by 50 basis points (bps) to 11.75%. IPCA inflation accelerated to 6.0% y/y in January, only 50 bps below the upper limit of the inflation target. We maintain our view that monetary tightening will continue, as food and oil prices will cause a second round of inflationary impacts in the coming months.

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	2010	10Q3	10Q4	Latest	
Real GDP (annual rates)		1.0			
Current Acc. Bal. (C$B, ar)		-70.1			
Merch. Trade Bal. (C$B, ar)	-7.2	-27.7	6.8	36.0	(Dec)
Industrial Production		7.9		5.0	(Nov)
Housing Starts (000s)	192	192	179	170	(Jan)
Employment	1.4	1.8	1.7	2.0	(Jan)
Unemployment Rate (%)	8.0	8.0	7.7	7.8	(Jan)
Retail Sales	5.1	3.7	4.7	4.9	(Dec)
Auto Sales (000s)	1559	1609	1556	1513	(Dec)
CPI	1.8	1.8	2.3	2.3	(Jan)
IPPI	1.0	1.0	2.5	-2.9	(Dec)
Pre-tax Corp. Profits		16.0			

United States	2010	10Q3	10Q4	Latest	
Real GDP (annual rates)	2.8	2.6	2.8		
Current Acc. Bal. (US$B, ar)		-509			
Merch. Trade Bal. (US$B, ar)	-647	-683	-623	-643	(Dec)
Industrial Production	5.8	6.9	5.9	5.1	(Jan)
Housing Starts (millions)	0.59	0.59	0.53	0.60	(Jan)
Employment	-0.8	-0.1	0.5	0.7	(Jan)
Unemployment Rate (%)	9.6	9.6	9.6	9.0	(Jan)
Retail Sales	7.0	6.1	8.1	8.3	(Jan)
Auto Sales (millions)	11.5	11.6	12.3	12.6	(Jan)
CPI	1.6	1.2	1.3	1.6	(Jan)
PPI	4.2	3.8	3.9	3.6	(Jan)
Pre-tax Corp. Profits		34.8			

Mexico	2010	10Q3	10Q4	Latest	
Real GDP	5.5	5.3	4.6		
Current Acc. Bal. (US$B, ar)		-7.3			
Merch. Trade Bal. (US$B, ar)	-3.1	-9.2	-4.6	0.8	(Jan)
Industrial Production	6.1	6.2	4.7	4.9	(Dec)
CPI	4.2	3.7	4.2	3.8	(Jan)

Brazil	2010	10Q3	10Q4	Latest	
Real GDP		5.9			
Current Acc. Bal. (US$B, ar)	-47.5	-45.6	-47.9		
Merch. Trade Bal. (US$B, ar)	20.3	19.6	30.1	5.1	(Jan)
Industrial Production	10.5	8.1	3.5	2.9	(Dec)
CPI	5.1	5.0	6.1	7.1	(Jan)

Argentina	2010	10Q3	10Q4	Latest	
Real GDP		8.6			
Current Acc. Bal. (US$B, ar)		3.6			
Merch. Trade Bal. (US$B, ar)	12.1	12.0	6.2	6.2	(Jan)
Industrial Production	9.8	9.3	10.6	10.3	(Jan)
CPI	66.4	89.8	54.9	0.0	(Jun)

Italy	2010	10Q3	10Q4	Latest	
Real GDP	1.1	1.2	1.3		
Current Acc. Bal. (US$B, ar)	-0.07	-0.05	-0.07	-0.09	(Dec)
Merch. Trade Bal. (US$B, ar)	-36.5	-22.9	-44.1	-43.2	(Dec)
Industrial Production	5.4	6.3	4.4	5.7	(Dec)
CPI	1.6	1.6	1.8	2.1	(Jan)

Germany	2010	10Q3	10Q4	Latest	
Real GDP	3.5	3.9	4.0		
Current Acc. Bal. (US$B, ar)	172.6	149.8	231.9	279.1	(Dec)
Merch. Trade Bal. (US$B, ar)	201.5	207.6	219.8	225.1	(Dec)
Industrial Production	10.0	10.3	11.2	9.9	(Dec)
Unemployment Rate (%)	7.7	7.6	7.5	7.4	(Jan)
CPI	1.1	1.2	1.5	2.0	(Feb)

France	2010	10Q3	10Q4	Latest	
Real GDP	1.7	2.0	1.7		
Current Acc. Bal. (US$B, ar)	-52.7	-41.8	-88.6	-59.3	(Dec)
Merch. Trade Bal. (US$B, ar)	-38.6	-40.1	-37.8	-45.9	(Dec)
Industrial Production	5.8	5.1	5.3	6.6	(Dec)
Unemployment Rate (%)	9.7	9.7	9.7	9.7	(Dec)
CPI	1.5	1.5	1.6	1.8	(Jan)

Euro Zone	2010	10Q3	10Q4	Latest	
Real GDP	1.7	1.9	2.0		
Current Acc. Bal. (US$B, ar)	-77	-43	-41	-2	(Dec)
Merch. Trade Bal. (US$B, ar)	0.0	43.0	53.2	43.8	(Dec)
Industrial Production	7.1	7.1	7.7	8.2	(Dec)
Unemployment Rate (%)	9.9	10.0	9.9	9.9	(Dec)
CPI	1.6	1.7	2.0	2.2	(Dec)

