

Global Views

Weekly commentary on economic and financial market developments

May 13, 2011

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Canada, UK, Japan and Lat-Am Will Be The Key Regions To Watch

- Please see our full indicator, central bank, auction and event calendars on pp. A1-A8.

This will be a key week for BoC watchers and we think the balance of domestic developments will be neutral to dovish for CAD and the Canada curve. The same will apply to Japan as markets digest GDP figures that will encompass the disaster effects. Not so for the UK perhaps, on possible inflation upsidess. Outside of the majors, EM followers will be watching Q1 GDP figures for Mexico and several South American economies.

Data and speech flow carry the potential to whipsaw pricing at the front end of the **Canada** curve and in the C\$. Key will be Friday's CPI report, after the adrenaline boost that was provided to hawks in the prior month's stronger-than-expected and broadly based rise. Another upside surprise would clearly spark a sell-off at the front-end and CAD appreciation, but our bias is to expect a much more moderate print for April. May's print a month from now should reverse course at least on headline pressures as commodity gains have been eroded of late. The prior March inflation report was difficult to read. One possible interpretation behind the broadly based rise in core was that refunded HST credits are dropping out as a downward influence on prices. Recall that Ontario and BC introduced their harmonized sales taxes in concert with the federal government last July 1st. Refunded tax credits were offered to businesses to ease the transition. It was always assumed that some of this credit would be passed along to consumers through lower prices. Since inflation generally undershot the BoC's expectations into early 2011, what may have happened is that this effect dropped out as a recent influence as either a one-off or short-lived effect to the upside on prices. What may have also happened is that companies tested pricing power, but we think repeated attempts at doing so will come at the expense of sales volumes that in turn would constrain inflation. This is due to zero real wage growth in Canada, and because record highs in real consumption and housing variables could make for a pickier and more price-conscious late-cycle Canadian consumer. Also recall that the spike in March prices came off a weak base effect in February, but that the April reading will arrive on the heels of a high base effect. In addition to CPI, we'll be watching BoC Governor Carney's speech on the outlook on Monday. Guidance provided in his recent CNBC interview was to look through an expected strong Q1 GDP print toward a much softer Q2 reading partly as Japan's shocks hit Canada — Ontario's auto industry in particular. The BoC has also guided markets to expect near-term upsidess to yearly inflation rates that should ebb into 2011H2-2012 similar to guidance provided by the Fed and BoE. Friday's retail sales will be for March, and since we already know that consumer prices spiked significantly that month, look for a strong gain in the nominal sales print but the second trade will cut to the inflation adjusted print that we expect to be much softer. Monday's manufacturing report will also provide data risk, and a 5-year auction occurs in the middle of it all.

There will be three key developments to watch in **US** markets next week: firm QE expiration talk in the FOMC minutes on Wednesday; key Fed speeches throughout the week; and the prime source of data risk comes from the Philly Fed manufacturing print on Thursday since it serves as key input to formulating views for the next ISM manufacturing release. Housing and industrial production data are lower forms of risk in our view. A 10 year TIPS reopening on Thursday follows another soft inflation report for the US economy.

Asian markets will be watching Wednesday evening's Q1 GDP report out of Japan very closely and with low expectations related to the severe shock effect that struck in the final month of the quarter. This will build upon itself into Q2, and electricity supply disruptions will be ongoing throughout the summer not just due to Fukushima's troubles but also due to recently announced plans to shut down nuclear reactors elsewhere for targeted upgrades. The BoJ's meeting will be influenced in tone by the GDP figures, but additional measures are unlikely. RBA minutes on Monday evening will be parsed for signs regarding the length of pause that the RBA will pursue so the A\$ is at risk. New Zealand releases its fiscal budget on Wednesday evening

Key **European** market risks will be focused upon the **UK** and EU Finance Minister meetings. UK CPI pressures are expected to accelerate, teeing up pound appreciation and heightened sensitivity to Wednesday's BoE minutes and the jobs report. UK retail sales land on Thursday, and will follow a very mixed performance for inflation adjusted sales so far this year. Monday's euro zone CPI release follows the recent increase in the euro zone's inflation forecast. A Portuguese bill auction could feed the pain trade in peripheral spreads.

Demand Conditions in China Remain Steady; Supply Affected by Japan Shock

- **Recently published industrial output data point to a slowdown concentrated in the auto sector that is associated with the interruption of Japanese supply chains.**
- **Demand conditions in the mainland remain well supported; moderate monetary tightening to continue.**

The Chinese economy will stay on a steady growth path in the coming months as our initial perception of accelerating activity is partially dampened by supply constraining factors. Indeed, notwithstanding interest rate and reserve requirement increases, liquidity remains abundant in the system, while the latest industrial production data show that supply disruptions are affecting output with capacity limits continuing to be tested almost on all fronts.

Evidence that demand remains well supported can be found in rising fixed asset investment, local credit conditions, neighboring country exports data, and the country's inflationary record itself.

Fixed asset investment (FAI) in non-farm sectors accelerated during March and April 2011, with the annual growth rate exceeding 30% y/y and well above the 25% y/y average of 2010. This is the case for both the manufacturing and construction sectors, where yearly rates of growth in these two months have reached over 35% and 45%, respectively, on average.

Local credit conditions in China display a stable pattern with no evidence of severe tightening in loans outstanding. Annual growth in financial disbursements remains well entrenched within the 15-20% range where it stabilized after the pickup to over 35% y/y in late 2009 and 2010 as a result of a concerted response to the global crisis of 2008. Interestingly, local liquidity conditions were rising at the turn of the year exactly at the time when the People's Bank of China (PBoC) decided to start a more formal monetary normalization process by increasing the benchmark short-term lending rate in October and December of 2010.

The structure of international trade transactions of China's neighbors in Asia has changed dramatically. In recent years, the mainland has become their most important partner, surpassing the US, Europe or Japan. Recent exports data from these neighboring countries point to stability, or even a pickup in some cases. Foreign shipments coming out of South Korea, Malaysia, Thailand, Indonesia, Singapore have displayed an upward trend at some point in the first four months of 2011. Only in Japan and the Philippines can we observe export growth slowing down. This is all consistent with a slight tilt upwards in the trend of Chinese imports, hardly pointing to a demand slowdown.

The previous argument is further strengthened by the fact that the currencies of most of these countries have been strengthening vis-à-vis the Chinese yuan (CNY). Indeed, after the global recession, Asian exchange rates (excluding the yen) weakened following one of two patterns: either strengthened back rapidly (the case of the Taiwanese dollar, the Thai baht and the Malaysian ringgit), or appreciated steadily (the case of the Korean won). Given that the CNY remained fixed until mid-2010, this implies that all these countries' exports have been rising in value in CNY terms, with signs of no slowdown in foreign sales implying scant evidence of a fall in demand from China.

Recently published IP data project the effect of supply disruptions, not a slowdown in demand. Indeed, focusing on data in volume terms for key sectors the canvass that emerges is one of steadiness in production with some adverse effect in the supply of vehicle output and corresponding inputs. As can be observed from the adjacent chart, a seasonally adjusted index of output from several industries shows a severe retrenchment in automobile output during April (latest observation). It is important to note that the fall in the index during

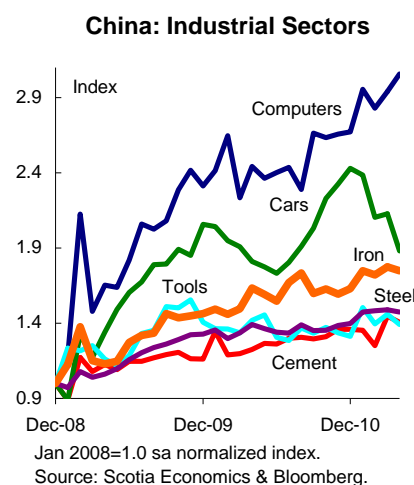
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February has to do with the anniversary of the Chinese new year, with the slight pickup during March consistent with a steady rise in car output since mid-2010.

The rest of the industries highlight steady levels that remain in most cases above late 2010 observation, with the loss of momentum in steel production consistent with the fall in automobiles as the former is a key input.

Finally, in the following table a comparison is made between the April 2011 observation and records for April 2010, the average of the past three months, and the average of the past six months for data in volume terms and seasonally adjusted. In summary, when looking more closely at the recent evolution of industry shipments, a double digit fall in automobile output stands out.



Shipment Volume Growth in April

	YOY	past 3 months	past 6 months
Computers	29.3	5.1	9.9
Cement	11.0	4.0	4.4
Autos	6.0	-14.7	-17.0
Electric Tools	-4.5	-4.3	-0.4
Steel	8.2	-0.5	3.1
Iron Ore	9.9	0.0	3.9

Source: Scotia Economics with Bloomberg data.

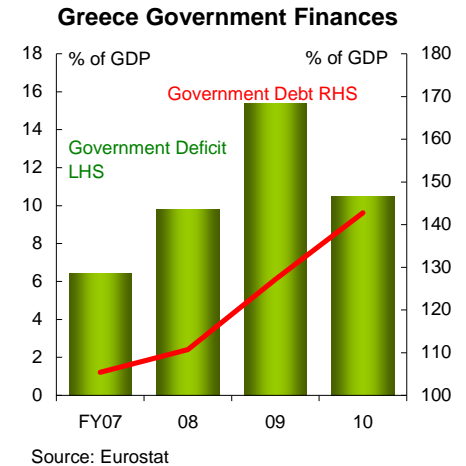
Finally, on the inflationary front, observations of rising price pressures have recently depicted a moderation in food inflation (which now seems to have peaked), and some spillover into non-food items. Annual inflation for non-food items is climbing higher gradually to a still very manageable 2.6% y/y in April. This all points to the stability of local demand conditions. We therefore continue to expect inflation to remain high in coming months, or even rise because of base effects (recall that inflation last year was very low in China coming out of negative observations registered in the second-half of 2009), with growth continuing and inflation biased higher we look forward to further monetary tightening and strict implementation of property sales constraining measures, and expect three additional interest rate increases that would take the short-term lending rate to 7.06% at end-2011.

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Euro Zone — and Greece's EU Membership — to Remain Intact

- **Withdrawal from the euro zone would be a very costly policy path for Greece, resulting in currency and banking crises together with a deep economic recession and sovereign default.**

The possibility of Greece exiting from the euro zone has been at the center of investor focus this week. We consider this speculation to be lacking any fundamental foundation. A country's withdrawal from the European Economic and Monetary Union (EMU) would be very costly in both economic and political terms. It would severely damage the country's international relations following decades of continued progress in European integration that allows for free movement of capital and labour, and culminates in the fully integrated financial system. While this article focuses on the economic consequences of a withdrawal from the euro, those interested in the practical side of such process may refer to the European Central Bank's Working Paper¹ that notes that "a Member State's exit from EMU, without a parallel withdrawal from the EU, would be legally inconceivable; and that, while perhaps feasible through indirect means, a Member State's expulsion from the EU or EMU, would be legally next to impossible."



