Scotiabank Group

Global Views

Weekly commentary on economic and financial market developments

March 25, 2011

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

Gorica Djeric (416) 862-3080
gorica_djeric@scotiacapital.com

Derek Holt (416) 863-7707
derek_holt@scotiacapital.com

Varied Global Hot Spots Will Park Japan and the MENA States On the Back Burner

- **Europe could play the spoiler against firm Chinese and US data. See Calendars on pp. A3-A10.**

Global markets will be distracted from focusing upon Japan and the MENA states next week. European markets will particularly face a massive combination of event and data risk throughout the week. It starts at the Monday market opening by digesting the aftermath of the EU Summit. Further, the biggest German state election of the year occurs on Sunday. Baden-Wuerttemberg is key because it is a traditional stronghold for Chancellor Merkel's CDU party owing to the state's conservative voting roots. The risk is that the Merkel-led CDU/FDP coalition loses its majority and the Greens rise such that a new left wing Green-SPD coalition becomes possible. If that happens, the best chance for the CDU to salvage the year's elections will have gone out the door since the remaining elections in Rhineland Palatinate (also Sunday), Bremen in May, and Berlin and Mecklenburg-Vorpommern in September already have leftist SPD-led coalitions that are unlikely to lose their power bases. Should the CDU/FDP coalition lose the B-W election on Sunday, then Merkel's credibility and power base will have suffered a major blow. If that's not enough for European risk next week, Ireland releases the stress test results for its banking sector on Wednesday evening eastern time.

Although there is a heavy Japanese release schedule, China's manufacturing PMI that is due out on Thursday evening will dominate attention focused on Asian markets next week. We are expecting an acceleration of activity in Chinese manufacturing owing to the fact that the Chinese Lunar New Year effect reverses from having shut down a significant amount of production in February to restarting production in March in ways that are not fully seasonally adjusted given the different timing of the celebrations from year to year. When the February print for China's PMI disappointed and markets reacted adversely, we advised clients to wait for the next month's more upbeat reading. The effects of the Chinese Lunar New Year could also show up mildly in the February batch of Japanese indicators just before the earthquake, tsunami and nuclear reactor shocks hit the economy. The releases include retail sales, jobs, household spending, industrial production, housing starts, and the Tankan large manufacturers survey. Markets will discount them as a rearview mirror perspective, but brace for the softness that will appear in future months.

Compounding the European risk factors is a heavy data release calendar with several highly market-sensitive releases on tap particularly including German retail sales on Monday, German inflation on Tuesday, euro-zone consumer and business confidence on Wednesday, and euro-zone CPI on Thursday.

After playing a relatively subdued role over the past week, the US will pose heavy data risk to global markets over the next week. Monday offers an update on the health of the US consumer through the February income and spending figures where the real question will be whether higher commodity prices continued to crowd out discretionary types of inflation-adjusted spending. Further to this, we'll be looking for a decline in consumer confidence on Tuesday, reflecting stock market volatility, geopolitical shocks, and higher gasoline prices with average retail unleaded currently parked at $3.55. Friday is the main event, however, with the two most powerful market-moving releases due out within 90 minutes of one another. Consensus is expecting both nonfarm payrolls and ISM manufacturing to post unchanged prints from the prior month, suggesting continued strong growth in manufacturing but a continued soft 200k/month pace of job growth that is inadequate to soak up excess labour. Fed talk is scattered throughout the week, with Lockhart and Evans speaking on the outlook, Plosser addressing monetary policy challenges during the recovery, and both Lacker and Tarullo addressing the changing credit landscape on the heels of Fisher's concerns over speculative activity including covenant-lite loans after a downbeat report issued by Moody's earlier in the month.

Canada will generate a buzz for itself globally throughout the week. An election call on Saturday March 26th will follow Friday's nonconfidence vote. BoC Governor Mark Carney delivers his first speech since the March 1st BoC statement and ensuing crises in Japan and the Middle East. As we argue on pages 3-6, we think the BoC has every reason to stay the course on its relatively dovish bias. Thursday's GDP report could face narrowly based upsides through manufacturing's massive gain, but much of the rest of the economy was soft during the month as a downside risk. Sandwiched in between is the Ontario Budget on Tuesday.

Gorica Djeric (416) 862-3080
gorica_djeric@scotiacapital.com

Derek Holt (416) 863-7707
derek_holt@scotiacapital.com

Reinforcing Our BoC Call

Four Recent Factors That Support Our Call for a BoC Pause Until October

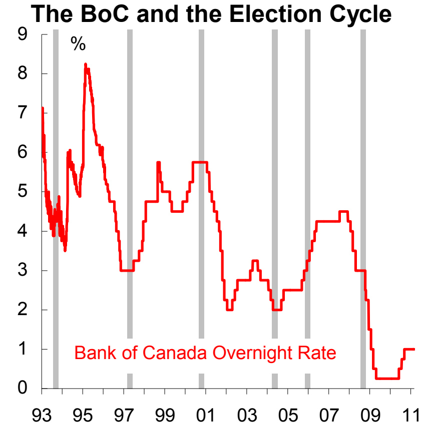
Perhaps the biggest market implication to the Federal Budget and the ensuing fall of the government lies in terms of what it means for the Bank of Canada. We take this opportunity to reinforce our longstanding view that the BoC is on hold until October of this year (or possibly later) by pointing to recent fiscal, political, and indicator developments. Since we're off consensus and off market pricing in our call, this would suggest the risk of near-term CAD softness if the BoC is pushed out by markets.

The BoC and The Electoral Cycle

An election call matters to the BoC for two reasons. First, as we've previously stressed, over roughly the past twenty years, the BoC has generally avoided starting a tightening campaign during an election period (chart 1). It only did so in 1997. Even then, however, the BoC waited until just after the election was over before it hiked. Recall, however, that this was because the economy was rapidly healing after the disaster of the first two-thirds of the 1990s when nearly three quarters of a million jobs were created in the back-to-back years of 1997-98. For our international audience, this would be equivalent to a massive gain of about 7-8 million in US nonfarm payrolls. A strong macro backdrop provided the policy flexibility for the BoC to hike. When the BoC hiked on December 6th 2005 right after an election was called on November 29th, it had already commenced its tightening campaign over several prior meetings and was carrying out its policy bias that had been previously laid down.

Chart 1

The BoC and the Election Cycle



Grey bars represent 3 months before Federal Election. Source: Scotia Capital Economics

Now, let's be clear that we respect the fact that the BoC is an independent institution operating at arm's length from the government, and that it has come to enjoy great favour with the markets while earning its objective inflation-fighting credentials over the past two decades. But one reason why the BoC has been historically reticent to commence a tightening campaign during an election period relates to the uncertainty over the fiscal regime that will unfold during and after an election. Historically, that has been a very legitimate reason for monetary policy to shift to the sidelines in order to digest what transpires on the political scene and in terms of fiscal policy. That's not a central bank that is politically influenced — it's just good policy.

In the current context, if a May vote is in the cards (and we'll soon find out the exact date), then add to that the lag between the election results and when a government takes office with a fresh mandate, and an announced cabinet. A further lag relates to when Parliament sits again, and then when a new government is able to introduce a new budget and see it through to its passage and implementation. To us, the various lags push us well into the summer before further policy clarity is provided, and hence further clarity is achieved with respect to its implications for the economy and financial markets. At a minimum, that removes talk of a Spring rate hike in either April or May in our view, as the April Monetary Policy Report is likely to continue setting a very cautious tone especially in the context of geopolitical, commodity market, and currency developments.

But our hunch is that fiscal drag will still lie significantly on the horizon in a manner that tightens policy conditions and does some of the BoC's work for it, along with the effects of a strong CAD and the crowding-out influences of higher commodity prices on domestic incomes and non-resource profit margins. The only question is with respect to how much of this belt tightening is distributed over this year and next. Should it be delayed somewhat because of election dynamics, then more of the fiscal drag may be postponed until later this year and into next in a fashion that continues to counsel caution at the BoC into the Fall and perhaps beyond.

Gorica Djeric (416) 862-3080
gorica_djeric@scotiacapital.com

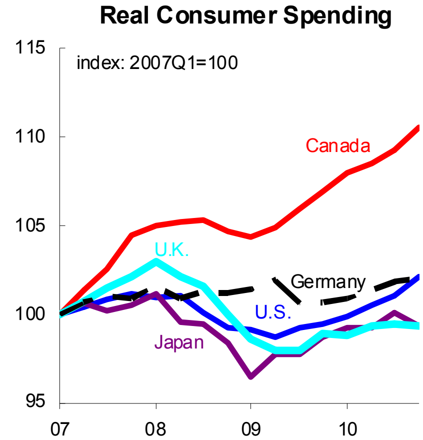
Derek Holt (416) 863-7707
derek_holt@scotiacapital.com

… continued from previous page

A Spent-Out Canadian Consumer

January's retail sales figures also reinforced our view on the BoC. The Canadian consumer is tapped-out. Exhausted one might say, as inflation adjusted retail sales have dropped a cumulative 1% through two successive monthly declines. Forget the chatter about how a hike in the Quebec sales tax distorted the picture. That's nonsense. For one thing, sales fell by about a half percentage point m/m in each of Ontario, BC and Alberta where there were no tax changes. For another, the impact of a hike in the QST isn't that theoretically obvious. A higher sales tax puts upward pressure on prices which should lift nominal retail sales. Front loading purchases prior to the tax hike would put downward pressure on retail sales. Thus, faced with competing effects, a 1% rise in the QST that sparked a 1% drop in nominal sales is somewhat harsh to fully pin on the QST hike. It says to me that there was indeed a sales tax influence, but that Quebec's sales apart from this effect would have been weak anyway. Add to this the evidence that sales fell in so many categories on nationwide terms, thus reflecting broad based weakness.

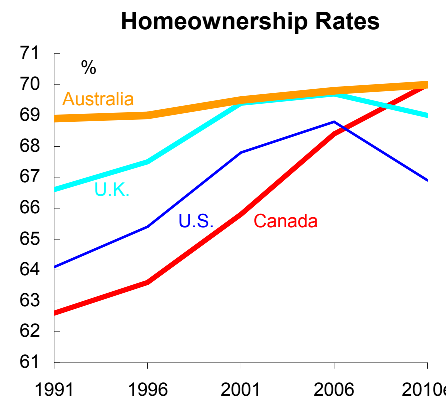
Chart 2



Source: Global insight, Scotia Capital Economics.

Why such weakness? One reason could well be to return to one of our themes that, unlike elsewhere, there is no pent-up demand in Canada. Real consumer spending indexed to the start of 2007 for Canada compared to other major economies shows Canada as being unique in having moved to record highs through the crisis and following, while every other major economy was flat to down (chart 2). The same holds true for record-high home ownership rates (chart 3) as mortgage innovation starting in 2007 at an already strong point in the housing cycle pulled forward future housing demand into the environment of the past few years. The country cannot have its cake and eat it too by way of sustained expectations that the household sector can outperform other countries through the crisis period, and expect to continue doing so in the years ahead.

Chart 3



Source: Scotia Capital Economics, Statistics Canada, U.S. Census Bureau, U.K. Office for National Statistics, Australian Bureau of Statistics.

The BoC's Trade Competitiveness Concerns Are Justified

The recent trade figures also reinforce the BoC's legitimate concerns about the extent to which Canada is able to leverage up the US recovery. The real trade deficit took an abrupt turn for the worse in the latest figures for January via a massive monthly trade deficit that grew by 25% m/m, and December was not as strong as initially understood so December GDP could be revised a touch lower. This vindicates BoC concerns — and ours — over the uncertainty facing the direction of Canadian trade through a loss of export competitiveness via weak productivity and a strong CAD alongside sizeable import leakage effects.

As chart 4 depicts, the real net trade deficit deteriorated sharply against the temporary December aberration against the trend in a manner that posts downside risks to GDP. So did a 0.6% m/m drop in real retail sales in January. Flat hours worked will also weigh against January GDP, since GDP equals hours worked in the overall economy times labour productivity (real output per hour worked). Lastly, housing starts were flat at 170.6k in January compared to 169.3k in December such that housing is unlikely to have played a material role in driving growth. Starts bounced back in February, but almost entirely due to volatile multiples projects that offer lower economic value-added than single home construction activity. On a distorted high base effect stemming from starting key lumpy multiples projects, starts are likely to soften again. The only

Gorica Djeric (416) 862-3080
gorica_djeric@scotiacapital.com

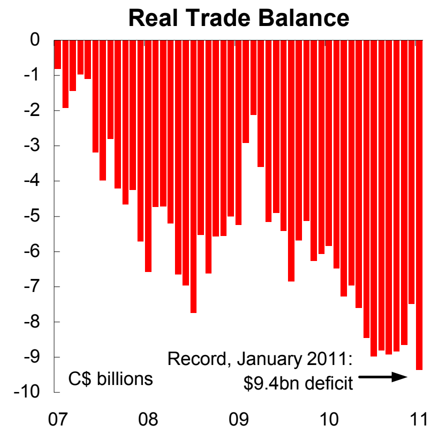
Derek Holt (416) 863-7707
derek_holt@scotiacapital.com

… continued from previous page

material bright spots in January GDP were in manufacturing and wholesale trade, and this suggests narrowly based strength. Indeed, see our article on pages 15-16 for why we think consensus could be over-estimating the extent to which a strong manufacturing shipments number will flow through to GDP.

Should the net trade deterioration in January stick for the quarter with February and March posting similar real net trade balances, and based upon what we know happened to trade revisions in Q4, the very early read on real net trade sees it as a drag into Q1 with the real trade deficit rising 12% q/q non-annualized.

Chart 4



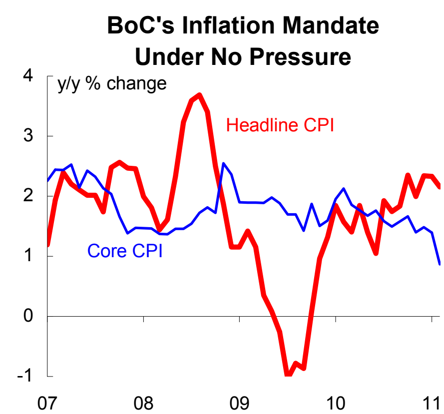
Source: Scotia Capital Economics, Statistics Canada.

Thus, the implications for the output gap are such that the Q3 downward surprise on growth compared to BoC expectations, the Q4 upward surprise, and what we know so far about Q1 don't leave us expecting a large shift in thinking about when the country closes off its output gap. In the January MPR, the BoC expected this to occur only in late 2012. Of further significance is that the supply side of the economy continued to grow through business investment and jobs particularly via the out-sized gain in January. An expanding supply side points to still elevated levels of excess capacity in the Canadian economy. Should one work backward from when the output gap is expected to close off using standard monetary policy cycle lags, then this too might support a BoC hold until the Fall. We caution, however, that output gaps and inflation have been poorly correlated after the 1980s, partly because monetary policy has acted in advance of inflationary pressures through this period, but also because inflation expectations, arguments for why Canada has relatively sticky wages and prices, and policy credibility play bigger roles in shaping the inflation outlook.

Inflation Remains Dead in Canada

On that last note, the BoC can take its time in evaluating inflation risk. It is in no danger of breaching its inflation target any time soon unlike pressures being faced in Asia and Europe. In fact, at 2.2% y/y on headline, and 0.9% y/y on core, the latest inflation prints are largely going nowhere in Canada (chart 5). The BoC targets headline but uses core as its operational guide on the view that the two measures ultimately converge upon one another. Thus, unless one anticipates sustained large percentage future changes in food and energy prices, headline inflation is likely to peak and soften in future while a weak base effect might put mild upward pressure on core inflation as the two converge upon a net picture marked by little inflation concern into 2012.

Chart 5



Source: Scotia Capital Economics, Statistics Canada.