United Kingdom	2010	10Q3	10Q4	Latest	
Real GDP	1.3	2.5	1.5		
Current Acc. Bal. (US$B, ar)		-63.9			
Merch. Trade Bal. (US$B, ar)	-150.4	-160.5	-165.6	-173.3	(Dec)
Industrial Production	2.0	3.1	3.3	3.7	(Dec)
Unemployment Rate (%)		7.8		7.9	(Nov)
CPI	3.3	3.1	3.4	4.0	(Jan)

Japan	2010	10Q3	10Q4	Latest	
Real GDP	4.0	4.7	2.6		
Current Acc. Bal. (US$B, ar)	194.8	227.5	172.5	171.9	(Dec)
Merch. Trade Bal. (US$B, ar)	77.7	90.7	80.9	27.9	(Jan)
Industrial Production	16.0	12.9	5.0	4.9	(Dec)
Unemployment Rate (%)	5.1	5.1	5.0	4.9	(Dec)
CPI	-0.7	-0.8	0.1	0.0	(Jan)

Australia	2010	10Q3	10Q4	Latest	
Real GDP		2.7			
Current Acc. Bal. (US$B, ar)	-25.8	-33.5			
Merch. Trade Bal. (US$B, ar)	19.0	27.3	25.2	36.4	(Dec)
Industrial Production		5.0			
Unemployment Rate (%)	5.2	5.2	5.2	5.0	(Jan)
CPI	2.8	2.8	2.7		

China	2010	10Q3	10Q4	Latest	
Real GDP	10.3	9.6	9.8		
Current Acc. Bal. (US$B, ar)	290.0				
Merch. Trade Bal. (US$B, ar)	183.1	261.0	251.5	77.5	(Jan)
Industrial Production	13.5	13.3	13.5	13.5	(Dec)
CPI	4.6	3.6	4.6	4.9	(Jan)

South Korea	2010	10Q3	10Q4	Latest	
Real GDP	6.1	4.4	4.8		
Current Acc. Bal. (US$B, ar)	28.2	39.7	36.6	2.7	(Jan)
Merch. Trade Bal. (US$B, ar)	41.2	42.5	52.1	35.0	(Jan)
Industrial Production	17.0	14.1	9.5	9.7	(Dec)
CPI	3.0	2.9	3.6	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/18	Feb/25*	United States	10Q3	10Q4	Feb/18	Feb/25*
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	0.94	1.03	3-mo. T-bill	0.15	0.12	0.09	0.12
10-yr Gov't Bond	2.76	3.12	3.48	3.30	10-yr Gov't Bond	2.51	3.29	3.58	3.43
30-yr Gov't Bond	3.36	3.53	3.86	3.71	30-yr Gov't Bond	3.68	4.33	4.68	4.52
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	0.64	0.68
10-yr Gov't Bond	2.28	2.96	3.25	3.14	10-yr Gov't Bond	2.66	3.36	3.62	3.52
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	0.63	0.67	3-mo. T-bill	4.85	4.85	4.85	4.85
FX Reserves (US$B)	300.1	300.4	300.4	(Dec)	10-yr Gov't Bond	2.95	3.40	3.81	3.62
					FX Reserves (US$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	5.64	5.54
10-yr Gov't Bond	0.94	1.13	1.31	1.25	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	83.18	81.72
CADUSD	0.97	1.00	1.01	1.02	US¢/Australian$	96.71	102.33	101.47	101.48
GBPUSD	1.572	1.561	1.625	1.609	Chinese Yuan/US$	6.69	6.61	6.57	6.58
EURUSD	1.363	1.338	1.369	1.376	South Korean Won/US$	1140	1126	1112	1126
JPYEUR	0.88	0.92	0.88	0.89	Mexican Peso/US$	12.594	12.340	12.033	12.126
USDCHF	0.98	0.94	0.94	0.93	Brazilian Real/US$	1.687	1.661	1.662	1.659

Equity Markets (index, end of period)

United States (DJIA)	10788	11578	12318	12122	U.K. (FT100)	5549	5900	6083	6006
United States (S&P500)	1141	1258	1340	1316	Germany (Dax)	6229	6914	7427	7186
Canada (S&P/TSX)	12369	13443	14136	14017	France (CAC40)	3715	3805	4157	4078
Mexico (Bolsa)	33330	38551	37522	36618	Japan (Nikkei)	9369	10229	10843	10527
Brazil (Bovespa)	69430	69305	68067	66876	Hong Kong (Hang Seng)	22358	23035	23595	23012
Italy (BCI)	1033	1048	1165	1109	South Korea (Composite)	1873	2051	2013	1963

Commodity Prices (end of period)

Pulp (US$/tonne)	990	960	960	960	Copper (US$/lb)	3.65	4.42	4.45	4.40
Newsprint (US$/tonne)	638	640	640	640	Zinc (US$/lb)	0.99	1.10	1.14	1.12
Lumber (US$/mfbm)	236	308	288	287	Gold (US$/oz)	1307.00	1405.50	1383.50	1402.50
WTI Oil (US$/bbl)	79.97	91.38	86.36	97.00	Silver (US$/oz)	22.07	30.63	31.94	32.54
Natural Gas (US$/mmbtu)	3.87	4.41	3.87	3.90	CRB (index)	286.86	332.80	341.78	348.42

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

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