If Greece exited the euro in the current circumstances, economic consequences would be excruciating, particularly for the withdrawing country itself. Notwithstanding the costs involved in introducing a new currency, the "new drachma" would initially lack investor confidence resulting in capital flowing out of the country, with the currency depreciating dramatically. Some argue that devaluation is what Greece needs at the moment; however, an uncontrolled currency crisis is unlikely a resolution to the country's economic and structural challenges. Worth noting is that Greece devalued its drachma several times in the 1980's and 1990's, with little evidence that it improved the country's economic fundamentals. Greece's problems result from structural issues of governance that cannot sustainably be solved by currency devaluation, only by far-reaching reforms that require strong political will for an extended period of time.

Following the likely collapse of the new currency, the risk of hyperinflation would emerge. Private spending would fall dramatically since wage adjustments would not follow inflationary developments. The central bank would be required to tighten monetary policy drastically to limit hyper-inflationary pressures at a time of recessionary economic conditions. Indeed, a deeper economic recession would be unavoidable. Since the liabilities of the government would remain denominated in the euro while its revenues would be in the new depreciated currency, servicing its debt would be impossible. The same would apply to the private sector, both companies and households. The government would default on its debt obligations, while many companies and households would also have to declare bankruptcy, resulting in major write-offs for the banking sector. Unemployment would skyrocket as both the public and private sectors would announce wide lay-offs, further deepening the recession.

An introduction of the "new drachma" would likely result in massive bank-runs as people and companies would convert their savings into the euro on the back of lack of confidence in the new currency. As a result of the banking crisis following bank-runs and the devastation of the banks' balance sheets, the financial sector would require vast state intervention that is something that the Greek government is not able to provide in its

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current state, leading to a series of banking failures. While Greece is a small economy in the euro zone (accounting for 2.5% of the EMU's total GDP) the impacts of a banking crisis of this extent would be felt widely throughout the region.

An unavoidable government default would leave Greece out of international capital markets for an extended period of time, forcing it to seek assistance from the International Monetary Fund (IMF). An IMF-supervised economic program including strict austerity requirements would follow within the context of even more challenging economic fundamentals than the country is currently facing. The sovereign default together with investor expectations of further devaluations would be reflected in the country risk premium, and currency and interest rate risks for years to come.

Any country's policymakers' primary objective is to maximize the wellbeing of its citizens. Therefore, it is irrational to assume that Greece would choose a policy route that would end up minimizing the society's welfare. We maintain our view that the euro zone's current approach to provide assistance to its troubled member economies is the optimal strategy in the context of very challenging circumstances.

¹ Phoebus Athanassiou, "Withdrawal And Expulsion from the EU and EMU - Some Reflections", European Central Bank, Legal Working Paper Series No. 10, December 2009.

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Stepped-Up Commodity Price Volatility

- Sharp increase in CME margins triggers an unwinding of silver positions, leading commodity prices down.
- Jitters over Chinese industrial demand also dampen copper prices near term

After soaring in April, the 'Scotiabank Commodity Price Index' likely corrected sharply in the opening weeks of May (to a still very high level). Jitters over a potential growth slowdown in China and concern over the impact of high food & energy prices on global consumer spending & growth have been percolating through commodity markets over the past month. However, a severe increase in CME margin requirements for silver futures trading appears to have been the immediate trigger for the commodity price correction of early May.

The CME hiked margin requirements for silver trading by 84% in multiple moves over a two week period from April 25 through May 5 to stem heightened investor risk. After spot prices soared to a near-term peak of US\$49.82 per ounce on April 25 — close to the all-time US\$50.36 record during the Hunt Brothers' 'Silver Squeeze' in January 1980 — investors and traders rapidly unwound silver positions. The sharp drop in silver prices of more than US\$15 to US\$34.70 by May 5 likely unnerved markets, contributing to an unwinding of positions in many (though not all) commodity markets. Silver — a 'precious' as well as an 'industrial' metal used in electronics — has a large retail as well as institutional investor 'following' in the United States.

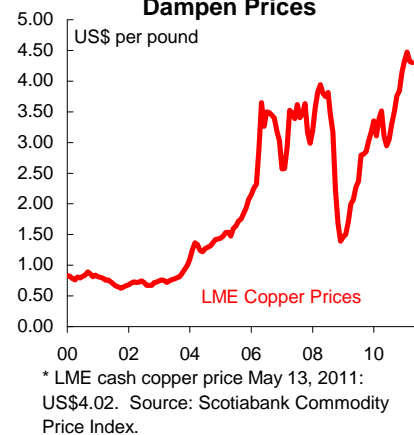
Base metal prices — particularly copper — also eased back, following the release of April industrial production data for China showing moderating activity (13.4% yr/yr in April, down from 14.8% yr/yr in March and 14.3% yr/yr in 2011:Q1). LME cash copper briefly dipped to an oversold US\$3.87 per pound on May 12, before rallying back to US\$4.02 today — still very lucrative for mining companies, yielding a 66% profit margin over average world breakeven costs including depreciation.

The slower pace of China's industrial activity reflects the impact of tightening credit in China (affected mostly through mandated bank lending restrictions and rising bank reserve requirements for large banks rather than rising interest rates). However, it also reflects a number of temporary, special developments — notably, a shortage of electric power, possibly lasting over the summer, and an earthquake-related disruption in parts supplies for Japanese auto plants in China. Chinese fabricators have been paring inventories of copper cathodes since late 2010 (in reaction to tighter credit and high prices) — a development reflected in lower April imports of refined copper (not a surprise to the industry). However, this inventory liquidation in refined copper should end in coming months, with demand picking up later in 2011, lifting prices. Underlying demand for copper remains strong in China in power cable, appliances such as air conditioners and high-speed railway systems. China's economic performance is vital for global commodity markets. China accounts for 38% of world consumption of copper, four times the 9% of the United States (Japan 5%); China represents 46% of world carbon steel production and the United States a mere 5.5%.

Silver - A Volatile Commodity



Copper - Jitters Over China Dampen Prices



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US CPI Data Highlight Regional Variability

- Regional price developments track closely at headline, but reveal differences in the core.

Discretionary spending as a share of total retail sales has been shrinking over the past nine months, and at an accelerating clip (see chart 1). Outside of the current cycle, it now occupies the smallest slice since mid-1992. Alongside the stubbornly high unemployment rate, the key culprits are rising cost of food and energy in particular, which have begun to crowd out more noticeably non-essential purchases. Although regional retail sales are not available on a monthly basis, inflation data can be used to determine where pressures lie on a regional basis.

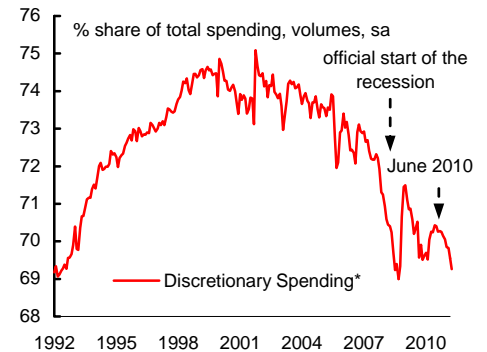
The Census Bureau divides the country into four regions: the Northeast, Midwest, South and West. The major components making up the Consumer Price Index (CPI) represent comparable weights across the state groupings. However, while the Northeast, Midwest and the West each account for roughly 20-25% of the US economy, the South, at 35.8%, takes the lead. As such, the South impacts the headline CPI the most.

Food & beverages and transportation — which make up a third of the consumer basket — track closely across regions (see chart 2), but the core consumer basket reveals some regional heterogeneity, with the most volatility found in the West (see chart 3). The owners' equivalent rent (OER) — which estimates home ownership costs — captures the single biggest slice of the basket, 32%. And although OER inflation came in a narrow range of 0.5-1.5% y/y in April, regional paths have differed, showing particularly stepped-up improvement in the West, in contrast to the flat-lining seen over the past year in the Northeast. Turning to medical care and education (CPI weight of 6.5% each), these component indices have seen a disproportionately sharper price deceleration in the South and the Northeast, respectively. Medical care in the South has been pulled lower by the services category, which accounts for roughly three-quarters of the component.

Part of the explanation may lie in structural economic characteristics. The more volatile sectors of real estate, information, manufacturing and professional & technical services — the latter includes temporary positions — account for a larger share of the economy in the West, and, hence, could produce higher price volatility. While the West reported the highest regional unemployment rate in March at 10.7%, its employment cost index — which includes wages and employee benefits — has been gathering momentum, increasing from 1.3% y/y in March of 2010 to 2.0% currently, the sharpest gain across regions. Variations in state fiscal and labour-market policies, such as tax differences, and productivity levels also play a part in regional inflation developments.

Some studies have shown that regional inflation differentials — though less prominent in the United States than across some of the other monetary unions (e.g., European Union) — could distort the transmission of economic shocks (e.g., interest rates, purchasing power) across regions. This has implications for regional business cycles and monetary policy, and underscores the usefulness of studies on regional price flexibility.

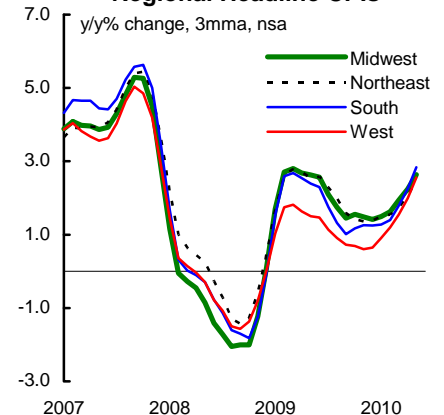
Discretionary Spending Moderates



* Total spending ex. food & beverages, gasoline and health.

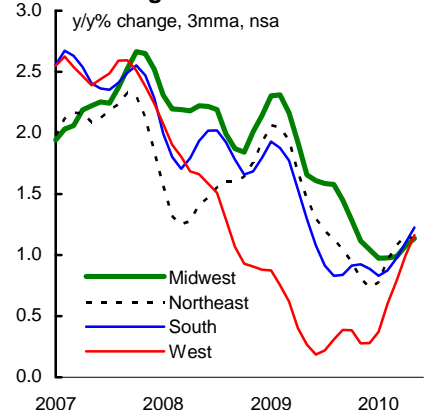
Source: Census Bureau, Scotia Economics.

Regional Headline CPIs



Source: BLS, Scotia Economics.

Regional Core Inflation



Source: BLS, Scotia Economics.

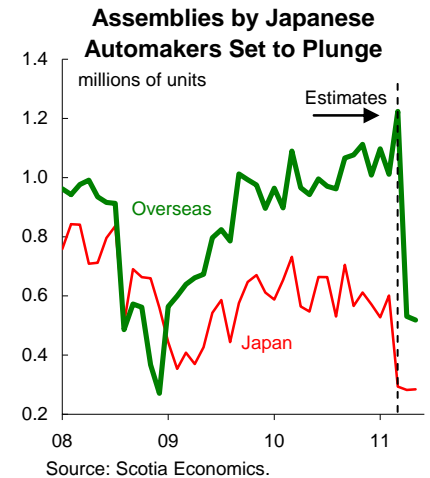
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Japanese Auto Parts Shortages Temporarily Dampen Global Growth

- Asia will be impacted most, but a recovery will begin by July.