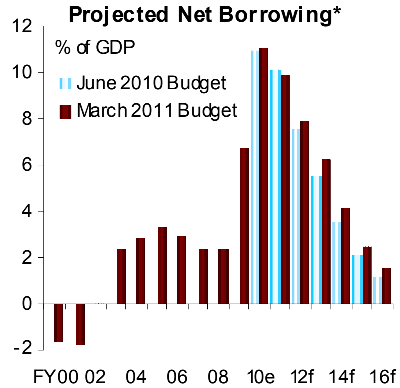
Tuuli McCully (416) 863-2859
tuuli_mccully@scotiacapital.com

Mary Webb (416) 866-4202
mary_webb@scotiacapital.com

UK 2011 Budget Remains Committed to Austerity Plan

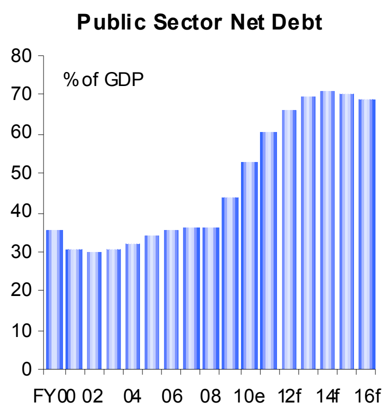
- **The British administration remains committed to its fiscal consolidation plan in a time of fragile economic growth.**

The UK's Chancellor of the Exchequer, George Osborne, on Wednesday delivered the *2011 Budget* of the coalition government of the Conservatives and the Liberal Democrats. The *2011 Budget* shows that the British administration remains on a fiscal consolidation path in its continued efforts to restore the sustainability of public finances — a challenging task faced by the government at a time of fragile economic growth. With persistent investor concerns regarding the health of government finances globally, and particularly in Europe, the continuity of the UK's fiscal repair plan — and the administration's commitment to it — will remain at the centre of market participants' attention and scrutiny. Please refer to the budget documents at http://www.hm-treasury.gov.uk/2011budget.htm. The measures outlined in the *2010 Budget* last June and the *Spending Review* last October remain largely intact. The cost of new policy decisions in this *Budget* are broadly offset with measures to raise revenues, and thus the *Budget's* impact can be judged as broadly neutral, neither significantly tightening nor easing current fiscal restraint for fiscal 2011-12 or on average over the next five years.



*Current Budget balance plus Net Investment Source: HM Treasury.

The budget deficit, after peaking at 11.1% of GDP in the FY2009-10 (April-March), is set to narrow to 9.9% of GDP *(top chart)* in the ongoing fiscal year, due in part to in-year spending cuts and the VAT hike. After a further decline to 7.9% in FY2011-12, the government plans to lower the shortfall further to 1.5% of GDP by FY2015-16; nevertheless, the deficit/GDP ratio will remain one of the largest among major developed countries over the next couple of years. Public Sector Net Debt is projected to increase from 60.3% of GDP in March 2011 to almost 71% by March 2014 *(bottom chart)*, before declining — more slowly than earlier anticipated — to 70.5% of GDP in March 2015 and 69.1% in March 2016.



Source: HM Treasury.

The government maintains that economic growth can be sustained alongside fiscal consolidation. In 2010, real GDP advanced 1.3% alongside a 2.3% tightening in the cyclically adjusted FY2010-11 primary deficit, and for the following year, a 2.2% tightening is planned alongside forecast real growth of 1.7%. The administration argues that its consistent and substantial effort to trim the UK's structural deficit is an important support for business investment. As reinforcement, many of the new *Budget 2011* initiatives are focused on encouraging UK growth, including the objective to create the most competitive corporate tax system among the G20. Thus, the UK's general Corporate Income Tax (CIT) rate, currently 28%, that was set to drop by one percentage point each April 1 from 2011 to 2014, is now slated to fall two percentage points this April to 26%, ending up at 23% by April 2014. To offset the benefits to the banks from this enlarged initial CIT cut, the rate of the Bank Levy will be raised. To assist start-up financing, enhancements are planned for the Enterprise Investment Scheme and Venture Capital Trusts, the lifetime limit on capital gains qualifying for Entrepreneurs' Relief (at a 10% tax rate) will be doubled to £10 million, and the R&D tax credit will be simplified, and for small- and mid-sized businesses, enhanced.

To aid individuals, planned increases in the personal income tax Basic Allowance will be accelerated in FY2012-13. Assistance to homeowners facing difficulties will be extended for a further year, and £250 million program will be introduced for first-time homebuyers of new-build properties. Recognizing current high oil prices, the fuel duty is trimmed immediately by one penny per litre, and when oil prices are high, the

Tuuli McCully (416) 863-2859
tuuli_mccully@scotiacapital.com

Mary Webb (416) 866-4202
mary_webb@scotiacapital.com

… continued from previous page

fuel duty will rise by inflation only, with the 2011-12 increase deferred to January 2012. With respect to the environment, to spur investment in the low-carbon power sector, a carbon price floor for electricity generation will begin at £16 per tonne of carbon dioxide and follow a linear path to £30 per tonne by 2020.

Tax fairness persists as a policy theme and the government anticipates considerable revenue from its efforts to limit tax avoidance. For North Sea oil & gas producers benefitting from current buoyant oil prices, the Supplementary Charge on oil & gas production will be hiked from 20% to 32%. Protection for the industry is limited — only if oil prices fall on a "sustained" basis below a trigger price (US$75/barrel is proposed), will the Charge be moved back towards 20% on a staged and affordable basis for government.

The Net Financing Requirement is forecast to climb from £159.4 billion in FY2010-11 to £167.4 billion in FY2011-12, reflecting the Central Government's £120.4 billion Net Cash Requirement, gross gilt redemptions of £49 billion and several other smaller items including £6 billion for the Official Reserves. The FY2011-12 net requirement will be met by gross gilt sales of £169 billion and a reduction in the Treasury bill stock of £1.6 billion. The planned increase in the Official Reserves is in part to meet potential calls from the International Monetary Fund.

Economic Forecast Assumptions

	2009	2010f	2011f	2012-15f
	annual % chg except where noted			
International Real GDP				
World (PPP)	-0.7	5.0	4.2	4.4
Euro Area	-4.0	1.7	1.4	1.9
United Kingdom				
Nominal GDP	-3.5	4.4	4.8	5.5
Real GDP	-4.9	1.3	1.7	2.8
Current Acct (% of GDP)	-1.7	-2.4	-2.7	-1.4
ILO unemployment (%)	7.6	7.9	8.2	7.3
CPI (Q4)	2.2	3.3	4.2	2.1
House prices	-7.8	7.4	-2.3	3.1

Source: HM Treasury, March 2011 Budget.

Budget Policy Decisions

Fiscal Years	2011-12	2012-13
	Impact on Budget Balance, £millions	
Supporting Growth & Business	**-165**	**-1,265**
Larger Corporate Income Tax Cut	-425	-810
Extended Small Business Tax Relief	-190	-185
Bank Levy Increase	630	285
Other	-180	-555
Housing and Employment	**-605**	**-295**
First-Time Buyer Support	-250	0
Other	-355	-295
Personal Tax	**0**	**-305**
Personal Allowance Increase	0	-1,050
Other	0	745
Motoring Tax	**-170**	**585**
Fuel Duty Reduction	-1,900	-1,600
Oil&Gas-Supplementary Charge Hike	1,780	2,240
Other	-50	-55
Environmental Tax	**-160**	**-15**
Indirect Taxes	**85**	**70**
Tobacco Duty	80	60
Other	5	10
Tax Avoidance	**985**	**1,055**
Other	**20**	**-95**
TOTAL	**-10**	**-265**

Source: HM Treasury, March 2011 Budget.

UK Economic Outlook

The economic recovery in the UK remains somewhat fragile. Reflecting adverse weather conditions, real GDP contracted by 0.6% q/q (+1.5% y/y) in the final quarter of 2010, taking the whole year expansion to 1.3%. While a rebound will be likely in the January-March period, as indicated by solid performances in the manufacturing and construction sectors, we assess that aggressive fiscal consolidation and slower export sector momentum will limit the nation's economic growth to 1.4% in 2011. Economic expansion should pick up to 1.7% in 2012 as both the global and domestic recoveries become more broad-based. A modest recovery in private consumption — which accounts for two thirds of GDP — is taking hold, counterbalancing some of the impact of reduced government spending. After contracting sharply due to recessionary conditions and tight credit availability, investment will continue to recover in 2011-12. Net exports will slightly contribute to growth throughout most of the forecast period as import demand remains relatively subdued.

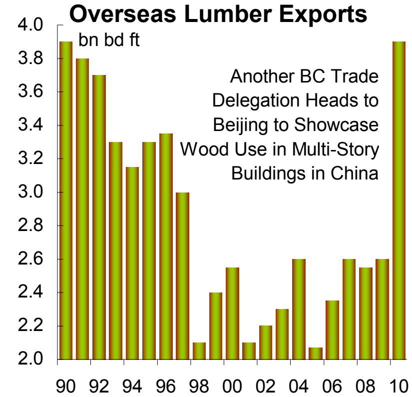
Patricia Mohr (416) 866-4210
patricia_mohr@scotiacapital.com

B.C. Forest Products Companies Gear Up For Re-Construction in Japan

- **Re-building in Japan will boost demand & prices for J-grade lumber, OSB and plywood — especially from Canada's West Coast.**

B.C. and Alberta forest products companies — specialists in providing high-quality Japanese-specification J-grade lumber and specially designed products for Japan — have offered their support to the Japanese government in home rebuilding, following the tragic earthquake and tsunami of March 11. Japan is currently Canada's second-largest overseas export destination for wood products, after China.

Resurgence in Canadian Overseas Lumber Exports

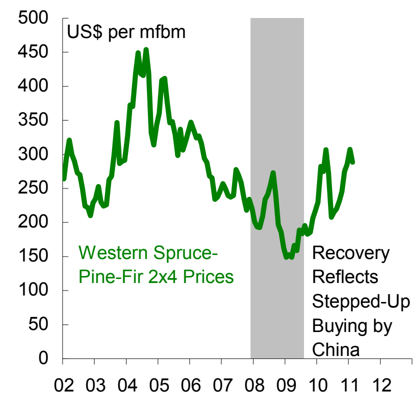


Source: Council of Forest Industries, Random Lengths.

While it will likely take several months for Japan to map out its plans for re-construction, the Japanese government has already contacted 'wooden prefabrication' plants in Japan to quickly build a large volume of factory-built homes as temporary dwellings in devastated areas. Japanese orders for 'J-grade lumber', OSB and wooden panels have already picked up for West Coast mills. Construction of permanent homes will come later. About 70,000 buildings (residential, commercial & institutional) were damaged by the earthquake & tsunami (equivalent to 8.6% of Japanese housing starts totaling 813,000 units in 2010).

Japan has a 'Wood First' policy for government-funded or sponsored buildings, with wood considered an environmentally friendly 'green' product. Extensive testing has shown that wood-based construction holds up well during earthquakes compared with other building materials. (Base metal demand — especially copper and aluminium — will also be boosted by re-construction in Japan.)

Lumber Prices Start To Recover



Shaded area represents U.S. recession period.
Source: Scotiabank Commodity Price Index.

After falling in the late 1990s and first half of the last decade, partly due to a secular decline in Japanese housing starts (linked to demographics), Canadian mills are enjoying a resurgence in overseas sales. Increased Chinese imports of Canadian lumber (mostly from B.C.) are leading the market revival. Canadian exports to China rose 78% to 1.91 billion board feet in 2010 (up 0.8 bn bd ft), surpassing the export gain to the United States (up 0.7 to 9.0 bn bd ft). A Russian log export tax (28%) has contributed to China's search for overseas fibre.

While a large volume of shipments to China have involved lower-grade lumber used in industrial applications (e.g. for concrete forms), volumes are increasingly higher quality. Industry/government trade initiatives to diversify Canadian exports away from the U.S. market — including demonstration projects such as wood-based multiple-storey residential and commercial buildings in Beijing and Tianjin — are beginning to pay off. While single-family homes remain relatively few in China, we note with interest the construction of 'villas' in new real estate developments in suburban Shanghai.

While U.S. housing markets remain in the doldrums, Western Spruce-Pine-Fir 2x4 lumber prices have to some extent de-linked from U.S. markets and are at profitable levels (currently US$290 per mfbm). Shut North American capacity (a large number of mills will not be re-started) and periods of re-stocking in the United States have contributed to the recovery. Lumber prices are expected to climb substantially in coming years.

Adrienne Warren (416) 866-4315
adrienne_warren@scotiacapital.com

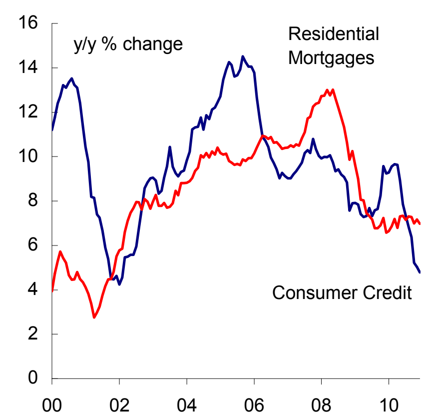
Rising Fuel Costs Crowding Out Discretionary Spending

- **The rising price of gas is the latest factor pointing to a more restrained outlook for the Canadian consumer in 2011.**

Canadian consumers are displaying increasing spending restraint. According to data released this week, retail sales fell for a second consecutive month in January. This dovetails with recent industry surveys. Retail Council of Canada (RCC) members anticipate another lacklustre year for sales, amid a highly competitive retail environment. While retail sales rose a seemingly solid 5% in 2010, this came on the heels of a 3% decline the year before. RCC members on average are forecasting sales growth of only 2-3% for 2011. There are a few exceptions. Retailers in Newfoundland & Labrador and Saskatchewan are anticipating strong above-average gains, with employment, income and confidence bolstered by resurgent resource-based activity. Retailers of luxury goods are also upbeat.

By all accounts, the Canadian consumer should be far from tapped out. Job growth remains fairly brisk, and wage gains steady, though public sector restraint will likely dampen both going forward. The sharp rebound in equity markets since mid-2010 has bolstered household wealth. Interest rates and debt servicing costs remain low. From a statistical standpoint, official data may well be underestimating the strength of consumer spending, as they fail to capture the majority of internet purchases, as well as the steady increase in cross-border shopping trips by Canadians taking advantage of the rise in the value of the Canadian dollar.

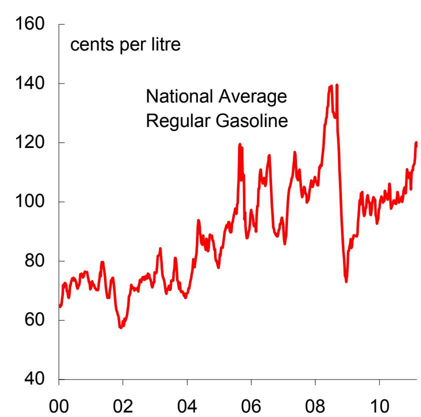
Household Credit



Source: Bank of Canada

As we have pointed to before, however, there are several countervailing factors at play, including a lack of pent-up demand, a more muted housing market and high household debt loads. Indeed, Canadians appear to be taking heed of repeated Bank of Canada warnings on the dangers of overextending their finances in the current ultra-low interest rate environment. Growth in consumer credit is running at its slowest pace in nine years, while the pace of mortgage credit growth appears to have stabilized well below its mid-2008 peak (see chart).

Retail Gasoline Prices



Source: Bloomberg

Meanwhile, higher gasoline prices are likely beginning to crowd out spending from other retailers. Demand for gasoline is fairly inelastic in the short-term, as most households won't or can't easily adjust their driving behaviour. Retail gasoline purchases (i.e. automotive fuels, oils and additives) totaled an estimated $43 billion last year, or about 10% of all outlays at retail stores. During this time, the price of a litre of gasoline averaged $1.02. So far in 2011, gasoline has averaged $1.13/litre (see chart). If sustained, this 11¢/litre increase would effectively tap roughly $4½ billion in annual spending from other retailers. This doesn't include the impact of higher costs for home heating oil or second-round inflationary price effects on other goods and services such as airfares, or courier and moving costs.

Rising food prices pose another drag on household purchasing power. To date, the passthrough of rising global food commodity prices to Canadian grocery store shelves has been fairly muted. However, anecdotal reports are pointing to more significant price increases by late spring or summer. Given a total household retail store food bill of roughly $75 billion last year, a 5% increase in average prices would crowd out another $4 billion from retail purchases in 2011.

Carlos Gomes (416) 866-4735
carlos_gomes@scotiacapital.com

Oscar Sánchez (416) 862-3174
oscar_sanchez@scotiacapital.com

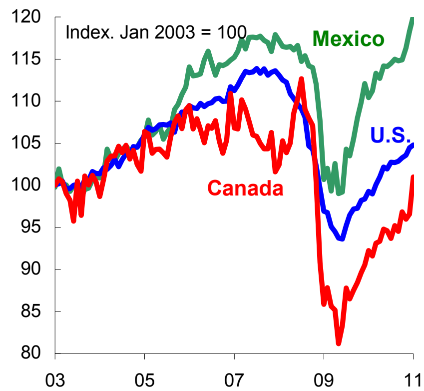
Mexico's Manufacturing Rebound Almost Twice as Dynamic as in the United States

- **Stellar automobile sector performance underpinning Mexico's recovery shares some of the characteristics of Canada's even stronger rebound.**

Factory output pulled the Mexican economy into recession during 2008-09 and is now leading the recovery, with activity already surpassing pre-recession levels. While a close link with the U.S. is inescapable, Mexico's manufacturing rebound has been almost twice as dynamic, with output 2% above the December 2007 pre-recession peak (chart). Mexico's factory output is 21% above the May 2009 trough, comparing favourably with an 11% gain in the United States. An even more outstanding performance has been posted by Canadian manufacturers, with activity in January 24% above the recessionary low.

The Mexican manufacturing rebound can adequately be characterized by the evolution of exports of durable goods products, with shipments of automobiles playing a prominent role. Vehicle and parts production account for roughly 15% of overall manufacturing activity and close to 20% of overall exports. In particular, vehicles represent 70% of Mexico's transportation equipment exports and have been gaining share since the introduction of NAFTA, with most of the increase occurring after 2004.

NAFTA Manufacturing Output



Source: Statistics Canada, U.S. Fed & Bank of Mexico.

The country is riding the global inventory replenishment cycle, benefitting from a rebound in foreign vehicle sales that began as two U.S.-based car companies exited bankruptcy proceedings in mid-2009. Machinery and equipment investment in the sector is in line to surpass pre-recession levels during the first half of 2011, on the back of cost competitiveness and favourable access to a rejuvenated U.S. car market.

Automakers are increasingly adopting Mexico's low-cost platform to assemble vehicles and export cars and light trucks all over the world. As a result, vehicle production in Mexico has soared by 52% over the past six years. In contrast even with last year's rebound, assemblies in both Canada and the United States remain at least 25% below the level prevailing in 2004. A persistent drive to market diversification has resulted in a rising share of Mexican auto sales directed towards South America and Asia, as U.S. market relevance in overall car exports has fallen to 68%, from 80% in 2008.

Highlighting the growth in Mexico's auto industry, Volkswagen's plant in Puebla built more vehicles last year than any other assembly plant in North America. Home of the Beetle, Jetta and Bora, the facility produced 435,000 cars in 2010, dethroning Toyota's facility in Georgetown, KY, the previous year's North American production leader. Further gains are on the way in 2011, as a US$1 billion investment has recently increased the plant's capacity to 550,000 units per annum.

Most other automakers have also increased their investment in Mexico in recent years, with Ford producing its 2011 Ford Fiesta in Mexico. Production of the Fiesta began last spring and will ramp up to about 150,000 units in 2011, double the full-year 2010 total.

The auto sector continues to outperform in both Mexico and Canada in the opening months of 2011, with assemblies in each country jumping 19% above a year earlier, well above the 13% advance at facilities in the United States. New models continue to drive the improvement in Mexico, while Canada's position is being buoyed by its status as a key crossover utility vehicle (CUV) production hub. Canada produces nearly one-third of all CUVs assembled in North America — almost double its share of overall vehicle output.

Gorica Djeric (416) 862-3080
gorica_djeric@scotiacapital.com

Derek Holt (416) 863-7707
derek_holt@scotiacapital.com

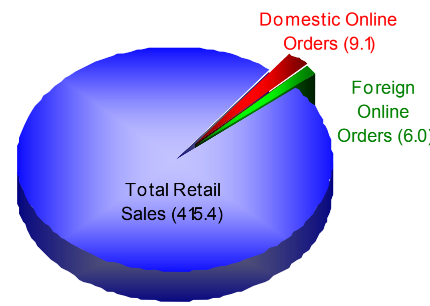
E-Commerce, Buffalo Not Responsible For January's Retail Sales Miss

- **Retail sales outflow to the U.S. does not explain disappointing consumer data.**

An unexpected contraction in Canadian retail sales — both in volume and nominal terms — detracted from expectations for January's GDP print, especially as inflation-adjusted retail sales dropped a cumulative 1% through two successive monthly declines, and broadly so on a regional and sectoral basis. As we have pointed out in *Reinforcing Our BoC Call,* consumers may be tapped-out; fundamentals seem to suggest there exists limited pent-up demand in Canada. We disagree with the view that retail sales leakage to the United States — via outflows such as electronic commerce and shopping excursions to the United States — explain some of the weakness associated with January's retail sales report.

E-Commerce Small Slice of Retail Sales

C$billion, nominal, SA, 2009



Source: Statistics Canada, Scotia Capital Economics.

Electronic commerce represents too small of a slice of overall retail sales to be able to account for January's miss. In 2009 (latest data available), electronic commerce accounted for roughly 3.6% of the total nominal retail sales. Of that, nearly two-thirds were domestic orders. As such, there would need to be a sharp swing in foreign orders to have any visible impact on the headline print. For example, a 10% increase in online spending on foreign websites — nearly double the pace registered between 2007 and 2009 — would yield a modest headline change in the order of 0.1ppt.

A strong loonie may be pushing some Canadians to indulge in one-day shopping trips to south of the border, but this, too, represents a small share of overall retail sales — just 3%. In 2009 (latest data available), the year when the Canadian dollar appreciated 16% against the greenback, overnight visits to the United States actually fell by 5.0%, sending retail spending down 2.0% to C$12.7 billion. One might argue that consumer sentiment is stronger now that we are in the recovery stage of the cycle, but the latest monthly data on the volume of overnight trips to the United States suggest that the number of visits has not increased. In year-over-year terms, the total number of visits has actually been declining at an accelerating pace over the past three months through January. Corresponding spending statistics are not available on a monthly basis.

Weakness in the January retail sales report was broad based; it was not brought on by an outflow of sales to the United States. Two thirds of the nominal categories and four provinces — which jointly account for 85% of overall sales — registered declines. And while a hike in the Quebec sales tax may have had some impact, it does not either explain the headline miss.

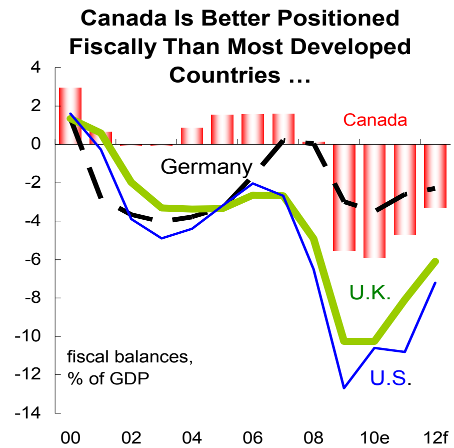
Aron Gampel (416) 866-6259
aron_gampel@scotiacapital.com

Challenges And Opportunities For Canada As Global Growth Slows

- **The global economy remains quite resilient, though an increasing number of headwinds confronting both emerging and developed economies will drag on growth.**

- **Sustaining Canada's comparatively better economic performance requires a commitment by businesses to improve their productivity and diversify their export markets, and by governments to reduce their debt service burden to enhance longer-term policy flexibility.**

Equity markets recently celebrated the two-year anniversary of an impressive rebound totalling 90% that began in March 2009. At about 1325, the MSCI World Stock Market Index is up 638 points from the recession low of 687, and has recouped roughly two-thirds of the precipitous 18-month slide (994 points) experienced from the peak of 1682 established in October 2007. And just as this run-up presaged the economic rebound globally, the continuing upward trend in stock prices suggests that the recovery, and importantly its profit-generating capacity, remains on track.



Many of the factors that helped turn many economies around are still quite supportive of global growth:

- Throughout the developed world, very accommodative monetary policies have kept short-term borrowing costs at record low levels. Some authorities are bolstering liquidity needs through unconventional means, namely via the purchase of government securities and the expansion of respective central bank balance sheets as in the case of Japan.

- There is still some residual fiscal stimulus working its way through some economies, while others are either instituting or planning to implement restraint, or as in the case of Japan, ramping up expenditures.

- Businesses are continuing to generate profits, and are reinforcing the recovery through expanded production, capital investments to improve productivity, and increased M&A activity to bolster revenues and take advantage of growth opportunities internationally.

- Consumer spending has increased alongside the improving trend in job creation in most countries.

- Most emerging nations are continuing to post comparatively strong output growth, and are providing strong support to the global economy through increased imports and persistently strong demand for commodities. Many of these savings-rich economies are also helping to stabilize international capital markets through the recycling of trade and foreign exchange surpluses.

Even so, the pace of global growth is expected to moderate this year, suggesting that global stock markets, on average, will find it harder to replicate the large gains of the past couple of years.

- Outside of the Fed and the Bank of Japan, central banks in the developed world are expected to begin, or in the case of the Bank of Canada, resume the normalization of short-term interest rates in response to evidence of self-sustaining economic growth and creeping inflation.

Aron Gampel (416) 866-6259
aron_gampel@scotiacapital.com

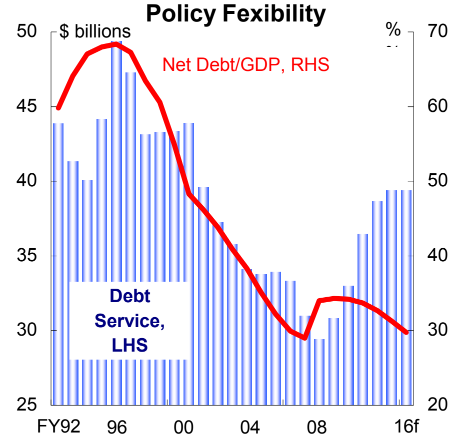
… continued from previous page

- With regard to federal fiscal policy, most European economies have begun to rein in large budgetary imbalances. Canada is on the verge of implementing fiscal restraint, while the United States and Japan will defer for the time being.

- Corporate profit margins are expected to come under increasing compression from rising commodity prices, food and energy in particular, and increasing unit labour costs as wages outpace productivity gains.

- Many consumers, especially in the debt-heavy nations, are likely to become more cautious spenders as rising commodity prices (oil, food, and cotton for example) eat into purchasing power, and the focus on balance sheet repair reinforces the deleveraging trend.

… But Reducing Canada's Debt Service Burden Is Critical To Policy Fexibility



- And most of the higher-growth, emerging economies are beginning to raise interest rates and bank reserve requirements in a bid to quell excess credit creation, rising inflation, and destabilizing capital inflows.

There are other growth-restraining factors that must be accounted for:

- The extent of the fallout from Japan's earthquake, tsunami, and nuclear disasters has yet to be fully determined, though it will be big and costly. But with global supply chains for technology-related products and auto parts being stretched so quickly by the disruption to the island's power, manufacturing and distribution capabilities, virtually every region will witness some slowdown, albeit temporary, that will compound the large contraction in Japan's economy.

- The price of crude oil is again challenging a 2½-year high of US$105/bbl for WTI against the backdrop of intensifying political unrest in North Africa and the Middle East, and which now involves military intervention by NATO members. If sustained — with more upside risks since the unsettled conditions are in the heart of the world's largest oil-producing region — the year-to-date average of $94/bbl relative to last year's average of $80/bbl represents an increasing drag of around 0.4 percentage points on global growth, and in particular on the world's large net oil importers in Europe, the United States, and China.

- Just as important, the inflationary spin-off from these factors, alongside the much higher price trends in many of the faster-growing emerging economies, points to a period of increased restraint and rising longer-term borrowing costs.

- Another complicating factor is that the European sovereign debt crisis has resurfaced again, with Portugal the latest peripheral country challenged by a large and growing debt burden, the loss of investor confidence, and sharply higher borrowing costs. The country's inability to exact meaningful fiscal restraint has triggered the Prime Minister's resignation, and increased the likelihood that the Euro zone would have to provide financial assistance to a third country undergoing debt-related compression.

- And from a longer-term perspective, the compounding effect of unprecedented trillion dollar deficits in the United States — and the deferring of any significant restraint until after the next Presidential elections in 2012 — risks turning a big deficit problem into a much bigger debt problem. Rapidly increasing U.S. government borrowing requirements point to intensifying financial market strains, including higher longer-term interest rates and wider credit spreads, and a weaker U.S. dollar.

Aron Gampel (416) 866-6259
aron_gampel@scotiacapital.com

… continued from previous page

The global economy, in our view, can withstand the increased headwinds, with output growth reinforced by the comparatively strong gains in the emerging nations, increasing international trade, and the self-sustaining momentum of expanding business activity in the developed economies. Nevertheless, there are more, not fewer, downside risks to growth, and volatility remains the order of the day.

In this challenging environment, Canada must take a number of steps — building on prior growth-sustaining initiatives — to help the cushion the nation from the aftershocks of an increasingly turbulent world:

- First, Canada must continue to diversify its trade ties to the faster-growing regions of the world. The pace of economic activity in our major trading partners in the developed world, particularly the United States, will be restrained by a multi-year period of reducing debt in the household, financial, and government sectors. Development of our vast resource sector, and distribution channels, should be fast-tracked.

- Second, Canada must continue to pursue policies and investments to bolster productivity and knowledge-based manufacturing and service-related output. Many of the world's most populated countries are much lower-cost producers of goods, and with the loonie appreciating alongside the upward trend in the demand and prices for commodities, Canada must increasingly rely on a different set of metrics to bolster our productive capabilities. During this period of relatively favourable financial market conditions and improved balance sheets, businesses must take advantage of opportunities to invest and expand their operations, either organically or through M&A activity, to meet the global challenges.

- Third, Canada must continue to advocate for freer trade around the world. Only by levelling the international playing field and allowing competitive forces to generate increased efficiencies can businesses take full advantage of the myriad of opportunities around the world. Maintaining Canada's attractiveness to foreign investment is essential to help finance and assist the transition underway.

- Fourth, Canada's monetary officials must remain vigilant on inflation and expectations. This will ensure that domestic borrowing costs remain at pro-growth levels, and help to anchor longer-term interest rates below those in the United States.

- And fifth, all levels of government in Canada must make a renewed commitment to fiscal probity. It is in the nation's longer-term interest for Ottawa and the provinces to utilize this period of favourable growth and historically low interest rates to their advantage, and advance, not slow, the pace of deficit reduction. It may be a tall order, considering the economic imbalances and strains that persist, and the political realities of both planned and unplanned elections. But only by re-establishing budgetary surpluses can jurisdictions reverse the run-up in debt, and regain the fiscal flexibility needed to redirect interest savings to higher priority needs — productive investments, infrastructure improvements, a changing demographic profile, and environmental remediation.

Gorica Djeric (416) 862-3080
gorica_djeric@scotiacapital.com

Derek Holt (416) 863-7707
derek_holt@scotiacapital.com

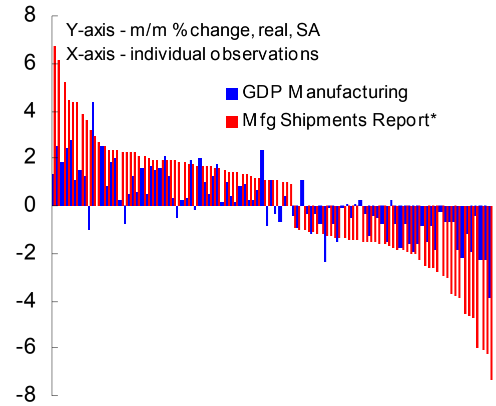
Has Consensus Gone Too Far On January GDP?