Despite strong global demand, Japanese automakers were forced to slash production in Japan 57% below a year earlier in March, due to the impact of the earthquake and tsunami. Their overseas assemblies remained unaffected through March, climbing to a record high of 1.2 million units (see chart). However, their overseas production is set to plunge, as automakers operate their non-Japanese plants at about 50% of capacity through at least early June. In addition, Japan is the source of many auto parts — especially electronics and paint — for most global automakers. In fact, Japan is the world's second-largest auto parts exporter — with an 11% global market share — behind Germany.

We estimate that a global shortage of auto parts originating in Japan have led automakers to slash their second-quarter (April-June) North American vehicle assemblies nearly 400,000 units below their original plans. These cutbacks will dampen Canadian economic activity by roughly 0.8 percentage points in the second quarter, as Toyota and Honda account for 36% of overall vehicle production in Canada. The share of Japanese vehicle assemblers is smaller in the United States at about 30%, and in Mexico at only one-quarter.



With Japanese automakers assembling 1.3 vehicles outside of Japan for each produced in their home market, the impact of auto parts shortages on global vehicle output and the global economy will begin to emerge with the release of April economic data in most countries. In particular, Asia (ex Japan) accounts for more than half of all overseas assemblies by Japanese automakers. We estimate that these cutbacks will reduce assemblies in the region by 13% between April and early June. In fact, production cutbacks by Japanese automakers were a major reason for a weaker-than-expected performance in China's industrial production during April. Vehicle assemblies in China declined 2% below a year earlier last month, a sharp reversal from a double-digit increase year-to-date through March. The decline in China's vehicle assemblies last month reflects not only reduced operating rates by Japanese automakers, but also a shortage of auto parts destined from Japan to other automakers operating in China. In fact, China is the largest importer of Japanese auto parts, absorbing nearly one-quarter of Japan's overall auto parts exports. This represents a much larger share than the nearly 15% of China's vehicle production garnered by Japanese automakers.

While the financial markets are currently focusing mainly on the slowdown in China, the impact of production cutbacks by Japanese automakers will have the largest impact in Thailand and Taiwan, as Japanese automakers account for more than 60% of overall assemblies in these two nations. Even in India, Japanese manufacturers represent 40% of overall vehicle assemblies.

Even Europe, which accounts for only 11% of overseas assemblies by Japanese automakers, has seen its second-quarter assembly schedules trimmed by about 500,000 units (more than 5%) over the past two months. The U.K. will feel the greatest impact, as Japanese automakers account for half of overall vehicle output on the island. The U.K. is also the destination of nearly one-third of all auto parts destined from Japan to Western Europe.

While parts shortages will disrupt global vehicle output and dampen economic growth in the second quarter (April-June), these disruptions will be temporary. Renesas Electronics, the largest supplier of semiconductors for the auto industry with roughly a 40% share, and the company at the heart of the auto parts disruptions, recently announced that its facilities will be back on line by June 15th. Toyota also indicated this week that its plants in China will resume normal production in mid-June.

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Comparing Colombia's Emgesa and EPM

The following article was published on May 12, 2011.

There are three principal differences between the two Colombian utilities that have issued local-currency denominated bonds in the global market this year: private vs. municipal ownership, diversification of business activities, and international presence. We also find that EPM's margins are lower, and historically its financials are less stable. Nevertheless, the similarities are far greater than the differences, and we recommend the global bonds of both companies. They provide exposure to a country with a good macroeconomic story and an appreciating currency, and current prices offer an attractive yield pick-up over the sovereign bonds.

We first recommended Colombia's electricity generator Emgesa back in February, arguing that high profit margins and conservative management suggest few credit risks and that the company could even survive a sovereign default (see "Emgesa: Is it better than Colombia," February 24, 2011). In addition, we liked the local currency, and thought that investing in Emgesa COP-denominated bonds provided a good way to gain exposure. Many of the same arguments of course apply to Colombia's other utility, EPM (Empresas Públicas de Medellín), whose global bonds were issued at the same time and whose yields are highly correlated with those of Emgesa. While the similarities between the two companies are certainly much greater than the differences, we are sometimes asked which credit we like more. The question has gained increased relevance in the last month as the yield differential between the two credits has flipped. EPM now trades about 10bp wide to Emgesa, whereas a few months ago it was about 10bp tight to Emgesa.

Before we consider the key differences, we should emphasize some of the similarities. (Our table on the last page presents more details). Both companies produce about 90% of their electricity through hydroelectric plants, giving them a huge cost advantage over their competitors. They also have low debt to EBITDA ratios and very high interest coverage ratios. Colombia's improved macroeconomic scenario has been beneficial to both companies, resulting in annualized growth rates in revenues over the last five years of 12%, helped in part by acquisitions. More growth can reasonably be expected as the companies continue to invest in new capacity to meet the expected demand growth. EPM has more aggressive investment plans, and by our quick calculation plans to add twice as much new capacity by 2020 as Emgesa, though the firm is also four times larger and perhaps better able to absorb such expansion.

Difference 1. Ownership.

Emgesa is owned jointly by the Colombian state firm EEB, with participation from the District of Bogota, and Endesa Chile, a Chilean publicly held company. Ultimate control of Emgesa lies with the giant utility Enel, a partially privatized Italian company. In contrast, EPM is 100% owned by the municipality of Medellín. That difference raises the question of whether one prefers to buy debt of a privately-run utility or of a utility controlled by the municipality in which it operates. In the US, investors prefer the latter, since the municipality is usually a solid credit and investors prefer to avoid any event risk associated with the parent of a privately-run utility. A municipality-controlled utility also has an easier time when it comes to raising prices charged to customers. We would expect the municipal utility to be conservatively managed, as its primary objective is to provide a consistent level of public services rather than to earn profits. These advantages are less relevant in the Colombian case, however. Emgesa's parents would surely be better rated than Medellín if Medellín had a global rating. Furthermore, EPM is a significant source of revenue for the municipality, and the company's expansion plans, suggest that management's objectives are similar to those of a private company. Both Emgesa and EPM may be subject to political and financial considerations from their owners whose interest may not be completely aligned with those of the utilities, and these conflicts of interest could be exacerbated during a macroeconomic crisis.

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Difference 2. Sector Mix

Emgesa is solely an electricity generator while EPM, has other businesses which include electricity distribution, water, and telecom. Which is better? In the US, electricity generation is considered a risky business, since competition can drive prices down towards marginal cost, which is related to the cost of fuel. In contrast, the marginal cost for hydroelectric generation in Colombia is probably close to zero—as long as there is sufficient water reserves and installed turbine capacity, costs may be largely independent of production. Prices in Colombia must therefore be set by the higher costs of the thermoelectric plants which account for the one-third of the country's demand that cannot be satisfied with the hydro-capacity. It is probably this characteristic of industry structure that allows the hydro generators to earn consistently high margins. For EPM, we like the diversification benefits of adding electricity distribution and water; these seem like highly stable businesses which add to creditworthiness. In contrast, we are less comfortable with the Telecom business, where we worry that the rapid pace of technological change in the industry could potentially cause problems for EPM down the road.

Difference 3. International Expansion

All of Emgesa's assets and income comes from Colombia. In contrast, EPM also has key investments in Panama, Guatemala, and El Salvador. The first country has a higher credit rating than Colombia while the other two have a lower credit rating. EPM management expects that by 2015 40% of EPM revenue will come from abroad, and it intends to invest approximately \$530mn USD to attain this goal. In general, any existing international diversification seems like a good thing, as it may offset certain idiosyncratic risks specific to Colombia. Nevertheless, we are slightly concerned about EPM's strategy of increased investment abroad, which could provide good returns to EPM's owner, but also increase risk for debtholders.

Conclusion

Theoretical considerations aside, we have also put together historical financials for the companies by collecting information from old annual reports, with an eye towards judging the stability of the key figures. We found that the revenues of EPM are more volatile, allowing for important decreases in some years, and large increases in other years; these figures are made difficult to interpret by acquisitions but perhaps Emgesa's acquisitions are better paced. We also find that margins in EPM are more volatile and that its administrative costs are higher and more variable. Operating margins in EPM are significantly lower than those of Emgesa, presumably in part because of its sector mix; telecom margins are half of those found in water services, and the electricity distribution business has much smaller margins than the generation business. Ultimately, it is some of these latter considerations regarding stability and profitability that lead us to conclude that EPM should trade at a higher yield than Emgesa, but not significantly so, and the current 10bp premium may be appropriate.

The bonds of both companies have done well in price terms since issuance and returns have been spectacular to the end of March, thanks to a 15% appreciation of the currency. Our trading desk reports that this currency appreciation led to significant profit-taking by retail investors, and apparently there was more retail involvement in the larger EPM issue. In addition, after having tightened relative to the sovereign global COP-bonds in previous months, the corporates have not kept up with the 70bp rally in the sovereign bonds since April. Since we are not aware of any significant negative fundamental news about either company, we assume again that differences in investor bases are responsible for the increased spread differential of the corporate over the sovereign. Overall, we continue to like both Emgesa and EPM, and when we consider the spread differential over the sovereign, we much prefer to gain exposure to the local currency and local curve through these instruments. We do not recommend doing relative value trades of EPM vs Emgesa, given that the spread differential remains small and tends to evolve slowly.

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Figure 1.

Comparison of Emgesa and EPM			
Descriptive Information	Sectors	Emgesa	EPM
		Electricity generation only	Electricity (69% of EBITDA)
			Telecom (20% of EBITDA)
			Water/Sewer (11% of EBITDA)
	Electric Generation	Hydroelectric (91%)	Hydroelectric (90%)
		Thermoelectric (9%)	Thermoelectric (9%),
			Wind (1%)
	Installed Electric Capacity	2,915 MW	2,958 MW
		20 % market share	22% market share
	Geographic locations	Colombia	Colombia, Panama, Guatemala, and El Salvador
	Ownership	Empresa de Energia de Bogota	Municipality of Medellin
		Enel (Italian utility) – majority control	
Profits	Revenues	1,886 bn COP	8,426 bn COP
	Net Income	572 bn COP	1,417 bn COP
	Operating margin	51%	21%
	Net Income margin	30%	17%
	5Y Revenue CAGR	12.40%	11.60%
Debt	Debt/EBITDA	1.5	2.15
	Ebitda/Interest	8.5	12.01
	Debt/Assets	23%	20%
	Total debt	1,751 bn COP	5,970 bn COP
Bonds	Issuance size (COP)	736 bn COP	1,250 bn COP
	Issuance size (USD)	400 mn USD-equivalent	680 mn USD-equivalent
	Yield as of May 12	7.85%	7.95%

Source: Scotia Capital, based on presentations and annual reports from Emgesa and EPM.
Debt numbers are as of the end of 2010 and do not include the January bond issuance. EPM intends to use the bond proceeds for general corporate purposes and new investments, while Emgesa will use part of the proceeds to pay down existing debt.

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Latam Equity Strategy — May 2011

Performance figures are in USD unless otherwise stated. YTD returns are price only as at May 11, 2011, close.

Monetary Transition hurting EM and LatAm YTD

- **EM and Latam lagging MSCI World so far in 2011.** March-April equity performance was influenced by this year's two dominating themes: a weaker USD and the Fed's diverging monetary policy. Although both themes have been playing out for many months, the Fed's perma-dovish stance (reinforced at the latest FOMC meeting), now appears increasingly at odds with the rest of the world and has intensified downward pressure on the greenback and commodity speculation until the end of April. Markets and commodities have been weak since the start of May and the "risk-off" trade may extend well into Q3, in our opinion. Year-to-date (YTD), Latam (-5%), EM (+1%), and Canada (+3%) performances are trailing the MSCI World (+5%) and developed markets in the U.S. (+7%) and Europe (+9%).
- **Colombia, Chile, Mexico outperforming, Peru plunges.** The MSCI Mexico (-3%) is modestly edging Brazil (-5%) since the start of the year and Colombia (+3%) is the only Latam index posting gains. Chile is down 2% and Peru is suffering heavier losses this year in light of political uncertainty leading up to the pending elections. The MSCI Peru index is down 22% so far in 2011. In local currency terms, global and LatAm YTD returns have fared worse.

Exhibit 1

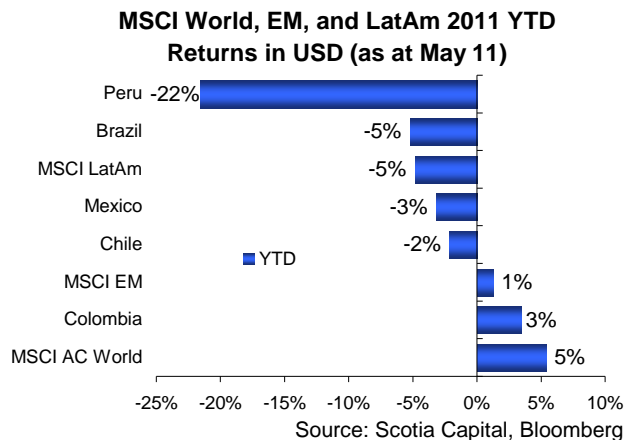
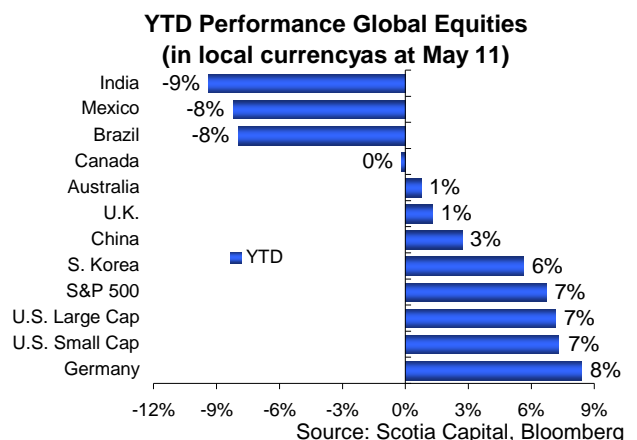


Exhibit 2



Fed policy & Latam underperformance risk

- The Federal Reserve appears in no rush to raise rates, and based on the most recent comments from Chairman Bernanke, U.S. monetary policy will continue to diverge from emerging markets, Europe, Australia, and Canada (BoC rate hikes expected late Q2/early Q3). However, with the Fed's Treasury buying program (QE2) slated to end in June, risk appetite is already challenged. EM/Latam pressures are building and tightening benchmarks are underperforming. Markets from Brazil (down 8% since FOMC meeting on April 27) to China (down 5% since April 18) could feel heightened pressure from the Fed's perma-dovish stance. Tightening is not over in Asia and LatAm, and the upward trend in currencies and raw materials will impact profit margins and earnings growth. The S&P 500 and DAX should maintain their performance edge over EM at least until Fed policy reverses and U.S. real rates move higher. Canada and Mexico have been amongst the best performers in the last 12-months (in USD) as proximity to the U.S. recovery and neutral monetary policy gave North American benchmarks an edge over EM powerhouses like Brazil, India, and China. Benchmarks that have been tightening have seen a shift to lower beta and large cap outperformance and this trend could hit the TSX when the BoC resumes tightening.

Latam Economic highlights

- Although growth data (unemployment rates, retail sales, industrial production) remains overwhelmingly robust for the Latam Five indices, investor focus has been increasingly directed towards inflation and currency risks. Rising costs and surging currencies threaten exports, corporate profits, and the pace of GDP growth heading

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into 2012, as is the case in most developing Asian economies. Amidst the flurry of positive headlines, however, Peru has been bucking the trend recently in light of political uncertainty. Peruvian credit default swap (CDS) spreads spiked to 189 bp (from 141 bp last year) as Peru's leftist candidate took an early lead in the polls. In recent days, sentiment has reversed and markets are now discounting poll numbers tilting toward Fujimori. Compared to a year ago, CDS spreads are now higher in Brazil and Mexico.

- Brazil inflation hit 6.44% in mid-April, the highest level in 29 months, and the central bank's objective is to raise rates until inflation rolls back to its 4% target. Brazil is also aiming to cool credit expansion and has lifted taxes on foreign bond ownership in a bid to slow money flows in real dominated bonds. Brazil data remains strong (March unemployment rate declined to 6.5% and February industrial production hit 6.9% YOY), but the latest PMI survey came in at 50.7, the lowest level in five months. Scotia Economics forecasts Brazil GDP growth will moderate to 4.0% in 2011 and 4.5% in 2012 (versus +7.6% in 2010).
- In Mexico, February Industrial Production came in lower-than-expected at 5.2% (consensus was 5.9%) and the IMEF Manufacturing Index (PMI proxy) fell to the 53.1 level in April from 54.1 the prior month. Scotia Economics Mexico GDP forecast stands at 4.3% in 2011 and 3.8% in 2012 (versus +5.5% in 2010).
- Chile's unemployment rate came in below expectations in March (7.3%) and March industrial production of 30.9% surpassed estimates. Colombia's central bank raised its 2011 growth forecast to 5.5% from 4.5%, citing stronger credit growth and consumer confidence. S&P upgraded Colombia's credit rating back to investment grade (BBB-). Colombia's CDS spreads are notably lower than a year ago.

Valuations and earnings momentum

- LatAm valuations have been trending lower in recent months and are now near the lowest level since August 2010. The MSCI LatAm's forward P/E (11.0x) is currently at an 8% discount to the MSCI AC World's 12.0x forward P/E multiple (see Exhibit 3). Colombia continues to boast the highest multiple (forward P/E of 17.4x), with Brazil sporting the lowest P/E (9.9x). The MSCI LatAm forward P/E has contracted 2 multiple points in the last five months versus an expansion of 0.2 multiple points for the S&P 500.
- Based on bottom-up consensus forecasts, LatAm earnings growth should top 12% in the next 12-months, below the projected growth rate for the MSCI AC World (+14%), MSCI EM (+16%), and the S&P 500 (+15%). Mexico (+24%), Peru (+30%), and Canada (+24%) are leading the Americas in terms of expected EPS growth. LatAm is also lagging in terms of earnings revisions. Recent revisions to calendar 2011 and 2012 earnings estimates were flat to down for the LatAm Five versus positive for the MSCI World and the U.S. LatAm valuations remain attractive, but visibility on earnings (slower EPS growth and neutral and negative revisions) is proving challenging.

Exhibit 3

Forward P/E Ratios – MSCI Indices										
Index	World	U.S. (S&P 500)	Canada (TSX)*	Mexico	Brazil	Chile	Colombia	Peru	LatAm	EM
Overall	12.0	12.9	14.6	14.0	9.9	16.0	17.4	10.5	11.0	10.8
1 Year Avg	12.0	12.7	14.5	14.1	10.1	16.0	17.5	12.9	11.2	11.0
5 Year Avg	12.9	13.6	13.9	13.1	10.0	16.3	14.6	11.7	11.0	11.5
Energy	10.8	11.7	18.1	n/a	10.8	n/a	12.1	n/a	10.8	8.7
Materials	11.2	13.4	15.4	13.2	7.3	18.0	66.9	10.5	8.5	10.0
Industrials	13.1	14.7	15.2	16.8	16.7	17.1	n/a	n/a	16.8	12.0
Cons. Disc.	13.6	14.8	13.1	15.6	10.2	25.7	n/a	n/a	12.0	12.1
Cons. Staples	14.6	14.4	14.0	19.6	18.7	20.4	29.5	n/a	19.3	17.3
Health Care	11.8	11.8	n/a	n/a	n/a	n/a	n/a	n/a	n/a	11.8
Financials	10.7	11.7	12.0	15.5	10.3	12.8	15.2	10.4	10.8	10.6
Technology	12.5	12.6	8.9	n/a	13.1	n/a	n/a	n/a	13.1	12.0
Telecom	11.9	16.5	11.9	11.1	8.3	11.2	n/a	n/a	10.4	11.1
Utilities	13.7	13.0	16.9	n/a	9.7	13.3	31.1	n/a	10.9	12.1

*Sector data based on MSCI Canada indices. Source: Scotia Capital, Thomson Financial

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Exhibit 4

Calendar 2011 Earnings Revisions (Last Three Months)										
Index	World	U.S. (S&P 500)	Canada (TSX)*	Mexico	Brazil	Chile	Colombia	Peru	LatAm	EM
Overall	0%	2%	2%	2%	0%	-3%	-2%	-3%	0%	1%
Energy	9%	14%	11%	n/a	-1%	n/a	5%	n/a	-1%	6%
Materials	2%	2%	-2%	21%	4%	-6%	9%	-4%	5%	4%
Industrials	1%	1%	-2%	5%	8%	7%	n/a	n/a	7%	-1%
Cons. Disc.	-3%	0%	2%	1%	-5%	3%	n/a	n/a	-3%	1%
Cons. Staples	-1%	0%	0%	-3%	-2%	0%	16%	n/a	-2%	-2%
Health Care	1%	1%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-1%
Financials	-2%	-2%	1%	-3%	-2%	-6%	-10%	-1%	-2%	0%
Technology	0%	2%	7%	n/a	-4%	n/a	n/a	n/a	-4%	-6%
Telecom	-1%	-2%	1%	-1%	-6%	5%	n/a	n/a	-2%	-2%
Utilities	-14%	-1%	3%	n/a	-1%	-7%	3%	n/a	-3%	-5%

*Sector data based on MSCI Canada indices. Source: Scotia Capital, Thomson Financial

Central bank watch and yields

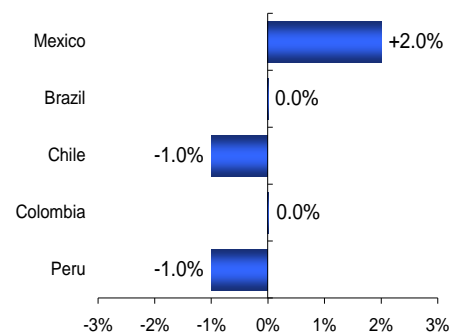
- Outside Mexico, monetary tightening remains the central theme in Latin America. Analysts expect another 50 bp increase in Brazil's Selic rate this year, lifting it to 12.50% by the end of 2011. Long-term Brazilian bond yields fell 32 bp in April, and the Brazilian yield curve remains flat/inverted. The real carry trade's popularity is quickly falling following the recently imposed 6% tax on foreign loans. The yield on overseas real-denominated assets has gone from 8.1% in March to a mere 1.6%, taking upward pressure off the real.
- In Mexico, Banxico is expected to keep its policy rate unchanged at 4.5% until year-end as annual inflation remains near a four year low of 3.2%. In contrast to other LatAm central banks, Mexico has maintained a neutral monetary policy since 2010. With inflation concerns easing in Mexico, the yield on Mexican 10-year bonds dropped 26 bp in April to 7.28%. Chilean policy makers raised the country's reference rate by 50 bp to 4.50% in April, marking the tenth rate increase in 11 months. Chile's inflation expectations somewhat eased as investors expect another 50 bp increase in May. Colombia also recently hiked its overnight rate 25 bp for the third time this year (up to 3.75%). The Peruvian central bank lifted rates by 25 bp to 4%, its ninth increase in 12 months, after March monthly inflation rose 0.70%, the fastest rate in 33 months.