Consensus has banged out a firm 0.5% m/m median call on a range of estimates that stretches to 0.8% for the January GDP report that is due out on March 31st, but we think that could well have gone too far for three reasons.

Manufacturing Shipments Don't Necessarily Translate Into Strong GDP

What consensus is tenuously hanging its hat upon is that the price-controlled volume of manufacturing shipments climbed by a massive 5.5% m/m and that this will play a hefty role in lifting the headline GDP figure. But the assertion that manufacturing shipments so clearly translate into the manufacturing GDP component of the overall GDP report is dubious on both logic and data.

Shipments Tend to Overshoot GDP



*Removed manufacturing shipments with results in the -1%≥x≤1% range.
Source: Statistics Canada, Scotia Capital Economics.

On logic, shipments represent a gross measure of what goes out the factory door. Manufacturing GDP, however, is a net concept that explores the value-added in the manufacturing process. If higher inputs are needed to produce higher output, then a net value-added concept like GDP won't exhibit as much of a lift as a gross output concept like shipments since much of the rise in inputs is sourced from out of the country and thus acts as a leakage effect on GDP growth. That's especially so if the higher inputs were significantly imported, and hence leaked out of GDP. Now, what drove much of the shipments gain in January was a massive 20% rise in the transportation sector via a 26% jump in motor vehicle shipments, a 23% gain in parts shipments, and a 25% rise in aerospace products. These are heavily import-dependent activities. To that effect, witness that the biggest factor contributing to a large 5% rise in import volumes during January was a 16% gain in auto product imports. As the Canada-US auto industry saw a recovery in activity after unusually timed plant shut downs and adverse weather that disrupted supply chains in December, it recovered on both the shipments and imported component sides of the picture. From a GDP standpoint, the two effects of a rise in shipments and a gain in imported input components should considerably cancel out one another.

That's the logic, but what does the evidence say? Chart 1 plots all observations for m/m % changes in manufacturing GDP when the corresponding month witnessed a m/m % change in real manufacturing shipments of more than 1% or a bigger drop than 1%. This reinforces the point that large changes in shipments have historically grossly overestimated the flow through effect into manufacturing GDP. Empirically, using a large percentage gain or loss in manufacturing shipments to predict what happened to manufacturing GDP that same month can be fraught with error.

Also, chart 2 plots the m/m percentage changes in monthly manufacturing GDP and monthly shipments since 1997 along the horizontal axis, and the vertical axis plots the frequency of the observations within each percentage change category. There is a fat tail distribution whereby large monthly gains in shipments typically result in vastly smaller contributions to GDP growth.

Weakness Elsewhere

Second, none of the other January data would justify a bullish call, since real retail sales fell by 0.6% m/m, hours worked were flat, housing starts were largely flat, and only wholesale trade's small share of GDP was up a healthy 1.6%. This too would suggest that consensus is being a tad too bullish.

Gorica Djeric (416) 862-3080
gorica_djeric@scotiacapital.com

Derek Holt (416) 863-7707
derek_holt@scotiacapital.com

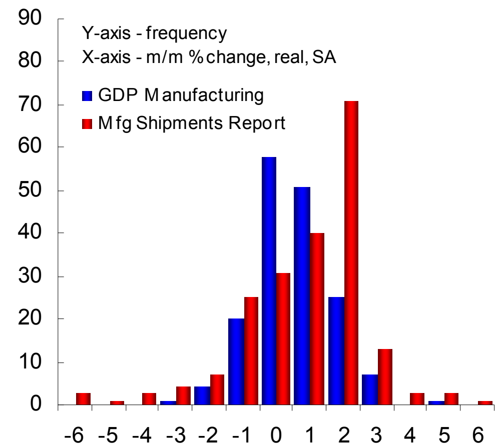
… continued from previous page

High Base Effect On The Rest Of The Unobservable Components

Third, consensus may be going too far out on a limb on a monthly GDP call given that we cannot even observe two-thirds of monthly GDP through more timely indicators. But what we do know about these other sectors is that they grew very strongly in December (+0.9% m/m), and thus pose a high base effect that may make it difficult to repeat another sizeable gain in the primarily service and utility sectors of the economy. As chart 3 demonstrates, large monthly gains in the largely unobservable components have more often than not led to weakness the following month.

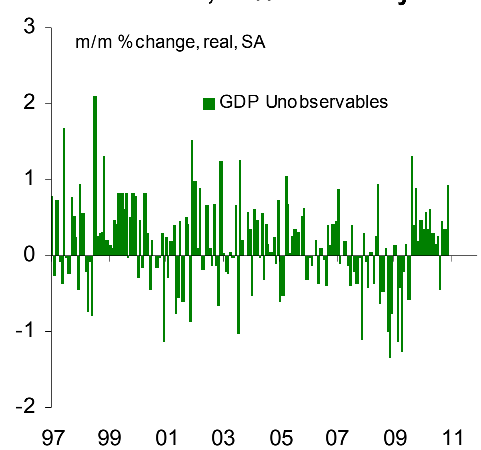
In conclusion, there is such enormous volatility in monthly GDP and the associated indicators, that frankly, we don't rule out anything for next Thursday's call. That said, for the reasons given above, we think the tail risk is toward a softer than expected print. But while there will be a price impact in the short-run on either a bullish or disappointing call, we don't think either scenario would affect our BoC call for the next hike to only occur come October. The list of reasons for inaction by the Bank of Canada remains fairly long as per our other thoughts that we've communicated (please see page 3).

Distribution Of Monthly Results



Source: Statistics Canada, Scotia Capital

Unobservables, 67% of Monthly GDP



Source: Statistics Canada, Scotia Capital Economics.

Joe Kogan (212) 225-6541
joe_kogan@scotiacapital.com

What Happened to EM Inflows?

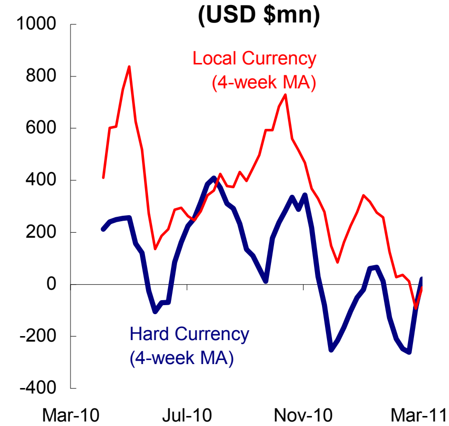
The following article was published on March 23, 2011.

Inflows into dedicated emerging market funds that averaged $670mn USD per week in 2010 are considered an important technical driver of prices by many investors. In 2011, inflows fell to an average YTD of $20 mn, and an average over the last 6 weeks of -$187mn. (Excluding January makes sense as that month always gets inflows). As Figure 1 shows, inflows into local currency funds suffered nearly twice as much as hard currency funds, both in absolute terms and as a percentage of assets in the sample.

Our initial thought was that poor performance was responsible. Contrary to what many investors believe, these inflows are often a lagging rather than a leading indicator of returns in the asset class. There seems to be a certain group of retail investors who reallocate their portfolios based on the last several weeks of recent returns, and recent returns are generally a good predictor of fund flows, as shown in Figure 2. The forecast of flows based on past returns shows that lower returns in 2011 explain a portion of the fall in inflows but certainly are not the driving factor of that fall.

Figure 1

EM Inflows Over the Last Year (USD $mn)



Source: EPFR. Blend currency funds omitted.

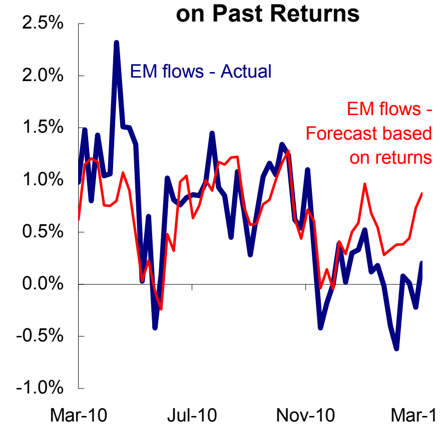
An alternative explanation is that the continued US recovery has caused some investors to return to developed markets. US stock markets performed well at the end of 2010, and that may have re-established investors' faith in these markets. As we have pointed out before, the interesting thing about the huge inflows that occurred into emerging markets last year was they came at a time of outflows from US equity funds. One would have thought that those flows would move together—that once risk appetite returned, inflows would increase to both sets of risky asset classes. Instead, last year emerging markets absorbed a small part of US equity outflows, as stories of emerging market growth juxtaposed with developed country problems dominated the news. That trend may have reversed in February, as EM saw huge outflows while US stocks received, in the same weeks, large inflows. Another indicator is the trend in flows to US high yield bond funds. These did not increase in 2011 but they also did not fall, which marks a sharp departure from last year, where the correlation but EM bond flows and US HY flows was 79%.

We think that six weeks of data are not sufficient to draw long-term conclusions. According to data from ICI, we again saw outflows in US equities in the first two weeks of March, probably caused by the turmoil in Libya and the difficulties in Japan. Meanwhile, flows to emerging markets have turned positive, though only marginally so.

In our opinion, it is only the long-run component of the flows data that matters for returns, while the higher-frequency component, more often than not, reflects marginal reallocations by retail investors. In that sense, the long-run trend in flows is certainly worth watching. Another uncertainty is the trend in interest by investors who are not covered by the fund surveys, such as sovereign wealth funds. We imagine that their investment preferences could be correlated with those of investors surveyed, but it is hard to know for sure.

Figure 2

Forecasting Flows Based on Past Returns



Source: EPFR, Scotia Capital. Forecast is based on returns from 1 week prior, 2 weeks prior, and 3 weeks prior.

Joe Kogan (212) 225-6541
joe_kogan@scotiacapital.com

How Many bps is Peru Election Risk Worth?

The following article was published on March 22, 2011.

After considering the spreads of sovereigns with leftist governments, the behaviour of Peru CDS between the first and second rounds of the 2006 elections, and the probability of a Humala presidency in 2011, we argue that Humala's rise in the polls does not justify any widening beyond what already occurred yesterday. We find Humala's focus on sovereignty over natural resources more threatening to the currency than to the bonds, but even here the risk is moderate.

Judging by recent articles in the financial press, analysts are deadlocked regarding how markets should respond to the approaching Peruvian presidential elections. Some election observers are worried about the rise of Humala in the polls, from 12% in February to 17% a week ago, according to Ipsos-Apoyo. Others point to the fact that despite the renewed potential for Humala to enter the second round, a second-round victory by Humala is still highly unlikely, and markets can therefore ignore the recent poll numbers.

Here we take an intermediate approach that tries to incorporate both perspectives. Setting aside market technicals, a very small probability of a bad event should be reflected at least somewhat in financial variables. The question is how much. We perform this computation in a series of steps.

First, how bad would a Humala victory be? It is certainly not the case that a Humala victory is somehow equivalent to an immediate default. Humala's platform in this campaign focuses on natural resources and not on the debt; even on the question of nationalization of those resources, his platform is ambiguous, stressing issues of sovereignty over strategic natural resources while at the same time rejecting expropriation. Humala´s political views have become more moderate over time, such that poor economic policy, inefficient management, and fiscal deficits, rather than immediately radical policies, would be the likely outcome. Thus, a Peru under Humala, would join the ranks of other Latin American countries with leftist governments. Figure 1 presents some data on such countries:

Figure 1 **Left-leaning countries in Latin America**

	Avg. Rating	Net Debt/GDP	Spread
Argentina	B	0.43	638
Ecuador	B-	0.12	730
El Salvador	BB	0.46	263
Venezuela	B+	???	1170
Peru under Humala	BBB-/ ???	0.16	???

5Y spreads shown for all countries except Ecuador where Z-spread of 2015 bond shown, all based on Bloomberg. Net debt/GDP is S&P estimates for 2010. Average rating is based on S&P, Moody's and Fitch.

The CDS or bond spreads among leftist countries show quite a wide range, with a high of 1170bp for Venezuela and a low of 263bp for El Salvador. The case of Venezuela demonstrates how long it takes for a leftist government to lower the creditworthiness of a country—over a decade. Meanwhile, Argentina and Ecuador are countries that have defaulted recently; Ecuador defaulted in a particularly egregious way based on a rejection of the validity of its debt contracts, despite having sufficient resources to make debt payments. We think El Salvador represents a more comparable situation, in that investment has stalled on fears of leftist policies but few radical measures have actually been implemented. In the case of Peru, we think Congress would certainly oppose any radical measures but investment and growth would suffer nonetheless. Peru of course has many advantages over El Salvador, including a higher credit rating (at least for now), lower debt to GDP, and a strong Central Bank. Still, we assume that Peru after a Humala victory would have a spread of 300bp, or about 180bp higher than it has currently; that figure is slightly higher than the current spread of El Salvador, but lower than that of other leftist countries.

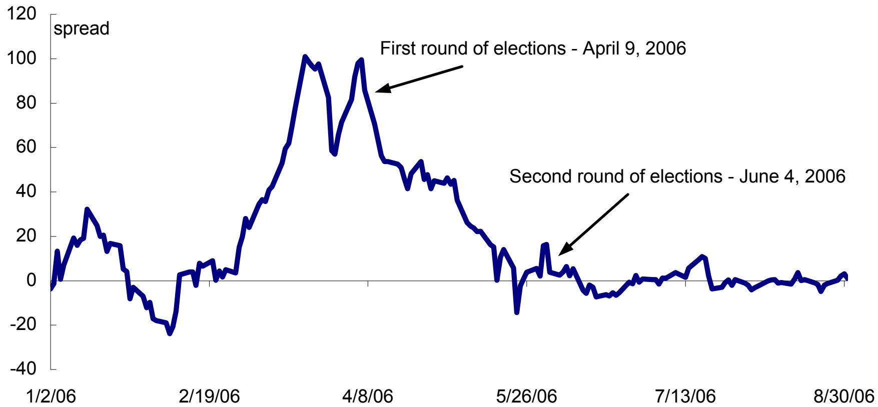
Joe Kogan (212) 225-6541
joe_kogan@scotiacapital.com

… continued from previous page

Our assumption seems reasonable in light of what happened in 2006. CDS widened by about 100bp in early April, but quickly compressed as it became clear that Humala could not win in the second round (Figure 2). In fact, the election risk premia had returned to zero three weeks prior to the actual voting for the second round in 2006.

Figure 2

Election risk premia in 2006 – Peru 5Y CDS minus Brazil 5Y CDS



Source: Bloomberg

Next, we consider how much election risk premia is already incorporated into Peru CDS. Figure 3 compares the Peru spread differential with other highly-rated Latin American countries now and before.

Figure 3

How much risk is priced in now?

	Typical spread (Jan to June 2010)	Last	Election risk Premia	Implied probability of Humala victory
Peru minus Brazil	-1	10	11	6.0%
Peru minus Mexico	2	16	14	8.0%
Peru minus Colombia	-23	9	32	18.0%

Source: Bloomberg, S&P. As of close on Monday.

The table shows that the market is pricing perhaps an 8% probability of a Humala presidency. We compare this 8% with our subjective assessment of the likelihood of a Humala victory.

No one significant structural factor has suddenly made Humala more popular. One of the more interesting explanations relates to a wikileaks release in February. That cable detailed a meeting in 2006 in which US embassy officials and an ex-government minister discuss, among other things, a media campaign against Humala; that publicity allowed Humala to cast himself as a victim. Other reasons include poor performance in a debate by Castañeda, attacks against Toledo's personal behaviour, and criticism of Castañeda´s management of Lima related to inefficiency and poor transparency. Finally, there are the advances by Kuczynski, who performed well in the debates. While he is the most market-friendly and financially capable candidate, he is ironically making a second round with Humala more likely by taking away votes from the leaders. In the end, the question of who enters the second round depends on whether one views current poll results as an aberration, as a new status quo, or as indicative of a new tendency for Humala to gain at the expense of other candidates. Let us assume that there is a 50% probability of Humala entering the second round.