LatAm Five strategy

- We remain cautious on markets where inflation remains above the central bank's comfort zone and where tightening policies are intensifying. We expect global equities to post positive returns in 2011, but we don't expect markets where benchmark rates are going higher/faster to outperform. In our opinion, Brazil's intentions to multiply tightening measures and objectives to slow consumer credit growth below 15% (now running at 21% YOY) could challenge relative returns. In the second half of 2010, the "underweight tightening markets" theme paid off and we believe this theme will also add value as long as Europe and the U.S. maintain monetary (real rates) advantage. We are reiterating our LatAm "underweight" recommendation for 2011 and reaffirm our Mexico (overweight) over Brazil (market weight) bias. Chile and Peru remain underweight; Colombia is rated market weight. See Exhibit 5 for our LatAm Five strategy recommendation.
- Asset mix & Global Equities.** Narrow global and sector leadership is expected to continue as long as Fed policy divergences from the ECB and EM central banks. The nature of the cyclical equity rally is changing and the equity risk-reward looks clouded in the near term. Strategically (next 12-months), we prefer equities to bonds, but our near term tactical view remains more cautious. We would not be adding risk right now. Higher cash levels are recommended and we reiterate our DM over EM bias.

Exhibit 5

MSCI LatAm – Country Recommendation May 2011



Source: Scotia Capital

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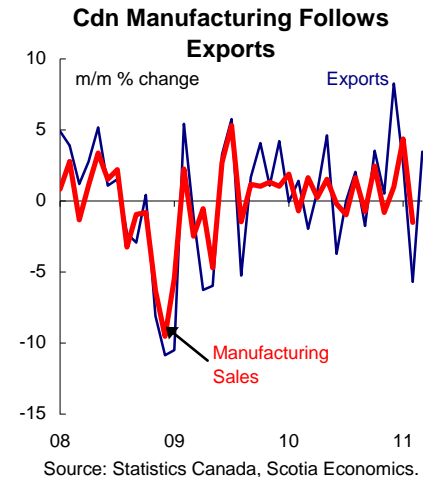
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Key Data Preview

CANADA

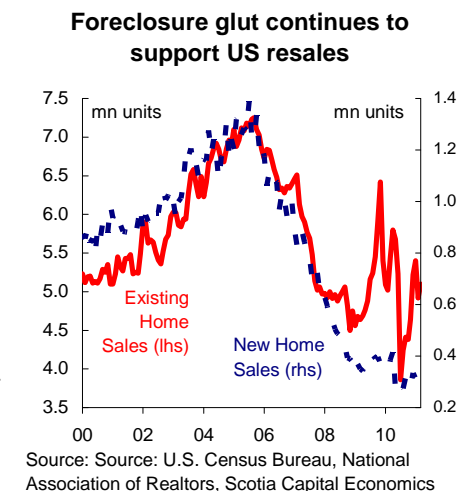
A number of releases next week will shed light on March/Q1 GDP. **Manufacturing sales** (Monday) likely rebounded in March, after dipping in February on the effects of unseasonable weather conditions and auto plant shutdowns in late 2010 which are still working their way through the data. The upturn in export growth — generally well-correlated with manufacturing sales — also portends a gain in shipments, though it should be smaller given the substantial contribution of prices of non-manufactured energy products to the exports print (see chart). We suspect that the rebound in new auto sales in March, further gains in fuel and food costs, as well as a pickup in hiring earlier in the year helped to lift nominal **retail sales** (Friday) by 0.8% m/m in March. Core sales (ex-autos) should see less robust growth of around 0.6% m/m. Key for these releases will be whether there are yet any visible impacts from the Japanese earthquake, as well as the extent of price distortions.



Year-over-year inflation has been trending around the Bank of Canada's 2% target since mid-2010. The March print stood out, showing an unanticipated surge in both headline and core inflation. While soaring commodity prices supported headline growth, the spike in core inflation was likely due in part to the disappearance of the dampening effect from the HST refunded credits, as well as the likely temporary effect of businesses testing their pricing power in response to rising input costs. As a result, the April **CPI** report (Friday) should show some moderation on base effects; we expect to see a 0.6% m/m gain in headline inflation (unadjusted) along with a more subdued 0.2% m/m expansion in core, leaving intact our call for a BoC hike in Q3.

UNITED STATES

The US housing market remains depressed despite much effort to bring it back to life. While government stimulus helped to prop up both existing and new home sales during the crisis, new home sales are still at a record low. Existing home sales, on the other hand, have rebounded from the record low reached in July 2010 following the expiry of the first-time homebuyer's credit, but still remain much below the peak reached in 2005. Increased foreclosures have helped to support resales as prices have been depressed by the glut of supply. While the number of foreclosure filings has slowed, leading to a deceleration in the pace of price declines, the number of foreclosures in the market still remains elevated. And, despite relatively weak prices, according to the recent Senior Loan Officer Opinion Survey on Bank Lending Practices, demand for residential mortgages decreased in Q1 of this year. As a result, while we may see some month-to-month volatility, the general trend within the US housing sector still remains quite weak, suggesting that **builder confidence**



(Monday), **housing starts** (Tuesday) and **permits** (Tuesday) will continue to bounce along the bottom this week. **Existing home sales** (Thursday) should witness a modest increase after pending home sales rose in February, though relatively weak employment growth amid recent food and fuel price gains will likely keep resales constrained overall.

Industrial production (Tuesday) should post a further gain in April although we will likely start to see the negative impacts from the Japanese earthquake filter down into the report. In April alone, auto production was cut by about 10%. The auto sector will remain a drag on economic activity through the second quarter, but will rebound sharply in Q3. While reduced auto production will affect overall manufacturing activity, both May Federal Reserve regional manufacturing reports next week, the **Empire State manufacturing survey** (Monday) and the **Philadelphia Fed Business outlook survey** (Thursday), will likely continue to show improvement as neither region is heavily weighted towards auto production.

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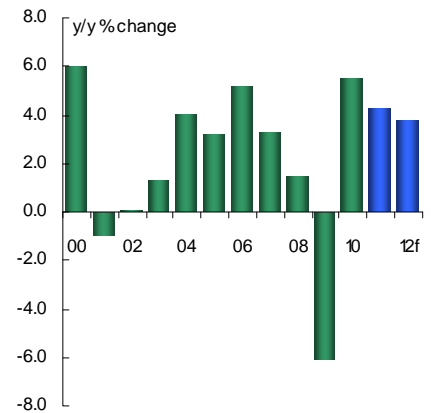
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MEXICO

Mexico will release the Global Economic Activity Indicator (IGAE) for March and the GDP figures for the first quarter of 2011 on May 19th. As many indicators have suggested, Mexico's economic performance has remained strong during the first months of 2011. We expect a first-quarter advance of 4.31% y/y. In 2010, the Mexican economy grew by 5.5%, the highest expansion rate since 2000 (after a decline of 6.1% in 2009). We anticipate a slowdown in 2011, with output expanding by 4.3% this year. In February, the IGAE (a proxy for monthly GDP) increased 4.7% y/y, driven mainly by the industrial (5.2% y/y) and service (4.8% y/y) sectors. We expect IGAE to increase by 4.9% y/y in March.

Mexican GDP Growth

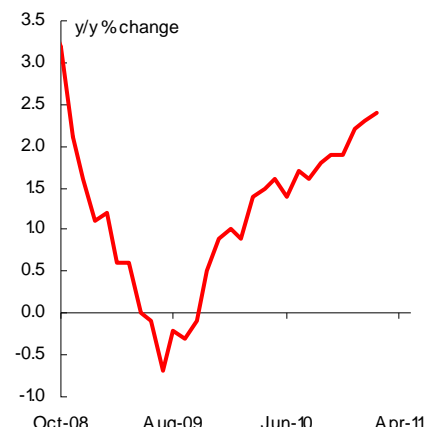


Source: INEGI, Scotia Economics

EUROPE

Inflationary pressures continue to intensify in the euro zone. The final print of consumer price inflation in April will be released on May 16th. According to the "flash estimate", headline inflation increased by 2.8% y/y last month, up from 2.7% the month before. We do not expect any major revisions to the preliminary data. Euro zone inflation will likely continue to accelerate in the coming months, hovering above the 3.0% mark in mid-year before starting to show signs of stabilization toward the end of 2011. As headline inflation continues to exceed the European Central Bank's target of "below, but close to, 2%", monetary authorities will remain on a path gradual policy tightening in order to limit the risk of rising second round inflationary impacts. We expect the next hike in the refinancing rate to take place in the third quarter of the year, taking the benchmark interest rate from the current level of 1.25% to 1.50%.

Euro Zone Headline Inflation

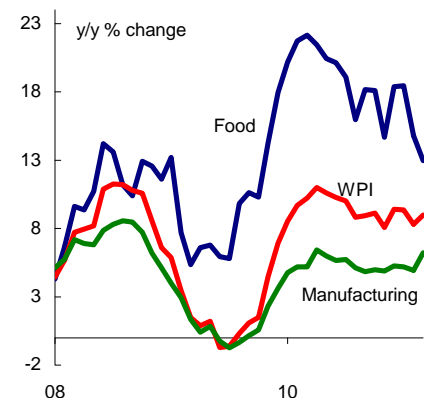


Source: Bloomberg.