Joe Kogan (212) 225-6541
joe_kogan@scotiacapital.com

… continued from previous page

Assuming that Humala does make the second round, what is the probability that he would win? All the simulation second-round polls show that he would lose, in many cases by large margins. According to Ipsos-Apoyo, he loses by a margin of 22% to Castañeda, 15% to Toledo, 10% to Fujimori, and 5% to Kuczynski. He is the only candidate under whose presidency more people think that the country would become worse as opposed to improve or stay the same. In polls he typically receives among the highest "anti-votes," with over 50% of the population saying they would definitely not vote for him. Aside from the polls, there are many reasons to think that Humala cannot win. If he didn't win in 2006, different socioeconomic conditions and stronger competitors should ensure he doesn't win this time around. (For more on this, see our article, "Assessing the risk from the left," September 8, 2010). Nevertheless, Peru is a country where the lack of allegiance to particular parties makes surprises possible.

We subjectively estimate a 15% probability of a Humala victory in a second round, which gives us a probability of a Humala presidency of 7.5% (50% x 15%). That would imply a total risk premia of 14bp (7.5% x 180bp), and would suggest that no further widening in CDS is justified. Of course, our probability estimates are subjective, and we urge the reader to insert his or her own numbers. Nevertheless, we think that most estimates would lead to the conclusion that a significant CDS widening is not warranted based on the recent poll numbers.

We would be a little more concerned about the currency, since currency appreciation is largely driven by new FDI into the mining sector, and, unlike sovereign debt payments, the continuance of those FDI flows would be potentially threatened by a Humala presidency. Once we consider the tremendous increase in foreign ownership of soberanos that occurred last year (from 17% to 46%), an increase that we think was based more on expectations of currency appreciation than yield curve movements, we worry that some investors will try to close out their positions. Still, in 2006, the currency only widened 3% at the worst, at a time when Humala's candidacy was more of a shock than it is today. The currency returned to previous levels once it became clear that Humala couldn't win in the second round, which still seems the case today.

Endnotes:

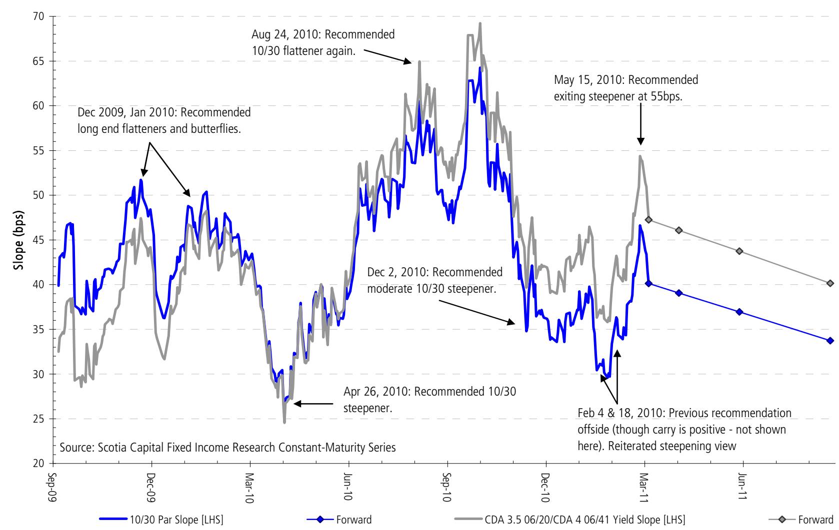
[1] See for example Bloomberg's article from Monday morning, John Quigley, "Chavez Ally Rises to Third in Peru Poll as Toledo Makes Errors," March 21, 2011.
[2] Fritz Du Bois and Roberto Abusada, "Investors don't care who wins the Presidency," March 2, 2011.
[3] Alfredo Torres, Ipsos-Apoyo, "Enfoque," El-Comercio, Sunday, March 20, 2011.
[4] That calculation is an approximation.

Roger Quick (416) 863-7236
roger_quick@scotiacapital.com

Yield Curve & Bank of Canada

Canada Curve

Canada 10/30-Year Slope: Constant-Maturity and Actual Bonds

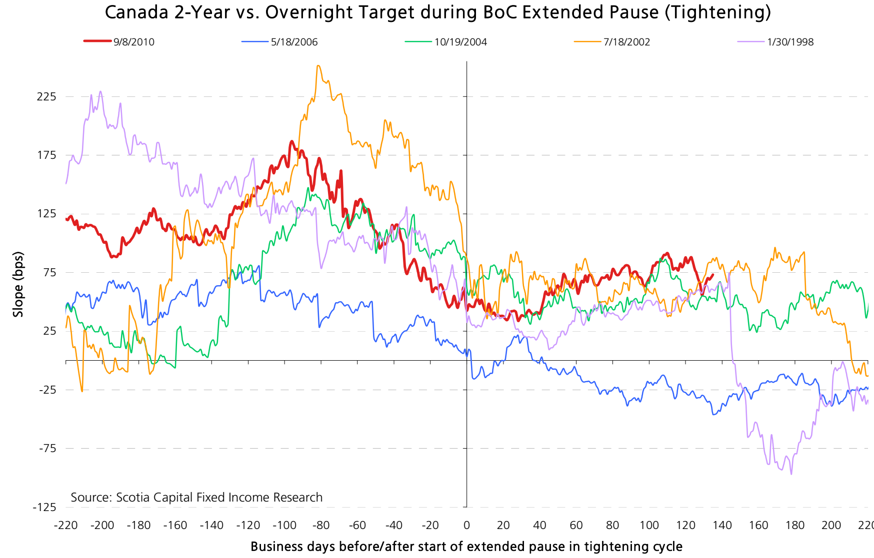


We don't have a strong view on the curve now. The bull-steepening of the previous month partially reversed over the past week, as the safe-haven bid subsided. This was more or less in line with what we were expecting, as noted in the March 21 RV Weekly. The front end of the curve remains somewhat expensive still, even though we remain fairly dovish regarding the BoC, but it has come well off its most expensive levels reached during the first week of Japan's tsunami and nuclear reactor problems.

We had previously recommended exiting our longstanding 10s/30s steepener at 55 bps on March 15th. That spread subsequently re-flattened in the week since then, faster than we would have thought at the time. I think the Budget on March 22 likely contributed to the recent strength in longs. The government has again opted to do only three quarterly long bond auctions this year, again concentrating more borrowing in the 2 to 5 year terms. There doubtless would have been good demand for more long bonds. The off the run longs also richened after the budget announcement.

Short-Term Canada Yields

Canada 2-Year vs. Overnight Target during BoC Extended Pause (Tightening)



Canada 2s had become quite expensive last week, but yields are some 15 bps off their strongest levels. Earlier in the month, when 2s were yielding about 1.85% at the time of the last auction, we had argued that values were pretty attractive, based on our relatively dovish assumption that the BoC would be on hold until Q4. Since then, the data have been weaker, adding support to that view, but the market has also rallied on safe-haven concerns related to the Middle East and, last week, Japan. As a result, the market had in effect come around to an even more dovish view than our own. OIS forwards reflect about 47 bps of tightening by December. This is above the 35 bps low of last week, but is still a bit below our Economics' group's longstanding forecast that the BoC raises to just 1.50% by the end of the year (and OIS forwards include no risk premiums). The market's lack of reaction to the very weak Canadian retail sales report on Tuesday reinforced our view that the front end had already become expensive, and had already priced in slower growth and a BoC that was likely to remain on hold for some time. Given that the data have been significantly weaker than market consensus recently (employment, CPI, retail sales), we don't see a need for 2s to reverse all the way back to 1.85% - 1.95% levels of a month ago. Neutral is probably something like a 1.75%-1.80% yield now. The broad range is likely 1.50% - 1.95%.

Camilla Sutton (416) 866-5470
camilla_sutton@scotiacapital.com

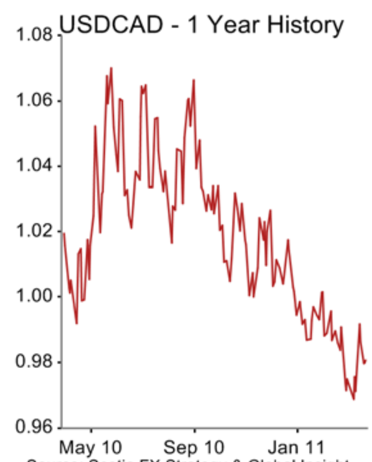
The FX Majors — Developments and Outlooks

- **CAD is poised to outperform on sovereign position and high oil prices.**
- **EUR teetering near highs, should still climb higher over medium term.**
- **GBP should face only limited upside as low growth, inflation, strict austerity and an uncertain interest path is unlikely to support a significant rally from current levels.**
- **JPY is expected to benefit from repatriation in the near-term; but then weaken into year-end as difficult fundamentals weigh on the outlook.**

Developments and outlook for CAD

We expect CAD to outperform this year, closing December at 1.05 and next year at 1.09. A new round of Canadian political uncertainty on the back of the budget should not overshadow the enviable fiscal and debt position of the country. Canada is expected to record a $40bn deficit this year, coming into balance by 2015 and a surplus of $4bn by 2016. The net federal debt is expected to peak in 2012 at 34% of GDP and then fall below 30% by 2016. On a relative basis these are impressive and leaves Canada as a notably strong sovereign, something CAD should be rewarded for. Political uncertainty will be a looming question, however the global market has become quite comfortable with Canadian elections, the differences (or lack of) in our parties and a minority government. Accordingly, we think in the medium term the focus should reside with the strong sovereign position in Canada and less with political uncertainty.

On the fundamental data side, the positive impact of surprisingly strong manufacturing and wholesale sales have been offset by weaker than expected retail sales and soft inflation (core CPI stands at just 0.9%y/y). This combined with political uncertain has seen the market push out its expectations for Bank of Canada interest rate hikes. The probability of a summer hike is now being priced at just over 40%, and one is fully priced in for the fall. Still what is important for the currency from here is that interest rate differentials between Canada and the US are expected to widen in CAD's favour.

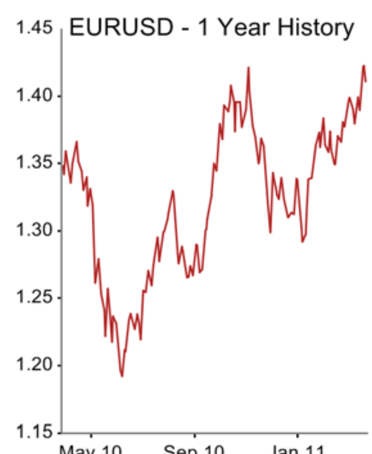


Source: Scotia FX Strategy & Global Insight

Finally, oil prices have been a key driver of CAD strength. On the back of developments in the Middle East, oil prices are at elevated levels. The rolling 30-day correlation between CAD and WTI oil is strong at 0.69. We think oil is the most significant near-term driver of CAD. Any further upside should see the currency follow suit.

Developments and outlook for EUR

Over the last two months, European authorities have made it clear that they are prepared to support the monetary union through this period, the ECB has turned increasingly hawkish and investors have become far more comfortable with the path that lies ahead and far more bearish the USD. These are all positive developments for EUR. We expect the currency to make a slow climb higher, interrupted by temporary periods of sovereign risk induced weakness.



Source: Scotia FX Strategy & Global Insight

Separating out the noise and focusing on the major developments in Europe is the key to the EUR outlook. Portugal's political uncertainty has moved the country one step closer to having to access the IMF/EFSF aid package. Over the last week Portuguese, Greek and Irish bond yields all moved higher, suggesting that investors are far from comfortable with the weaker periphery. Likely the more important development has been the drift lower in Spanish yields, suggesting that the European core is well supported.

Camilla Sutton (416) 866-5470
camilla_sutton@scotiacapital.com

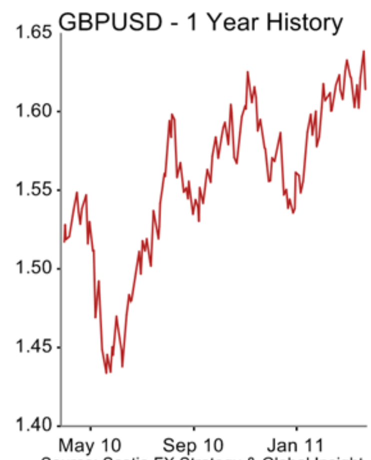
… continued from previous page

EUR has reacted favourably to the shift in tone coming from the ECB, who is increasingly likely to raise interest rates this spring. In our view, the Fed will remain on the sidelines for many quarters to come, allowing interest rate differentials in Europe to widen in EUR's favour.

Also important is the commitment from European authorities and the framework of the EFSF and ESM. The Euro Area heads of states have generally agreed to important changes (to be finalized at the June summit). These include: 1) The EFSF's lending capacity will be increased to €440bn, compared to just €255bn now; 2) The EFSF will in the future be able to enter the primary debt market, previously this was not allowed; 3) The terms for Greece are now more favourable, with the interest rate lowered by 100bpts (to below 5%) and the maturity increased from 3years to 7.5years; and 5) The European Stability Mechanism ESM, which is the permanent facility to follow the EFSF after June 2013, will have an effective lending capacity of €500bn. This framework is expected to be agreed to at the June summit.

Developments and outlook for GBP

Inflationary pressures continue to rise in the UK (headline CPI now sits at 4.4% and core has moved up to 3.4%) which has significantly complicated the outlook for interest rates and the Bank of England. The pressure on headline inflation continues to be discounted by the impact of oil, currency depreciation and the VAT, but there was also some discounting of the recent rise in inflation expectations. In addition, it is well accepted that higher interest rates in the UK will do little to contain global energy prices, nor will it solve temporary pressure from the VAT. The MPC's focus appears to be on the so far limited pass through of inflationary pressures to wage growth, but markets are still increasingly looking for a GBP positive interest rate hike from the BoE. The most recent minutes suggested there had been little shift in sentiment on the MPC, the vote was unchanged (6/3), with Sentence, Weale and Dale all voting to increase interest rates.



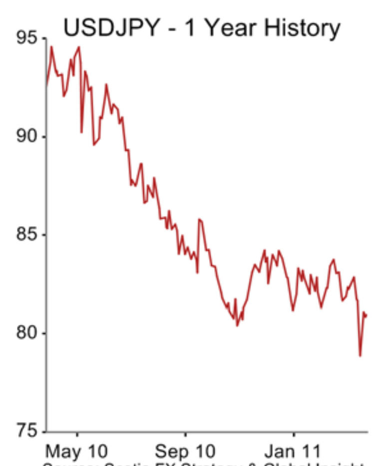
Source: Scotia FX Strategy & Global Insight

As we move closer to the first BoE interest rate hike, GBP is likely to remain supported. However, the medium-term currency impact of rising inflation, strict fiscal austerity and low to no growth are not necessarily positive, even with rising interest rates. Accordingly, we caution that the medium-term climb higher in GBP will be limited.

Developments and outlook for JPY

USDJPY continues to trade in a very tight post-intervention range of 80.69 to 81.38. We expect the initial risk is that the range is broken to the downside (yen strength), on the back of repatriation flows. We would only expect a follow up round of G7 intervention if USDJPY displays another disorderly pattern, similar to the March 16th 4.5% drop over less than half an hour. If USDJPY dips below 79, the probability that the BoJ, on direction of the MoF, turns back to intervention is high. However, this would serve only to slow the trend and not to reverse it.

Over the medium, we would expect that USDJPY drifts higher, as the already fragile fundamentals have only weakened over the last month. The combination of loose monetary policy, unprecedented debt levels and concerning economic fundamentals is likely to see USDJPY drift higher into year-end (yen weakness).



Source: Scotia FX Strategy & Global Insight

Sacha Tihanyi (852) 6117-6070
sacha_tihanyi@scotiacapital.com

The Impact of Japan On the Path of EM Asian FX

- **We briefly reflect on the impact of the tragic events in Japan on the emerging market Asian FX space.**

We briefly reflect on the impact of the tragic events in Japan on the emerging market Asian FX space.

The impact of the Japanese tragedy on the emerging market Asian currency space will play out via two separate channels; the real economy channel, and the monetary channel. The flow through into the EM Asian growth profile, and the subsequent effect on the attractiveness of EM Asian countries as a destination for investment constitutes the most prominent real economy dynamic. The degree to which central banks in the region ease the pace of policy tightening in reaction to any growth/inflation concerns constitutes the most prominent monetary dynamic.

Real Economy Channel

A recent World Bank estimate puts the cost of the disaster at over $300bn, or around 0.5% of 2010 Japanese GDP. There are significant export exposures to Japan amongst the Pacific Rim countries, running from as high as around 16% in the case of Indonesia and 15% in the case of the Philippines, to as low as 3% to 5% in the case of India and Singapore respectively (based on average trade patterns over the past two years). The economic shock of a shut down in manufacturing and services during the initial days following the earthquake, and the subsequent production lost due to power outages, will certainly be felt to some extent by those countries that find themselves in the Japanese supply chain. We'd suspect that this would not be an overly onerous impact so long as impacted Japanese production can ramp up within a month or so of shutdown. Also, the area of the country impacted is estimated to account for a fair degree less than 10% of Japanese GDP. It is also important to note that this is not the kind of shock that results in the permanent destruction of productive capabilities, and thus any output impact is only temporary as capital stock is rebuilt. There is also an implication that any negative shock will be offset by a subsequent growth spurt that would clear pent up demand. Indeed, the net contribution to growth will eventually be positive as rebuilding is undertaken, potentially drawing in machinery, equipment and raw commodities from the region. Thus any initial negative economic shock to the region could stand to be outdone by a future boost. This in turn may result in a boost to terms of trade should the commodity/product demand response from Japan be sufficiently large enough. Thus, we can expect that at the least the currency response should be neutral as the shock is of a temporary nature, and potentially even positive (dependent on terms of trade response).

Monetary Policy Channel

Central banks in the region face a choice between accommodating the negative economic shock by keeping policy looser than would otherwise be the case, or to continue on an already established path of tightening. With FX policy being a key feature in EM Asia's policy implementation, accommodation suggests a less rapid pace of appreciation. However, shocks will not be accommodated by looser policy unless they are seen to have a highly persistent or permanent and wide-ranging impact, which is unlikely to be the case here. To this point, we note that both China and India elected to tighten monetary policy (via a reserve ratio requirement increase and policy rate increase) following the tragic events in Japan, and that the Philippines followed suite with their first hike of the cycle just this week. This not only reflects a lack of concern that the impact of the Japanese events will be sustained and large, but also the still very evident need to tighten domestic monetary conditions.

While short term economic and financial market disruptions may weigh on the pace of appreciation in the EM Asian FX space, the medium term direction should not be permanently impacted over the coming months.

Gorica Djeric (416) 862-3080
gorica_djeric@scotiacapital.com

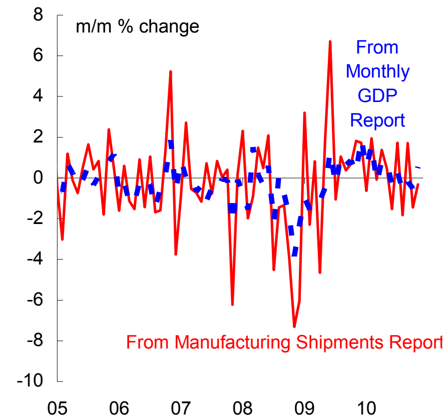
Derek Holt (416) 863-7707
derek_holt@scotiacapital.com

Key Data Preview

CANADA

January's GDP report (Thursday) will provide the first update on the Canadian economy as it stepped into 2011. We are expecting a gain of 0.2% m/m. The substantial boost from manufacturing shipments and wholesale trade will be dampened by a strong base effect from the prior month and a steep deterioration in net exports and retail sales. The large components of resources, utilities and services — for which there are limited leading indicators — add a sizeable degree of uncertainty to the forecast. The steep 5.5% m/m increase in manufacturing shipments is expected to be the key driver of growth in January. Historically (since 1997), these series are directionally tightly correlated with their counterpart in the monthly GDP report, but for sharp moves — both positive and negative — just under a half tends to flow through (see chart 1).

Canadian Manufacturing



Source: Scotia Capital Economics.

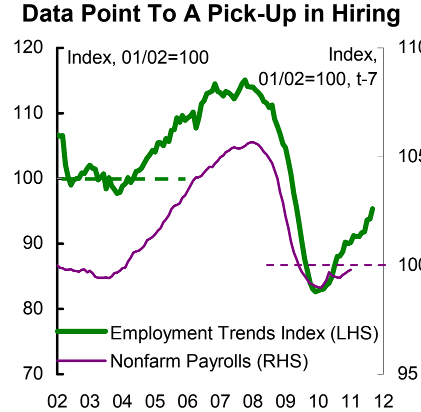
After falling for three straight months, the **Teranet/National Bank Home Price Index** (Wednesday) — the Canadian equivalent of the U.S. S&P/Case-Shiller measure of resale house prices — edged up 0.3% m/m in December. Most of the support came from Vancouver, Montreal and Toronto, which jointly account for 83% of the index. One month does not make a trend, and we expect the softening to extend through 2011, as tighter mortgage regulations, higher interest rates and constrained household balance sheets weigh on the Canadian housing market.

Surprisingly, despite higher commodity prices, **producer prices** (Wednesday) saw modest gains in January, their weakest since July and September. We do not expect a significant pick-up in February, though a weaker base effect may provide some support. The pass-through effect from producer prices down to the CPI basket will likely be limited, partly due to a strong Canadian dollar, but also as pricing power at the consumer level still remains constrained.

UNITED STATES

Friday's **nonfarm payrolls report** is likely to dominate headlines. Despite a strong base effect from the prior month, consensus calls for March are spread across an optimistic range, spanning from 150k to 275k, with our forecast at 170k. We think the February gain — particularly in private payrolls — was legitimate and suggest a gradual, but continued recovery in hiring activity (see chart 2).

Data Point To A Pick-Up in Hiring



Source: BLS, Conference Board, Scotia Capital Economics.

Our call is for **personal income** (Monday) to post a modest gain of 0.4% m/m in February, on higher labour earnings, dividend payouts and government transfers. We are looking for modest growth of 0.4% m/m in **personal consumption**, as headline retail sales picked up for the third consecutive month in February. Unseasonably warmer and drier weather may have lowered the demand for utilities. The personal savings rate is worth monitoring, as US consumers continue to hoard stimulus from the temporary payroll tax cut that took effect in January as well as the jobless benefit and tax-cut extensions that were meant to expire late last year.

Manufacturing activity has been gaining momentum for seven successive months. While we do not expect a wide swing in March, regional indices released to date have been mixed. We anticipate that the **ISM Manufacturing Index** (Friday) edged a touch lower to 60.5, still maintaining a solid pace of recovery. While data on February durable goods orders have already been released — showing an unexpected and broad decline of 0.9% m/m — Thursday's report on **factory orders** will provide the other half of the picture, an update on non-durable orders. Higher prices of industrial commodities, like fuel and chemicals, should boost nominal values.

Daniela Blancas (416) 862-3908
daniela_blancas@scotiacapital

Tuuli McCully (416) 863-2859
tuuli_mccully@scotiacapital.com

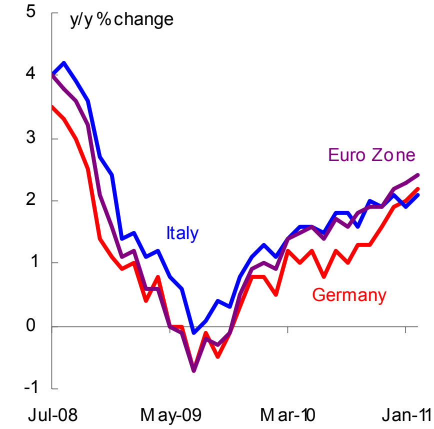
Oscar Sánchez (416) 862-3174
oscar_sanchez@scotiacapital.com

… continued from previous page

EUROPE

Consumer price inflation in the euro zone continues to hover above the European Central Bank's (ECB) target of "below, but close to, 2%". ECB policymakers have become more concerned about second round inflationary impacts, assessing that "the risks to the outlook for price developments are on the upside". The euro zone flash estimate for March inflation will be released on March 31st; we estimate that the regional CPI increased by 2.3% y/y. Inflation will likely accelerate above 2.5% y/y in the next couple of months.

Headline Inflation

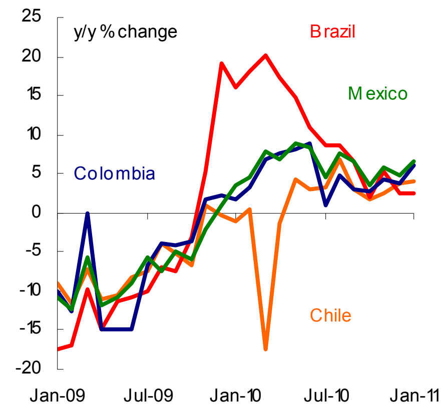


Source: Bloomberg.

LATIN AMERICA

The week ahead (March 28th to April 1st) will offer plenty of economic information regarding Latin America; we draw particular attention to industrial production releases in February for both Brazil and Chile. After a significant recovery of the industrial sector in all Latin American economies at the beginning of 2010 (except for Chile), recent data have shown a more moderate expansion. Colombia, Chile and Mexico have remained on a positive trend since the last quarter of 2010, while Brazil has been slowing down. Nevertheless, as the international economic recovery remains solid, the industrial sector in the region continues to perform well and we expect the trend to continue at least through the first half of 2011.

Industrial Production in Latin America

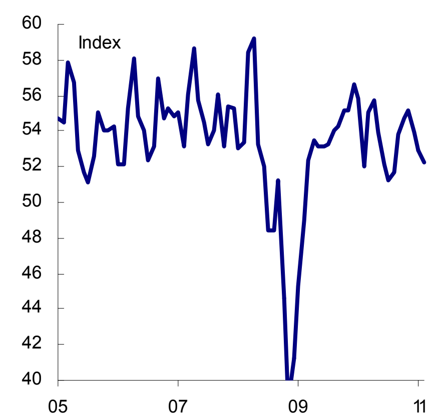


Source: Bloomberg

ASIA

We have been expecting a rebound in the Chinese PMI for several months now. The reasoning behind such anticipation is that notwithstanding monetary tightening, the fundamentals of the economy have not been severely altered. Credit continues to flow in vast amounts with the local construction sector supported by community housing developments on the back of slowing construction of city dwellings. January and February have always been unusual months to gauge the state of the local economy, while the March figures will likely reveal continued momentum in both local spending and exports. The latter have been favoured by improved prospects for developed countries where activity is clearly on the upside, both in Europe and in the U.S. We expect the Chinese PMI index to rebound back to 55 in March.

China's Manufacturing PMI



Seasonally adjusted. Source: Bloomberg

Key Indicators for the week of March 28 - April 1

North America

Country	Date	Time	Event	Period	BNS	Consensus	Latest
US	03/28	08:30	Personal Income (MoM)	FEB	0.4	0.4	1.0
US	03/28	08:30	Personal Spending (MoM)	FEB	0.4	0.5	0.2
US	03/28	08:30	PCE Core (YoY)	FEB	0.9	0.9	0.8
US	03/28	08:30	PCE Deflator (YoY)	FEB	1.4	1.6	1.2
US	03/28	10:00	Pending Home Sales (MoM)	FEB	-1.0	0.0	-2.8
US	03/28	10:30	Dallas Fed Manf. Activity	MAR	- -	16.8	17.5
US	03/29	09:00	S&P/CS Composite-20 (YoY)	JAN	-3.0	-3.2	-2.4
US	03/29	10:00	Consumer Confidence	MAR	- -	65.0	70.4
US	03/30	07:00	MBA Mortgage Applications (WoW)	25-Mar	- -	--	2.7
US	03/30	08:15	ADP Employment Change (000s)	MAR	200	210	217
CA	03/30	08:30	Industrial Product Price (MoM)	FEB	0.4	0.3	0.2
CA	03/30	08:30	Raw Materials Price Index (MoM)	FEB	2.0	0.5	0.3
CA	03/30	09:00	Teranet/National Bank HPI (YoY)	JAN	3.3	3.6	4.1
US	03/31	08:30	Annual Revisions: Jobless Claims				
CA	03/31	08:30	Gross Domestic Product (MoM)	JAN	0.3	0.5	0.5
US	03/31	08:30	Initial Jobless Claims (000s)	26-Mar	387	380	382
US	03/31	08:30	Continuing Claims (000s)	19-Mar	3700	3710	3721
US	03/31	09:45	Chicago Purchasing Manager	MAR	- -	69.0	71.2
US	03/31	10:00	Factory Orders (MoM)	FEB	0.3	0.5	3.1
US	04/01	08:30	Change in Nonfarm Payrolls (000s)	MAR	170	192	192
US	04/01	08:30	Unemployment Rate	MAR	8.9	8.9	8.9
US	04/01	10:00	Construction Spending (MoM)	FEB	- -	0.3	-0.7
US	04/01	10:00	ISM Manufacturing Index	MAR	60.5	61.0	61.4
MX	04/01	11:00	Central Bank Economists Survey				
MX	04/01	11:00	Remittances (USD mns)	FEB	- -	--	1401.8
US	04/01	17:00	Domestic Vehicle Sales (unit mns)	MAR	9.9	10.1	10.2
US	04/01	17:00	Total Vehicle Sales (unit mns)	MAR	13.2	13.4	13.4

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

Key Indicators for the week of March 28 - April 1

Europe

Country	Date	Time	Event	Period	BNS	Consensus	Latest
HU	03/28	08:00	Hungary Base Rate Announcement	29-Mar	6.00	6.00	6.00
GE	03/28		Retail Sales (MoM)	FEB	- -	0.4	0.4
FR	03/29	02:45	Consumer Spending (MoM)	FEB	- -	0.5	-0.5
IT	03/29	04:00	Business Confidence	MAR	- -	102.5	103.0
UK	03/29	04:30	Net Consumer Credit (£ bns)	FEB	- -	-0.1	-0.3
UK	03/29	04:30	Mortgage Approvals (000s)	FEB	- -	46.3	45.7
GE	03/29		Consumer Price Index (MoM)	MAR P	0.5	0.4	0.5
GE	03/29		Consumer Price Index (YoY)	MAR P	2.2	2.2	2.1
GE	03/29		CPI - Brandenburg (MoM)	MAR	- -	--	0.6
GE	03/29		CPI - Bavaria (MoM)	MAR	- -	--	0.5
GE	03/29		CPI - Baden Wuerttemberg (MoM)	MAR	- -	--	0.5
GE	03/29		CPI - Hesse (MoM)	MAR	- -	--	0.6
GE	03/29		CPI - EU Harmonised (MoM)	MAR P	- -	0.4	0.6
GE	03/29		CPI - EU Harmonised (YoY)	MAR P	- -	2.2	2.2
GE	03/29		CPI - North Rhine-West. (MoM)	MAR	- -	--	0.6
GE	03/29		CPI - Saxony (MoM)	MAR	- -	--	0.5
SP	03/30	03:00	CPI (EU Harmonised) (YoY)	MAR P	- -	2.4	3.4
SP	03/30	03:00	Retail Sales (Real) (YoY)	FEB	- -	--	-4.7
IT	03/30	04:00	Hourly Wages (YoY)	FEB	- -	--	1.7
EC	03/30	05:00	Business Climate Indicator	MAR	- -	1.4	1.5
EC	03/30	05:00	Euro-Zone Consumer Confidence	MAR F	- -	-10.6	-10.6
UK	03/30	19:01	GfK Consumer Confidence Survey	MAR	- -	-30.0	-28.0
UK	03/31	02:00	Nat'wide House prices nsa (YoY)	MAR	- -	-0.6	-0.1
GE	03/31	03:55	Unemployment Change (000s)	MAR	- -	-25.0	-52.0
GE	03/31	03:55	Unemployment Rate (s.a)	MAR	- -	7.2	7.3
IT	03/31	04:00	PPI (MoM)	FEB	- -	0.8	1.1
IT	03/31	04:00	PPI (YoY)	FEB	- -	--	5.2
EC	03/31	05:00	Euro-Zone CPI Estimate (YoY)	MAR	2.3	2.4	2.4
IT	03/31	05:00	CPI - EU Harmonized (MoM)	MAR P	1.4	1.6	0.2
IT	03/31	05:00	CPI - EU Harmonized (YoY)	MAR P	2.0	2.2	2.1
BP	03/31		Base Rate	APR	- -	--	0.2
SP	03/31		Total Housing Permits (MoM)	JAN	- -	--	-0.4
SP	03/31		Current Account (€ bns)	JAN	- -	--	-3.1
RU	03/31	00:00	GDP (YoY)	4Q A	- -	4.8	2.7
IT	04/01	04:00	Unemployment Rate (s.a)	4Q	- -	8.6	8.3
IT	04/01	04:00	Unemployment Rate (SA)	FEB P	- -	8.6	8.6
EC	04/01	05:00	Euro-Zone Unemployment Rate	FEB	- -	9.9	9.9
IT	04/01	12:00	New Car Registrations (YoY)	MAR	- -	--	-20.5
IT	04/01	13:00	Budget Balance (€ bns)	MAR	- -	--	-8.0
IT	04/01	13:00	Budget Balance YTD (€ bns)	MAR	- -	--	-10.0