ASIA

Inflation in India, as measured by the annual advance of the wholesale price index, is set to moderate to 8.2% y/y in April, given that momentum in food inflation has seemingly peaked. Monetary authorities will be on the lookout for continued spillover into manufacturing costs, as local demand conditions remain well supported notwithstanding the slowdown in industrial output observed at the turn of the year.

India's Inflation



Source: Bloomberg

Key Indicators for the week of May 16 - 20

North America

Country	Date	Time	Event	Period	BNS	Consensus	Latest
CA	05/16	08:30	Manufacturing Sales (MoM)	MAR	1.8	1.7	-1.5
US	05/16	08:30	Empire Manufacturing Index	MAY	18.0	20.0	21.7
US	05/16	09:00	Total Net TIC Flows (USD Billions)	MAR	--	--	97.7
US	05/16	09:00	Net Long-term TIC Flows (USD Billions)	MAR	--	--	26.9
US	05/16	10:00	NAHB Housing Market Index	MAY	16.0	17.0	16.0
US	MAY 16-20		Mortgage Delinquencies (% of total loans)	1Q	--	--	8.2
US	MAY 16-20		MBA Mortgage Foreclosures (% of total loans)	1Q	--	--	4.6
CA	05/17	08:30	Int'l Securities Transactions (C\$ Billions)	MAR	--	--	2.5
US	05/17	08:30	Housing Starts (000s)	APR	560	570	549
US	05/17	08:30	Building Permits (000s)	APR	580	590	585
US	05/17	09:15	Industrial Production (MoM)	APR	0.2	0.4	0.8
US	05/17	09:15	Capacity Utilization (%)	APR	77.5	77.6	77.4
US	05/18	07:00	MBA Mortgage Applications (WoW)	May 13	--	--	8.2
CA	05/18	08:30	Leading Indicators (MoM)	APR	--	0.5	0.8
CA	05/18	08:30	Wholesale Sales (MoM)	MAR	1.5	1.5	-0.6
US	05/18	14:00	Minutes of FOMC Meeting				
US	05/19	08:30	Initial Jobless Claims (000s)		425	420	434
US	05/19	08:30	Continuing Claims (000s)		3650	--	3756
MX	05/19	09:00	Global Economic Indicator IGAE (YoY)	MAR	4.9	4.2	4.7
MX	05/19	09:00	GDP Constant \$ (YoY)	MAR	4.3	4.9	4.6
US	05/19	10:00	Existing Home Sales (MoM)	APR	2.5	2.0	3.7
US	05/19	10:00	Leading Indicators (MoM)	APR	--	0.1	0.4
US	05/19	10:00	Philadelphia Fed. Index	APR	19.0	20.0	18.5
CA	05/20	07:00	Consumer Price Index (MoM)	APR	0.6	0.5	1.1
CA	05/20	07:00	Consumer Price Index (YoY)	APR	3.2	3.4	3.3
CA	05/20	07:00	Bank Canada CPI Core (MoM)	APR	0.2	0.2	0.7
CA	05/20	07:00	Bank Canada CPI Core (YoY)	APR	1.7	1.6	1.7
CA	05/20	08:30	Retail Sales (MoM)	MAR	0.8	0.8	0.4
CA	05/20	08:30	Retail Sales Less Autos (MoM)	MAR	0.6	0.7	0.7

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

Key Indicators for the week of May 16 - 20

Europe

Country	Date	Time	Event	Period	BNS	Consensus	Latest
IT	05/16	04:00	Trade Balance (Total) (€ Millions)	MAR	--	--	-3633.0
IT	05/16	04:00	Trade Balance Eu (€ Millions)	MAR	--	--	-883.9
EC	05/16	05:00	Euro-Zone CPI - Core (YoY)	APR	--	1.5	1.3
EC	05/16	05:00	Euro-Zone CPI (MoM)	APR	0.5	0.6	1.4
EC	05/16	05:00	Euro-Zone CPI (YoY)	APR	2.8	2.8	2.7
EC	05/16	05:00	Euro-Zone Trade Balance sa (€ Billions)	MAR	--	--	-2369.7
IT	05/16	05:00	CPI (NIC incl. tobacco) (MoM)	APR F	--	0.5	0.5
IT	05/16	05:00	CPI - EU Harmonized (MoM)	APR F	1.1	1.1	1.1
HU	05/16	08:00	Hungary Base Rate Announcement		6.00	6.00	6.00
UK	05/17	04:30	CPI (MoM)	APR	0.6	0.7	0.3
UK	05/17	04:30	CPI (YoY)	APR	4.0	4.1	4.0
UK	05/17	04:30	Core CPI (YoY)	APR	--	3.2	3.2
UK	05/17	04:30	RPI (MoM)	APR	--	0.8	0.5
GE	05/17	05:00	Zew Survey (Current Situation)	MAY	--	87.5	87.1
EC	05/17	05:00	ZEW Survey (Econ. Sentiment)	MAY	--	17.3	19.7
GE	05/17	05:00	ZEW Survey (Econ. Sentiment)	MAY	--	4.8	7.6
SP	05/18	03:00	GDP (Constant SA) (QoQ)	1Q F	0.2	0.2	0.3
UK	05/18	04:30	Bank of England Minutes				
UK	05/18	04:30	Claimant Count Rate (%)	APR	--	4.5	4.5
UK	05/18	04:30	Jobless Claims Change (000s)	APR	--	0.0	0.7
UK	05/18	04:30	Average Weekly Earnings (3M/YoY)	MAR	--	2.0	2.0
UK	05/18	04:30	Weekly Earnings exBonus (3M/YoY)	MAR	--	2.2	2.2
UK	05/18	04:30	ILO Unemployment Rate (3mths)	MAR	--	7.8	7.8
EC	05/18	05:00	Construction Output SA (MoM)	MAR	--	--	-0.7
UK	05/19	04:30	Retail Sales Ex Auto Fuel (MoM)	APR	--	0.8	0.2
UK	05/19	04:30	Retail Sales w/Auto Fuel (MoM)	APR	--	0.8	0.2
IT	05/19	05:00	Current Account (€ Millions)	MAR	--	--	-6337.0
SP	05/19		Trade Balance (€ Millions)	MAR	--	--	-3249.7
GE	05/20	02:00	Producer Prices (MoM)	APR	--	0.6	0.4
EC	05/20	04:00	ECB Euro-Zone Current Account SA	MAR	--	--	-7.2
IT	05/20	04:00	Industrial Orders s.a. (MoM)	MAR	--	0.5	1.9
IT	05/20	04:00	Industrial Sales s.a. (MoM)	MAR	--	--	1.5
PD	05/20	08:00	Core Inflation (MoM)	APR	--	0.3	0.5
EC	05/20	10:00	Euro-Zone Consumer Confidence	MAY A	--	-12.0	-11.6

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

Key Indicators for the week of May 16 - 20

Asia Pacific

Country	Date	Time	Event	Period	BNS	Consensus	Latest
SK	05/15	17:00	Export Price Index (MoM)	APR	--	--	2.6
SK	05/15	17:00	Import Price Index (MoM)	APR	--	--	3.5
JN	05/15	19:50	Machine Orders (MoM)	MAR	--	-10.0	-2.3
JN	05/15	19:50	Domestic CGPI (MoM)	APR	--	0.4	0.6
AU	05/15	21:30	Home Loans (MoM)	MAR	--	2.0	-5.6
AU	05/15	21:30	Investment Lending (MoM)	MAR	--	--	-2.3
AU	05/15	21:30	Owner-Occupied Home Loan Value (MoM)	MAR	--	--	-4.8
AU	05/15	21:30	New Motor Vehicle Sales (YoY)	APR	--	--	1.9
CH	MAY 15-18		Actual FDI (YoY)	APR	--	36.1	32.9
JN	05/16	01:00	Consumer Confidence Index	APR	--	36.7	38.6
IN	05/16	02:30	Monthly Wholesale Prices (YoY)	APR	8.2	8.4	9.0
AU	05/16	21:30	Reserve Bank's Board May Minutes				
JN	05/17	02:00	Machine Tool Orders (YoY)	APR F	--	--	32.3
NZ	05/17	18:45	Producer Prices- Inputs (QoQ)	1Q	--	--	0.9
NZ	05/17	18:45	Producer Prices- Outputs (QoQ)	1Q	--	--	0.2
JN	05/18		Tokyo Condominium Sales (YoY)	APR	--	--	0.0
MA	05/18	05:00	CPI (YoY)	APR	--	3.1	3.0
MA	05/18	06:00	GDP (YoY)	1Q	--	4.9	4.8
JN	05/18	19:50	Housing Loans (YoY)	1Q	--	--	3.2
JN	05/18	19:50	GDP Deflator (YoY)	1Q P	--	-1.9	-1.6
JN	05/18	19:50	Nominal GDP (QoQ)	1Q P	--	-0.8	-0.7
JN	05/18	19:50	GDP Annualized (QoQ)	1Q P	-1.2	-2.0	-1.3
JN	05/18	19:50	Gross Domestic Product (QoQ)	1Q P	-0.3	-0.5	-0.3
HK	MAY 18-19		Composite Interest Rate	APR	--	--	0.24
JN	05/19	00:30	Capacity Utilization (MoM)	MAR	--	--	2.9
JN	05/19	00:30	Industrial Production (MoM)	MAR F	--	--	-15.3
HK	05/19	04:30	Unemployment Rate SA (%)	APR	--	3.3	3.4
JN	MAY 19-20		BOJ Target Rate (%)		0.10	0.10	0.10
JN	05/20	00:30	All Industry Activity Index (MoM)	MAR	--	-6.1	0.7

Latin America

Country	Date	Time	Event	Period	BNS	Consensus	Latest
VZ	MAY 10-17		Gross Domestic Product (YoY)	1Q	--	1.7	0.6
BZ	05/16	07:30	Central Bank Weekly Economists Survey		--		
BZ	05/16	10:00	Trade Balance (FOB) - Weekly		--	--	969.0
PE	05/16		GDP (YoY) NSA	MAR	--	8.2	8.5
PE	05/16		Unemployment Rate (%)	APR	--	--	9.4
BZ	MAY 16-20		Economic Activity Indx (YoY) NSA	MAR	--	--	7.0
BZ	05/17	04:00	FIPE CPI - Weekly		--	--	0.6
CO	05/17	17:00	Trade Balance (USD Millions)	MAR	--	--	362.6
BZ	05/18	07:00	FGV Preview Inflation IGP-M		--	--	0.7
CL	05/18	07:30	Current Account (USD Millions)	1Q	--	363.0	1216.0
CL	05/18	07:30	Gross Domestic Product (YoY)	1Q	--	9.8	5.8
CO	05/19	17:00	Industrial Production (YoY)	MAR	--	3.0	3.2
CO	05/19	17:00	Retail Sales (YoY)	MAR	--	12.5	13.2
BZ	05/20	08:00	IBGE CPI IPCA-15 (MoM)	MAY	--	0.7	0.8