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

Key Indicators for the week of March 28 - April 1

Asia Pacific

Country	Date	Time	Event	Period	BNS	Consensus	Latest
PK	03/26		Benchmark Interest Rate	30-Mar	- -	14.0	14.0
VN	MAR 27-31		GDP Constant Prices YTD (YoY)	1Q	- -	--	6.8
VN	MAR 27-31		Industrial Output YTD (YoY)	MAR	- -	--	14.6
VN	MAR 27-31		Retail Sales YTD (YoY)	MAR	- -	--	23.7
TH	03/28	03:00	Total Capacity Utilization Rate ISIC	FEB	- -	--	62.1
TH	03/28	03:00	Mfg. Production Index ISIC SA (YoY)	FEB	- -	--	192.4
NZ	03/28	17:45	Trade Balance (NZD mns)	FEB	- -	269.5	11.0
JN	03/28	19:30	Job-To-Applicant Ratio	FEB	- -	0.6	0.6
JN	03/28	19:30	Overall Hhold Spending (YoY)	FEB	- -	0.0	-1.0
JN	03/28	19:30	Jobless Rate	FEB	4.7	4.9	4.9
JN	03/28	19:50	Retail Trade SA (MoM)	FEB	- -	0.5	4.1
CH	MAR 28-29		Industrial Profits YTD (YoY)	FEB	- -	--	49.4
NZ	03/29	17:45	Building Permits (MoM)	FEB	- -	-1.0	9.6
JN	03/29	19:50	Industrial Production (MoM)	FEB P	- -	-0.1	1.3
AU	03/29	20:00	HIA New Home Sales (MoM)	FEB	- -	--	2.5
AU	03/29	20:30	Job Vacancies (QoQ)	FEB	- -	--	9.8
JN	03/30	00:00	Vehicle Production (YoY)	FEB	- -	--	-6.3
SK	03/30	17:00	Business Survey- Manufacturing	APR	- -	--	96.0
SK	03/30	17:00	Business Survey- Non-Manufacturing	APR	- -	--	85.0
SK	03/30	19:00	Industrial Production (MoM)	FEB	- -	--	4.6
AU	03/30	20:30	Building Approvals (MoM)	FEB	- -	4.0	-15.9
AU	03/30	20:30	Private Sector Credit (MoM)	FEB	- -	0.3	0.3
JN	03/30	21:30	Labor Cash Earnings (YoY)	FEB	- -	0.3	0.2
SI	03/30	22:00	Bank Loans & Advances (YoY)	FEB	- -	--	16.1
JN	03/31	01:00	Housing Starts (YoY)	FEB	- -	7.4	2.7
JN	03/31	01:00	Construction Orders (YoY)	FEB	- -	--	-10.7
TH	03/31	03:30	Business Sentiment Index	FEB	- -	--	52.8
TH	03/31	03:30	Current Account Balance (USD mns)	FEB	- -	--	1090.0
TH	03/31	03:30	Total Trade Balance (USD mns)	FEB	- -	--	-588.0
TA	03/31	04:00	Benchmark Interest Rate	31-Mar	1.75	1.8	1.6
HK	03/31	04:30	Retail Sales - Volume (YoY)	FEB	- -	--	23.6
IN	03/31	07:30	Current Account Balance (USD bns)	4Q	- -	--	-15.8
NZ	03/31	17:45	Manufacturing Activity (QoQ)	4Q	- -	--	1.3
SK	03/31	19:00	Consumer Price Index (MoM)	MAR	- -	--	0.8
SK	03/31	19:00	Consumer Price Index (YoY)	MAR	- -	--	4.5
SK	03/31	19:00	Core Consumer Price Index(YoY)	MAR	- -	--	3.1
SK	03/31	20:00	HSBC Manufacturing PMI	MAR	- -	--	53.4
CH	03/31	21:00	PMI Manufacturing	MAR	55.0	54.3	52.2
SK	03/31	21:00	Ext Trade - Balance (USD mns)	MAR	- -	--	2846
TA	03/31	22:00	HSBC Taiwan Manufacturing PMI	MAR	- -	--	55.8
CH	03/31	22:30	HSBC Manufacturing PMI	MAR	- -	52.4	51.7
ID	04/01	00:00	Total Trade Balance (USD mns)	FEB	- -	1650.0	1905.8
ID	04/01	00:00	Inflation (YoY)	MAR	- -	7.0	6.8
ID	04/01	00:00	Core Inflation (YoY)	MAR	- -	4.5	4.4
JN	04/01	01:00	Vehicle Sales (YoY)	MAR	- -	--	-14.0
IN	04/01	01:30	Exports (YoY)	FEB	- -	--	32.4
IN	04/01	01:30	Imports (YoY)	FEB	- -	--	13.1
TH	04/01	03:00	Core CPI (YoY)	MAR	- -	--	1.5
TH	04/01	03:00	Consumer Price Index (YoY)	MAR	- -	--	2.9

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

Key Indicators for the week of March 28 - April 1

Latin America

Country	Date	Time	Event	Period	BNS	Consensus	Latest
BZ	03/28	07:00	FGV Construction Costs (MoM)	MAR	- -	--	0.4
BZ	03/28	07:30	Central Bank Weekly Economists Survey				
BZ	03/30	07:00	FGV Inflation IGP-M (MoM)	MAR	- -	0.7	1.0
BZ	03/30	07:00	FGV Inflation IGP-M (YoY)	MAR	- -	10.9	11.3
CL	03/30	08:00	Industrial Production (YoY)	FEB	- -	4.5	4.0
CL	03/30	08:00	Industrial Sales (YoY)	FEB	- -	--	3.9
CL	03/30	08:00	Copper Production Total (volume)	FEB	- -	--	446887
CL	03/30	08:00	Retail Sales (YoY)	FEB	- -	--	--
BZ	03/30		Central Govt Budget (BRL bns)	FEB	- -	--	14.1
CL	03/31	08:00	Unemployment Rate	FEB	- -	7.3	7.3
CO	03/31	12:00	Urban Unemployment Rate	FEB	- -	12.9	14.7
CL	04/01	07:30	Central Bank Meeting Minutes				
BZ	04/01	08:00	Industrial Production sa (MoM)	FEB	- -	0.7	0.2
BZ	04/01	08:00	Industrial Production (YoY)	FEB	- -	4.6	2.5
BZ	04/01	09:00	PMI Manufacturing	MAR	- -	--	54.6
BZ	04/01	10:00	Trade Balance (FOB) - Monthly (USD mns)	MAR	- -	--	1199
CO	04/01		Monetary Policy Meeting Minutes				
PE	04/01		Consumer Price Index (MoM)	MAR	- -	0.5	0.4
PE	04/01		Consumer Price Index (YoY)	MAR	- -	2.4	2.2

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

Global Auctions for the week of March 28 - April 1

North America

Country	Date	Time	Event
US	03/28	00:00	U.S. Fed to Purchase USD5.5-7.5 Bln Notes/Bonds
US	03/28	11:30	U.S. to Sell 3-Month Bills
US	03/28	11:30	U.S. to Sell 6-Month Bills
US	03/28	13:00	U.S. to Sell 2-Year Notes
US	03/29	11:00	U.S. Fed to Purchase USD1-2 Bln TIPS
US	03/29	11:30	U.S. to Sell 4-Week Bills
US	03/29	13:00	U.S. to Sell 5-Year Notes
US	03/30	11:00	U.S. Fed to Purchase USD5.5-7.5 Bln Notes/Bonds
US	03/30	13:00	U.S. to Sell 7-Year Notes
US	03/31	11:00	U.S. Fed to Purchase USD1.5-2.5 Bln Notes/Bonds

Europe

Country	Date	Time	Event
IT	03/28	05:00	Italy to Sell EUR2.5 Bln Zero 2012 Bonds
IT	03/28	05:00	Italy to Sell EUR8 Bln 183-Day Bills
GE	03/28	05:15	Germany to Sell EU3 Bln 12-Mth Bills
BE	03/28	05:30	Belgium Cancels Bond (OLO) Auction of March 28
FR	03/28	09:00	France to Sell EUR3.5 Bln 84-Day Bills
FR	03/28	09:00	France to Sell EUR2 Bln 189-Day Bills
FR	03/28	09:00	France to Sell EUR1 Bln 231-Day Bills
FR	03/28	09:00	France to Sell EUR1 Bln 343-Day Bills
IT	03/29	05:00	Italy to Sell Up to EUR1.75 Bln 2.1% I/L 2016 Bonds
SZ	03/29	05:30	Switzerland to Sell 3-Month Bills
IT	03/30	05:00	Italy to Sell Floating 2017 Bonds
IT	03/30	05:00	Italy to Sell 3% 2014 Bonds
IT	03/30	05:00	Italy to Sell 4.75% 2021 Bonds
SW	03/30	05:10	Sweden to Sell SEK10 Bln 173-Day Bills
RU	03/30	06:00	Russia to Sell Up to RUB10 Bln OFZ Bonds
RU	03/30	06:00	Russia to Sell Up to RUB10 Bln OFZ Bonds

Source: Bloomberg, Scotia Economics.

Global Auctions for the week of March 28 - April 1

Asia Pacific

Country	Date	Time	Event
SK	03/26	22:30	Korea to Sell KRW900 Bln 20-Year Bonds
MA	03/28	00:00	Bank Negara to Sell MYR1 Bln Islamic Notes
MA	03/28	00:00	Bank Negara to Sell MYR2 Bln 210-Day Notes
MA	03/28	00:00	Bank Negara to Sell MYR1.5 Bln 364-Day Notes
SI	03/28	00:00	Singapore To Sell S$3.9 billion 91-Day T-Bills
TH	03/28	23:00	Bank of Thailand to Sell THB25 Bln 28D Bills
TH	03/28	23:00	Bank of Thailand to Sell THB20 Bln 91D Bills
TH	03/28	23:00	Bank of Thailand to Sell THB12 Bln 182D Bills
TH	03/28	23:00	Bank of Thailand to Sell THB40 Bln 3-Year Bonds
HK	03/28	23:30	Hong Kong to Sell HKD9 Bln 182-D Bills
HK	03/28	23:30	Hong Kong to Sell HKD28.016 Bln 91-D Bills
HK	03/28	23:30	Hong Kong to Sell HKD1.3 Bln 364-D Bills
SI	03/29	00:00	Singapore To Sell S$2.5 billion 5-Year Bonds
TA	03/29	00:30	Taiwan to Sell TWD20 Bln 273-Day T-Bills
PH	03/29	01:00	Philippines to Sell PHP 9 Bln 20-Yr Govt Bonds
TH	03/29	23:00	Thailand to Sell THB10 Bln Bonds due 2017
MA	03/30	00:00	Malaysia to Sell MYR4 Bln 3.5-Year Islamic Bonds
MA	03/30	00:00	Bank Negara to Sell MYR1 ln 364-Day Notes
MA	03/30	00:00	Bank Negara to Sell MYR2 Bln 210-Day Notes
MA	03/30	00:00	Bank Negara to Sell MYR500 Mln 364-Day Islamic Notes
IN	03/30	07:30	India to Sell INR 50Bln 91-Day Bills
IN	03/30	07:30	India to Sell INR 20Bln 182-Day Bills
NZ	03/30	21:30	New Zealand Plans to Sell Government Bonds
MA	03/31	00:00	Malaysia to Sell MYR80 Mln 91-Day Bills
MA	03/31	00:00	Malaysia to Sell MYR100 Mln 182-Day Bills
CH	03/31	02:00	Agricultural Dev Bank to Sell CNY15 Bln 3-Year Bonds
JN	03/31	23:35	Japan to Sell 3-Month Bills

Source: Bloomberg, Scotia Economics.

Events for the week of March 28 - April 1

North America

Country	Date	Time	Event
US	03/26	04:00	Fed's Bullard to Speak on Macroeconomic Policy in Marseilles
CA	03/26	10:15	Bank of Canada Governor Carney Speaks in Calgary
CA	03/28	12:30	Bank of Canada Deputy Governor Boivin Speaks in Montreal
US	03/28	12:40	Fed's Lockhart to Speak on U.S. Economy in Atlanta
US	03/28	15:40	Fed's Evans Speaks to Reporters in South Carolina
US	03/28	16:00	Fed's Evans Speaks in South Carolina on Economy
US	03/28	18:00	Fed's Rosengren Speaks in Boston
US	03/29	06:00	Fed's Bullard Speaks on Monetary Policy in Prague
CA	03/29	16:00	Ontario releases provincial budget
US	03/30	13:00	Fed's Bullard Speaks at UBS Dinner in London
US	03/30	14:00	Fed's Lacker Testifies on Dodd-Frank at Hearing
US	03/30	14:30	Fed's Hoenig Speaks to London School of Economics
US	03/31	10:30	Fed's Lacker to Speak at 2011 Credit Symposium in Charlotte
US	03/31	12:30	Fed's Tarullo to Speak at 2011 Credit Symposium in Charlotte
US	04/01	08:15	Fed's Plosser Speaks on Economy in Harrisburg, Pennsylvania
US	04/01	09:00	Fed's Dudley to Speak in San Juan, Puerto Rico
CA	04/01	12:00	Former Bank of Canada Deputy Governor Pierre Duguay in Toronto

Europe

Country	Date	Time	Event
GE	03/27		German Elections in Baden-Wuerttemberg, Rhineland-Palatinate
SZ	03/28	05:15	IMF Holds Press Briefing on Examination of Switzerland
HU	03/28	08:00	Hungary Base Rate Announcement
EC	03/28	09:00	ECB's Trichet Speaks at Event in Paris
EC	03/28	09:30	ECB Announces Bond Purchases
EC	03/28	12:00	ECB's Bini Smaghi Speaks in Milan
HU	03/29	03:00	Hungary Economy Minister Matolcsy Speaks at Conference
SP	03/29	06:00	Spain Publishes Central Government Budget Data
LX	03/29	10:00	ECB's Mersch Speaks at Luxembourg Conference
EC	03/30	04:30	ECB's Bini Smaghi Speaks in Moscow
PO	03/30	07:30	Bank of Portugal Governor Speaks at Luncheon in Lisbon
IR	03/30	19:00	Irish Central Bank Releases Banking Stress Test Results
EC	03/30	21:15	ECB's Trichet Speaks at Event in Nanjing, China
EC	03/30		European Commission Issues Quarterly Report on the Euro Area
GE	MAR 30-31		Weber, Rehn, Juncker, Schaeuble at Berlin Banking Congress
GE	03/31	07:45	Merkel Addresses German Banking Congress in Berlin
BP	03/31		Base Rate Announcement
RO	03/31		Interest Rate Announcement
EC	04/01	10:40	ECB's Bini Smaghi Speaks in Cernobbio, Italy

Asia Pacific

Country	Date	Time	Event
PK	03/26		Benchmark Interest Rate
IN	03/27	01:30	Finance Minister to Address Central Bank of India Event
AU	03/28	18:00	RBA's Edey Gives Speech at Banking Conference in Sydney
TA	03/31	04:00	Benchmark Interest Rate

Latin America

Country	Date	Time	Event
PO	03/29	03:00	Brazilian President Dilma Rousseff Visits Portugal

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	April 12, 2011	1.00	--
Federal Reserve – Federal Funds Target Rate	0.25	April 27, 2011	0.25	--
Banco de México – Overnight Rate	4.50	April 15, 2011	4.50	--

Alongside increased data volatility - this week's disappointing retail sales report included - the upcoming federal election raises uncertainty, supporting our view that the BoC will likely remain on hold until October. On Saturday, BoC Governor Carney will provide the Bank's first public comments since the last rate decision, events in Japan and escalated unrest in the MENA region. In a week filled with Fed speak, regional Presidents Fisher and Plosser - both voting members and vocal hawks - continued to urge vigilance.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	1.00	April 7, 2011	1.00	1.25
Bank of England – Bank Rate	0.50	April 7, 2011	0.50	0.50
Swiss National Bank – Libor Target Rate	0.25	June 16, 2011	0.25	--
Central Bank of Russia – Refinancing Rate	8.00	April 29, 2011	8.25	--
Hungarian National Bank – Base Rate	6.00	March 28, 2011	6.00	6.00
Central Bank of the Republic of Turkey – 1 Week Repo Rate	6.25	April 21, 2011	6.25	--

We expect the Hungarian Central Bank to keep monetary conditions unchanged following the Monetary Council meeting on March 28th. The benchmark interest rate has been raised by 75 basis points to 6.0% since November 2010.