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

Global Auctions for the week of May 16 - 20

North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	05/16	11:00	U.S. Fed to Purchase USD1-2 Bln TIPS
US	05/16	11:30	U.S. to Sell USD27 Bln 3-Month Bills
US	05/16	11:30	U.S. to Sell USD24 Bln 6-Month Bills
US	05/17	11:00	U.S. Fed to Purchase USD5-7 Bln Notes/Bonds
US	05/17	11:30	U.S. to Sell 4-Week Bills
US	05/18	11:00	U.S. Fed to Purchase USD1.5-2.5 Bln Notes/Bonds
US	05/19	11:00	U.S. Fed to Purchase USD1.5-2.5 Bln Notes/Bonds
US	05/19	13:00	U.S. to Sell USD11 Bln 10-Year TIPS Reopening
US	05/20	11:00	U.S. Fed to Purchase USD6-8 Bln Notes/Bonds

Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
GE	05/16	05:15	Germany to Sell Add'l EU2 Bln 12-Mth Bills
PD	05/16	06:00	Poland to Sell Up to PLN1.1 Bln 45-Week T-bills
FR	05/16	09:00	France to Sell Bills (BTF)
SP	05/17	04:30	Spain to Sell 12M and 18M Bills
SZ	05/17	05:30	Switzerland to Sell 3-Month Bills
SW	05/18	05:10	Sweden to Sell Bonds
GE	05/18	05:15	Germany to Sell Add'l EU6 Bln 5-Year Notes
PO	05/18	05:30	Portugal to Sell Bills (BT)
SP	05/19	04:30	Spain to Sell 5.5% 2021 Bonds
FR	05/19	05:00	France to Sell Bonds/Notes
UK	05/19	05:30	U.K. to Sell GBP5 Bln 2.25% 2014 Bonds
UK	05/20	06:10	U.K. to Sell Bills

Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
SK	05/15	22:30	Korea to Sell KRW1.6 Tln 10-Year Bonds
SI	05/16		Singapore to sell 91-Day T-Bills
PH	05/16	01:30	Philippines Plans to Sell PHP1.5 Bln 91-Day Bills Due 2011
PH	05/16	01:30	Philippines Plans to Sell PHP3.5 Bln 182-Day Bills Due 2011
PH	05/16	01:30	Philippines Plans to Sell PHP4.0 Bln 364-Day Bills Due 2012
HK	05/16	23:30	Hong Kong to Sell HKD1.2 Bln .59% 2-Year Notes
HK	05/16	23:30	Hong Kong to Sell HKD25.611 Bln 91-Day Bills
HK	05/16	23:30	Hong Kong to Sell HKD9 Bln 182-Day Bills
JN	05/16	23:35	Japan to Sell 1-Year Bills
JN	05/16	23:45	Japan to Sell 40-Year Bond
CH	05/17	23:00	China to Sell 10 Year Bond
TH	05/17	23:00	Thailand to Sell THB8 Bln Bonds due 2031
JN	05/17	23:35	Japan to Sell 3-Month Bills
NZ	05/19	22:30	New Zealand Plans to Sell Government Bonds

Source: Bloomberg, Scotia Economics.

Events for the week of May 16 - 20

North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	05/16	09:00	Bernanke Speaks at Forum on Intangible Assets in Washington
CA	05/16	12:45	Bank of Canada Governor Carney speaks in Ottawa
US	05/18	14:00	Fed Releases Minutes of April 26-27 FOMC Meeting
US	05/18	19:00	Fed's Bullard Speaks in New York
US	05/19	08:30	Fed's Dudley to Speak in New Paltz, NY on Regional Economy
CA	05/19	10:30	Bank of Canada Review Release
CA	05/19	10:45	Bank of Canada Governor Mark Carney in Washington DC
US	05/19	12:00	Fed's Dudley to Speak in Middletown, New York
US	05/19	13:30	Fed's Fisher Speaks on Economy in McAllen, Texas
US	05/19	13:40	Fed's Evans Speaks at Forum in Chicago
CA	05/19	16:15	Bank of Canada Deputy Governor Timothy Lane in Vancouver
US	05/20	08:00	Fed's Dudley to Speak in Fishkill, New York

Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
EC	05/16	05:00	EU's Van Rompuy Meets China's President in Beijing
EC	05/16	07:30	Euro Finance Minister Group Meets EU Parliament Officials
HU	05/16	08:00	Hungary Base Rate Announcement
EC	05/16	11:00	Euro-Area Finance Ministers Meet in Brussels
EC	05/17	02:30	EU Finance Ministers Meet in Brussels
EC	05/17		EU's Van Rompuy Meets China's Wen in Beijing
EC	05/18	03:00	Rehn, Strauss-Kahn, Schaeuble Speak at EU Conference
EC	05/18	03:00	ECB's Stark Speaks in Athens
EC	05/18	03:00	ECB's Bini Smaghi Speaks in Milan
UK	05/18	04:30	Bank of England Releases Monetary Policy Committee Minutes
EC	05/18	05:30	ECB's Constancio Speaks at EU Conference in Brussels
EC	05/19	03:30	EU's Rehn Speaks at Conference on Global Finance
EC	05/19	09:00	ECB's Trichet, Tumpel-Gugerell Speak in Frankfurt
EC	05/20	03:30	ECB's Mersch, EFSF's Regling Speak at Luxembourg Conference

Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
AU	05/16	21:30	Reserve Bank's Board May Minutes
NZ	05/18	22:00	New Zealand Budget
HK	18-19 MAY		Composite Interest Rate
JN	18-20 MAY		BOJ to Hold Regular Policy Meeting
JN	19-20 MAY		BOJ Target Rate

Latin America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
AR	05/20	15:00	Industrial Production YoY NSA
AR	05/20	15:00	Industrial Prod. s.a. (MoM)

Source: Bloomberg, Scotia Economics.

Global Central Bank Watch

North America

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
Bank of Canada – Overnight Target Rate	1.00	May 31, 2011	1.00	--
Federal Reserve – Federal Funds Target Rate	0.25	June 22, 2011	0.25	--
Banco de México – Overnight Rate	4.50	May 27, 2011	4.50	--

Higher commodity prices continued to put upward pressure on US headline CPI in April but pass-through into core prices remains limited as businesses are unable to pass on higher costs to consumers. While profit margins continue to get squeezed amidst higher input costs, weaker discretionary spending, as illustrated by this week's retail sales report, should continue to curb any pass-through into core prices in the months ahead. In addition, commodity prices have started to retreat after peaking at the end of April, suggesting we could see more moderate gains in the months ahead. This should provide the Fed with further room to remain on the sidelines until at least Q1 2012. In Canada, we continue to expect the BoC to remain on hold until October of this year despite this week's better than expected trade report.

Europe

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
European Central Bank – Refinancing Rate	1.25	June 9, 2011	1.25	--
Bank of England – Bank Rate	0.50	June 9, 2011	0.50	0.50
Swiss National Bank – Libor Target Rate	0.25	June 16, 2011	0.25	--
Central Bank of Russia – Refinancing Rate	8.25	May 27, 2011	8.25	--
Hungarian National Bank – Base Rate	6.00	May 16, 2011	6.00	6.00
Central Bank of the Republic of Turkey – 1 Week Repo Rate	6.25	May 25, 2011	6.25	--

We expect the Hungarian National Bank to continue its wait-and-see policy, and maintain the benchmark interest rate at 6.0% following the Monetary Council's meeting next week. The most recent interest rate hike took place in January.

Asia Pacific

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
Bank of Japan – Target Rate	0.10	May 20, 2011	0.10	--
Reserve Bank of Australia – Cash Target Rate	4.75	June 7, 2011	4.75	4.75
Reserve Bank of New Zealand – Cash Rate	2.50	June 8, 2011	2.50	--
People's Bank of China – Lending Rate	6.31	TBA	--	--
Reserve Bank of India – Repo Rate	7.25	TBA	7.25	--
Hong Kong Monetary Authority – Base Rate	0.50	TBA	0.50	--
Central Bank of China Taiwan – Discount Rate	1.75	June 24, 2011	1.75	--
Bank Negara Malaysia – Overnight Policy Rate	3.00	July 7, 2011	3.00	--
Bank of Korea – Bank Rate	3.00	May 12, 2011	3.00	3.25
Bank of Thailand – Repo Rate	2.75	June 1, 2011	2.75	--
Bank Indonesia – Reference Interest Rate	6.75	June 9, 2011	6.75	--

The Bank of Japan will keep the benchmark interest rate close to 0%, continuing to support the recovery from the March catastrophe with liquidity injections buying corporate and government bonds. Well-timed unsterilized intervention in the foreign exchange market will remain key to prevent severe short-term strengthening of the yen.

Latin America

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
Banco Central do Brasil – Selic Rate	12.00	June 8, 2011	12.25	--
Banco Central de Chile – Overnight Rate	5.00	June 14, 2011	5.25	--
Banco de la República de Colombia – Lending Rate	3.75	May 30, 2011	3.75	--
Banco Central de Reserva del Perú – Reference Rate	4.25	June 9, 2011	4.25	--

The central bank of Chile decided to keep tightening monetary policy at the same pace as before and hiked the reference rate by 50 basis points (bps) to 5.00%, on the back of high international oil prices and elevated inflation expectations. The central bank of Peru raised the reference rate by 25 bps to 4.25%, despite recent Peruvian new sol volatility caused by the presidential elections. Many market participants, including ourselves, were expecting a pause in the monetary policy tightening cycle; however, the central bank has proven to be more concerned about high international food and energy prices than about temporary distortions in the local markets.