Asia Pacific

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Japan – Target Rate	0.10	April 7, 2011	0.10	--
Reserve Bank of Australia – Cash Target Rate	4.75	April 5, 2011	4.75	4.75
Reserve Bank of New Zealand – Cash Rate	2.50	April 27, 2011	3.00	--
People's Bank of China – Lending Rate	6.06	TBA	6.06	--
Reserve Bank of India – Repo Rate	6.75	May 3, 2011	6.50	--
Hong Kong Monetary Authority – Base Rate	0.50	TBA	0.50	--
Central Bank of China Taiwan – Discount Rate	1.63	March 31, 2011	1.75	1.75
Bank Negara Malaysia – Overnight Policy Rate	2.75	May 5, 2011	2.75	--
Bank of Korea – Bank Rate	3.00	April 11, 2011	3.00	--
Bank of Thailand – Repo Rate	2.50	April 20, 2011	2.50	--
Bank Indonesia – Reference Interest Rate	6.75	April 12, 2011	6.75	--

We expect the central bank of Taiwan to raise the benchmark interest rate 12.5 basis points to 1.75%. Economic indicators have continued to show rising momentum in activity with the unemployment rate on a clear downward trend. Moreover, the Taiwanese dollar has weakened in recent weeks as a result of the Japanese catastrophe, providing an opportunity for a switch in the monetary policy stance.

Latin America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	11.75	April 20, 2011	12.25	--
Banco Central de Chile – Overnight Rate	4.00	April 12, 2011	4.25	--
Banco de la República de Colombia – Lending Rate	3.50	April 29, 2011	3.50	--
Banco Central de Reserva del Perú – Reference Rate	3.75	April 7, 2011	4.00	--

Monetary authorities' reports will indicate the pace of further monetary tightening in Latin America. Peru and Brazil will release inflation data for March, while Colombia's and Chile's Monetary Policy Meeting Minutes will provide more information regarding forthcoming policy announcements.

Africa

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
South African Reserve Bank – Repo Rate	5.50	May 12, 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	4.4				
Canada	2.1	3.1	3.1	2.6	2.1	1.8	2.4	2.2
United States	1.8	2.8	3.0	2.7	2.6	1.6	1.9	1.8
Mexico	1.9	5.5	4.3	3.8	4.9	4.4	4.1	4.0
United Kingdom	2.7	1.3	1.4	1.7	2.2	3.7	3.6	2.9
Euro zone	1.2	1.7	1.4	1.6	2.1	2.2	2.4	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	8.7	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)	0.98	0.97	0.96	0.95	0.95	0.94	0.93	0.92
Canadian Dollar (CADUSD)	1.02	1.03	1.04	1.05	1.05	1.06	1.08	1.09
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	97	100
Brent Oil (/bbl)	50	80	110	112
Nymex Natural Gas (/mmbtu)	5.95	4.40	4.40	4.75
Copper (/lb)	1.78	3.42	4.30	4.00
Zinc (/lb)	0.73	0.98	1.09	1.09
Nickel (/lb)	7.11	9.89	10.90	8.75
Gold, London PM Fix (/oz)	522	1,225	1,425	1,350
Pulp (/tonne)	668	960	945	935
Newsprint (/tonne)	572	607	675	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)	3.1	1.8	3.3		
Current Acc. Bal. (C$B, ar)	-50.0	-67.9	-44.2		
Merch. Trade Bal. (C$B, ar)	-9.1	-26.1	0.1	1.4	(Jan)
Industrial Production	4.7	7.9	5.9	6.3	(Dec)
Housing Starts (000s)	192	192	179	182	(Feb)
Employment	1.4	1.8	1.7	1.9	(Feb)
Unemployment Rate (%)	8.0	8.0	7.7	7.8	(Feb)
Retail Sales	5.1	3.7	4.5	3.5	(Jan)
Auto Sales (000s)	1559	1609	1556	1513	(Dec)
CPI	1.8	1.8	2.3	2.2	(Feb)
IPPI	1.0	1.0	2.6	-2.7	(Jan)
Pre-tax Corp. Profits	18.4	15.3	16.2		

United States	2010	10Q3	10Q4	Latest	
Real GDP (annual rates)	2.9	2.6	3.1		
Current Acc. Bal. (US$B, ar)	-470	-502	-453		
Merch. Trade Bal. (US$B, ar)	-647	-683	-625	-717	(Jan)
Industrial Production	5.8	6.9	5.9	5.3	(Feb)
Housing Starts (millions)	0.59	0.59	0.53	0.48	(Feb)
Employment	-0.8	-0.1	0.5	1.0	(Feb)
Unemployment Rate (%)	9.6	9.6	9.6	8.9	(Feb)
Retail Sales	6.9	6.1	8.1	9.5	(Feb)
Auto Sales (millions)	11.5	11.6	12.3	13.4	(Feb)
CPI	1.6	1.2	1.3	2.1	(Feb)
PPI	4.2	3.8	3.9	5.6	(Feb)
Pre-tax Corp. Profits	36.8	34.8	16.1		

Mexico	2010	10Q3	10Q4	Latest	
Real GDP	5.5	5.3	4.6		
Current Acc. Bal. (US$B, ar)	-5.7	-7.7	-14.5		
Merch. Trade Bal. (US$B, ar)	-3.1	-9.2	-4.6	3.3	(Feb)
Industrial Production	6.1	6.2	4.7	6.6	(Jan)
CPI	4.2	3.7	4.2	3.6	(Feb)

Brazil	2010	10Q3	10Q4	Latest	
Real GDP	6.7	5.9	4.2		
Current Acc. Bal. (US$B, ar)	-47.5	-45.6	-47.9		
Merch. Trade Bal. (US$B, ar)	20.3	19.6	30.1	14.4	(Feb)
Industrial Production	10.5	8.1	3.5	1.9	(Jan)
CPI	5.1	5.0	6.1	6.9	(Feb)

Argentina	2010	10Q3	10Q4	Latest	
Real GDP	9.2	8.6	9.2		
Current Acc. Bal. (US$B, ar)	3.6	3.7	-0.8		
Merch. Trade Bal. (US$B, ar)	12.1	12.0	6.2	7.3	(Feb)
Industrial Production	9.7	9.3	10.6	9.0	(Feb)
CPI	66.4	89.8	54.9	0.0	(Jun)

Italy	2010	10Q3	10Q4	Latest	
Real GDP	1.2	1.4	1.5		
Current Acc. Bal. (US$B, ar)	-0.07	-0.05	-0.08	-0.13	(Jan)
Merch. Trade Bal. (US$B, ar)	-36.6	-22.9	-44.4	-105.0	(Jan)
Industrial Production	5.4	6.3	4.1	0.9	(Jan)
CPI	1.6	1.6	1.8	2.3	(Feb)

Germany	2010	10Q3	10Q4	Latest	
Real GDP	3.5	3.9	4.0		
Current Acc. Bal. (US$B, ar)	188.0	165.7	250.8	115.2	(Jan)
Merch. Trade Bal. (US$B, ar)	201.5	207.6	219.8	189.3	(Jan)
Industrial Production	10.0	10.2	11.5	12.4	(Jan)
Unemployment Rate (%)	7.7	7.6	7.5	7.3	(Feb)
CPI	1.1	1.2	1.5	2.1	(Feb)

France	2010	10Q3	10Q4	Latest	
Real GDP	1.7	2.0	1.7		
Current Acc. Bal. (US$B, ar)	-52.7	-41.8	-88.6	-60.9	(Jan)
Merch. Trade Bal. (US$B, ar)	-38.7	-42.0	-38.3	-52.9	(Jan)
Industrial Production	5.8	5.2	5.8	5.4	(Jan)
Unemployment Rate (%)	9.8	9.7	9.7	9.6	(Jan)
CPI	1.5	1.5	1.6	1.7	(Feb)

Euro Zone	2010	10Q3	10Q4	Latest	
Real GDP	1.7	1.9	2.0		
Current Acc. Bal. (US$B, ar)	-77	-43	-41	-314	(Jan)
Merch. Trade Bal. (US$B, ar)	0.0	43.0	53.2	-216.0	(Jan)
Industrial Production	7.1	7.1	7.9	6.0	(Jan)
Unemployment Rate (%)	9.9	9.9	9.9	9.9	(Jan)
CPI	1.6	1.7	2.0	2.4	(Feb)

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)	-151.4	-159.3	-169.6	-133.6	(Jan)
Industrial Production	2.0	3.0	3.3	4.5	(Jan)
Unemployment Rate (%)	7.9	7.8	7.9	8.0	(Dec)
CPI	3.3	3.1	3.4	4.3	(Feb)

Japan	2010	10Q3	10Q4	Latest	
Real GDP	4.0	4.7	2.5		
Current Acc. Bal. (US$B, ar)	194.8	227.5	172.5	67.1	(Jan)
Merch. Trade Bal. (US$B, ar)	74.7	70.4	67.2	80.8	(Feb)
Industrial Production	16.0	12.9	5.0	1.8	(Jan)
Unemployment Rate (%)	5.1	5.0	5.0	4.9	(Jan)
CPI	-0.7	-0.8	0.1	0.0	(Feb)

Australia	2010	10Q3	10Q4	Latest	
Real GDP	2.7	2.7	2.7		
Current Acc. Bal. (US$B, ar)	-31.8	-29.2	-34.4		
Merch. Trade Bal. (US$B, ar)	19.1	27.5	25.7	18.4	(Jan)
Industrial Production	4.3	4.2	-0.3		
Unemployment Rate (%)	5.2	5.2	5.2	5.0	(Feb)
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)	182.5	260.4	249.6	-87.9	(Feb)
Industrial Production	13.5	13.3	13.5	14.9	(Feb)
CPI	4.6	3.6	4.6	4.9	(Feb)

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	29.5	(Feb)
Industrial Production	16.6	12.9	9.9	15.1	(Jan)
CPI	3.0	2.9	3.6	4.5	(Feb)

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

Source: Bloomberg, Scotia Economics.

Interest Rates (%, end of period)

Canada	10Q3	10Q4	Mar/18	Mar/25*	United States	10Q3	10Q4	Mar/18	Mar/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	0.92	0.92	3-mo. T-bill	0.15	0.12	0.06	0.07
10-yr Gov't Bond	2.76	3.12	3.17	3.22	10-yr Gov't Bond	2.51	3.29	3.27	3.40
30-yr Gov't Bond	3.36	3.53	3.71	3.70	30-yr Gov't Bond	3.68	4.33	4.42	4.46
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US$B)	59.4	57.0	58.6	(Jan)	FX Reserves (US$B)	122.1	121.4	122.9	(Jan)
Germany					**France**				
3-mo. Interbank	0.86	0.96	1.11	1.08	3-mo. T-bill	0.51	0.40	0.74	0.82
10-yr Gov't Bond	2.28	2.96	3.19	3.26	10-yr Gov't Bond	2.66	3.36	3.53	3.61
FX Reserves (US$B)	62.4	62.3	62.9	(Jan)	FX Reserves (US$B)	52.2	55.8	56.4	(Jan)
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	0.70	0.67	3-mo. T-bill	4.85	4.85	4.85	4.85
FX Reserves (US$B)	300.1	300.3	309.7	(Jan)	10-yr Gov't Bond	2.95	3.40	3.51	3.59
					FX Reserves (US$B)	67.2	68.3	72.7	(Jan)
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	0.14	0.14	10-yr Gov't Bond	4.96	5.55	5.40	5.44
10-yr Gov't Bond	0.94	1.13	1.21	1.23	FX Reserves (US$B)	38.1	38.7	37.0	(Jan)
FX Reserves (US$B)	1077.4	1061.5	1060.3	(Jan)					

Exchange Rates (end of period)

USDCAD	1.03	1.00	0.98	0.98	¥/US$	83.53	81.12	80.58	81.17
CADUSD	0.97	1.00	1.02	1.02	US¢/Australian$	96.71	102.33	99.59	102.73
GBPUSD	1.572	1.561	1.623	1.608	Chinese Yuan/US$	6.69	6.61	6.57	6.56
EURUSD	1.363	1.338	1.418	1.414	South Korean Won/US$	1140	1126	1127	1114
JPYEUR	0.88	0.92	0.87	0.87	Mexican Peso/US$	12.594	12.340	12.053	11.941
USDCHF	0.98	0.94	0.90	0.91	Brazilian Real/US$	1.687	1.661	1.666	1.656

Equity Markets (index, end of period)

United States (DJIA)	10788	11578	11859	12244	U.K. (FT100)	5549	5900	5718	5913
United States (S&P500)	1141	1258	1279	1318	Germany (Dax)	6229	6914	6664	6958
Canada (S&P/TSX)	12369	13443	13790	14111	France (CAC40)	3715	3805	3810	3978
Mexico (Bolsa)	33330	38551	35622	36902	Japan (Nikkei)	9369	10229	8963	9536
Brazil (Bovespa)	69430	69305	66880	68095	Hong Kong (Hang Seng)	22358	23035	22300	23159
Italy (BCI)	1033	1048	1077	1113	South Korea (Composite)	1873	2051	1981	2054

Commodity Prices (end of period)

Pulp (US$/tonne)	990	960	960	960	Copper (US$/lb)	3.65	4.42	4.32	4.41
Newsprint (US$/tonne)	638	640	640	640	Zinc (US$/lb)	0.99	1.10	1.05	1.07
Lumber (US$/mfbm)	236	308	294	290	Gold (US$/oz)	1307.00	1405.50	1420.00	1436.00
WTI Oil (US$/bbl)	79.97	91.38	101.07	105.58	Silver (US$/oz)	22.07	30.63	35.15	37.68
Natural Gas (US$/mmbtu)	3.87	4.41	4.17	4.27	CRB (index)	286.86	332.80	351.15	359.76

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

Scotia Economics

Scotia Plaza 40 King Street West, 63rd Floor
Toronto, Ontario Canada M5H 1H1
Tel: (416) 866-6253 Fax: (416) 866-2829
Email: scotia_economics@scotiacapital.com

For general and publication-related inquiries, contact us by telephone, email and/or fax.