Africa

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
South African Reserve Bank – Repo Rate	5.50	July 18, 2011	5.50	--

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

	2000-09	2010	2011f	2012f	2000-09	2010	2011f	2012f
Output and Inflation (annual % change)	Real GDP				Consumer Prices²			
World ¹	3.6	4.9	4.4	4.4				
Canada	2.1	3.1	2.9	2.6	2.1	1.8	2.8	2.3
United States	1.8	2.9	2.6	2.8	2.6	1.6	2.8	2.0
Mexico	1.9	5.5	4.3	3.8	4.9	4.4	4.1	4.1
United Kingdom	2.7	1.3	1.4	1.7	2.2	3.7	3.7	2.9
Euro zone	1.2	1.7	1.4	1.6	2.1	2.2	2.5	2.3
Japan	0.7	3.9	1.0	2.9	-0.3	-0.5	0.5	1.2
Australia	3.0	2.8	3.8	3.5	3.2	2.7	2.8	2.5
China	10.2	10.3	9.5	9.7	2.0	3.3	5.0	4.5
India	7.2	8.7	8.5	8.8	5.7	9.4	7.5	6.0
Korea	4.5	6.3	5.5	5.3	3.2	3.5	3.3	3.0
Brazil	2.9	7.5	4.0	4.5	6.6	5.9	6.5	5.5
Chile	3.6	5.2	6.0	5.5	3.7	3.0	4.5	3.5
Peru	5.1	8.8	7.0	7.2	2.5	2.1	3.5	3.0
Central Bank Rates (% end of period)	11Q1	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	1.25	1.50	1.75	2.00	2.25	2.50	2.50
Bank of England	0.50	0.50	0.75	1.00	1.25	1.50	1.75	2.00
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	4.75	5.00	5.25	5.50	5.75	6.00	6.25	6.50
Exchange Rates (end of period)								
Canadian Dollar (USDCAD)	0.97	0.95	0.94	0.93	0.94	0.94	0.93	0.92
Canadian Dollar (CADUSD)	1.03	1.05	1.06	1.08	1.06	1.06	1.08	1.09
Euro (EURUSD)	1.42	1.47	1.49	1.50	1.48	1.48	1.50	1.50
Sterling (GBPUSD)	1.60	1.64	1.64	1.65	1.65	1.67	1.69	1.70
Yen (USDJPY)	83	79	82	84	86	87	89	90
Australian Dollar (AUDUSD)	1.03	1.07	1.08	1.09	1.09	1.10	1.10	1.11
Chinese Yuan (USDCNY)	6.5	6.4	6.2	6.1	6.0	5.9	5.8	5.8
Mexican Peso (USDMXN)	11.9	11.6	11.8	12.0	12.1	12.0	12.1	12.3
Brazilian Real (USDBRL)	1.63	1.59	1.59	1.60	1.62	1.65	1.67	1.70
Commodities (annual average)	2000-09	2010	2011f	2012f				
WTI Oil (US\$/bbl)	51	79	105	110				
Brent Oil (US\$/bbl)	50	80	118	122				
Nymex Natural Gas (US\$/mmbtu)	5.95	4.40	4.40	4.75				
Copper (US\$/lb)	1.78	3.42	4.40	4.15				
Zinc (US\$/lb)	0.73	0.98	1.09	1.09				
Nickel (US\$/lb)	7.11	9.89	11.25	8.90				
Gold, London PM Fix (US\$/oz)	522	1,225	1,530	1,500				
Pulp (US\$/tonne)	668	960	1,018	1,050				
Newsprint (US\$/tonne)	572	607	660	705				
Lumber (US\$/mfbm)	275	254	270	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	United States	2010	10Q3	10Q4	Latest
Real GDP (annual rates)	3.1	1.8	3.3		Real GDP (annual rates)	2.9	2.6	3.1	1.7 (Q1-A)
Current Acc. Bal. (C\$B, ar)	-50.0	-67.9	-44.2		Current Acc. Bal. (US\$B, ar)	-470	-502	-453	
Merch. Trade Bal. (C\$B, ar)	-9.1	-26.0	0.6	7.5 (Mar)	Merch. Trade Bal. (US\$B, ar)	-647	-683	-625	-745 (Mar)
Industrial Production	4.8	7.9	6.1	5.0 (Feb)	Industrial Production	5.3	6.7	6.2	5.9 (Mar)
Housing Starts (000s)	192	192	179	179 (Apr)	Housing Starts (millions)	0.59	0.59	0.53	0.55 (Mar)
Employment	1.4	1.8	1.7	1.7 (Apr)	Employment	-0.8	-0.1	0.5	1.1 (Apr)
Unemployment Rate (%)	8.0	8.0	7.7	7.6 (Apr)	Unemployment Rate (%)	9.6	9.6	9.6	9.0 (Apr)
Retail Sales	5.5	4.0	5.3	3.7 (Feb)	Retail Sales	6.8	5.8	8.1	7.9 (Apr)
Auto Sales (000s)	1560	1609	1554	1578 (Feb)	Auto Sales (millions)	11.5	11.6	12.3	13.1 (Apr)
CPI	1.8	1.8	2.3	3.3 (Mar)	CPI	1.6	1.2	1.3	3.2 (Apr)
IPPI	1.1	1.1	2.7	-5.0 (Mar)	PPI	4.2	3.8	3.8	6.8 (Apr)
Pre-tax Corp. Profits	18.4	15.3	16.2		Pre-tax Corp. Profits	36.8	34.8	16.1	
Mexico					Brazil				
Real GDP	5.5	5.3	4.6		Real GDP	6.7	5.9	4.2	
Current Acc. Bal. (US\$B, ar)	-5.7	-7.7	-14.5		Current Acc. Bal. (US\$B, ar)	-47.4	-46.1	-48.0	
Merch. Trade Bal. (US\$B, ar)	-3.1	-9.2	-4.6	17.3 (Mar)	Merch. Trade Bal. (US\$B, ar)	20.2	19.3	30.0	22.4 (Apr)
Industrial Production	6.0	6.2	4.8	4.2 (Mar)	Industrial Production	10.5	8.2	3.7	0.5 (Mar)
CPI	4.2	3.7	4.2	3.4 (Apr)	CPI	5.1	5.0	6.1	6.5 (Apr)
Chile					Italy				
Real GDP	5.2	6.9	5.8		Real GDP	1.2	1.4	1.5	
Current Acc. Bal. (US\$B, ar)	3.6	-0.2	4.9		Current Acc. Bal. (US\$B, ar)	-0.07	-0.05	-0.06	-0.10 (Feb)
Merch. Trade Bal. (US\$B, ar)	11.6	14.7	17.7	19.0 (Apr)	Merch. Trade Bal. (US\$B, ar)	-36.6	-22.9	-44.4	-59.5 (Feb)
Industrial Production	0.6	4.4	2.7	30.8 (Mar)	Industrial Production	6.5	7.5	5.1	3.2 (Mar)
CPI	1.4	2.2	2.5	3.2 (Apr)	CPI	1.6	1.6	1.8	2.5 (Mar)
Germany					France				
Real GDP	3.5	3.9	3.8		Real GDP	2.2	2.9	2.6	
Current Acc. Bal. (US\$B, ar)	187.9	165.7	250.8	328.0 (Mar)	Current Acc. Bal. (US\$B, ar)	-54.3	-41.8	-94.9	-46.1 (Mar)
Merch. Trade Bal. (US\$B, ar)	201.5	207.6	219.8	256.0 (Mar)	Merch. Trade Bal. (US\$B, ar)	-38.6	-42.2	-38.6	-49.3 (Mar)
Industrial Production	10.1	10.2	11.8	10.9 (Mar)	Industrial Production	5.1	4.3	4.8	3.3 (Mar)
Unemployment Rate (%)	7.7	7.6	7.5	7.1 (Apr)	Unemployment Rate (%)	9.8	9.8	9.6	9.5 (Mar)
CPI	1.1	1.2	1.5	2.4 (Apr)	CPI	1.5	1.5	1.6	2.1 (Apr)
Euro Zone					United Kingdom				
Real GDP	1.7	1.9	2.0		Real GDP	1.3	2.5	1.5	
Current Acc. Bal. (US\$B, ar)	-77	-43	-41	-156 (Feb)	Current Acc. Bal. (US\$B, ar)	-56.1	-56.0	-62.2	
Merch. Trade Bal. (US\$B, ar)	0.0	43.0	53.2	-16.2 (Feb)	Merch. Trade Bal. (US\$B, ar)	-151.4	-160.1	-169.4	-148.6 (Mar)
Industrial Production	7.4	7.2	8.0	5.4 (Mar)	Industrial Production	2.0	3.0	3.3	0.7 (Mar)
Unemployment Rate (%)	10.0	10.0	10.0	9.8 (Mar)	Unemployment Rate (%)	7.9	7.8	7.9	7.8 (Jan)
CPI	1.6	1.7	2.0	2.7 (Mar)	CPI	3.3	3.1	3.4	4.1 (Mar)
Japan					Australia				
Real GDP	4.0	4.7	2.5		Real GDP	2.7	2.7	2.7	
Current Acc. Bal. (US\$B, ar)	195.9	227.5	176.8	246.3 (Mar)	Current Acc. Bal. (US\$B, ar)	-31.8	-29.2	-34.4	
Merch. Trade Bal. (US\$B, ar)	74.4	72.7	61.2	14.1 (Mar)	Merch. Trade Bal. (US\$B, ar)	19.2	27.8	25.8	31.4 (Mar)
Industrial Production	16.6	13.3	6.8	-12.9 (Mar)	Industrial Production	4.3	4.2	-0.3	
Unemployment Rate (%)	5.1	5.0	5.0	4.6 (Mar)	Unemployment Rate (%)	5.2	5.2	5.2	4.9 (Apr)
CPI	-0.7	-0.8	0.1	0.0 (Mar)	CPI	2.8	2.8	2.7	
China					South Korea				
Real GDP	10.3	9.6	9.8		Real GDP	6.2	4.4	4.7	
Current Acc. Bal. (US\$B, ar)	30.5				Current Acc. Bal. (US\$B, ar)	28.2	39.7	36.6	17.2 (Mar)
Merch. Trade Bal. (US\$B, ar)	182.1	259.9	248.5	137.1 (Apr)	Merch. Trade Bal. (US\$B, ar)	41.2	42.5	52.1	69.9 (Apr)
Industrial Production	13.5	13.3	13.5	13.4 (Apr)	Industrial Production	16.6	12.9	9.9	8.9 (Mar)
CPI	4.6	3.6	4.6	5.3 (Apr)	CPI	3.0	2.9	3.6	4.2 (Apr)

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

Source: Bloomberg, Scotia Economics.

Interest Rates (% , end of period)

Canada	10Q4	11Q1	May/06	May/13*	United States	10Q4	11Q1	May/06	May/13*
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	1.05	0.96	0.97	0.91	3-mo. T-bill	0.12	0.09	0.01	0.02
10-yr Gov't Bond	3.12	3.35	3.19	3.19	10-yr Gov't Bond	3.29	3.47	3.15	3.16
30-yr Gov't Bond	3.53	3.76	3.58	3.59	30-yr Gov't Bond	4.33	4.51	4.29	4.31
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	60.4	(Mar)	FX Reserves (US\$B)	122.1	121.4	128.3	(Mar)
Germany					France				
3-mo. Interbank	0.96	1.26	1.42	1.33	3-mo. T-bill	0.40	0.80	1.00	0.95
10-yr Gov't Bond	2.96	3.35	3.17	3.08	10-yr Gov't Bond	3.36	3.71	3.50	3.42
FX Reserves (US\$B)	62.4	62.3	64.8	(Mar)	FX Reserves (US\$B)	52.2	55.8	61.0	(Mar)
Euro-Zone					United Kingdom				
Refinancing Rate	1.00	1.00	1.25	1.25	Repo Rate	0.50	0.50	0.50	0.50
Overnight Rate	0.82	0.90	0.85	1.06	3-mo. T-bill	4.85	4.85	4.85	4.85
FX Reserves (US\$B)	300.1	300.2	319.9	(Mar)	10-yr Gov't Bond	3.40	3.69	3.38	3.37
Japan					FX Reserves (US\$B)	67.2	68.3	75.3	(Mar)
Discount Rate	0.30	0.30	0.30	0.30	Australia				
3-mo. Libor	0.13	0.14	0.13	0.13	Cash Rate	4.75	4.75	4.75	4.75
10-yr Gov't Bond	1.13	1.26	1.15	1.13	10-yr Gov't Bond	5.55	5.49	5.43	5.37
FX Reserves (US\$B)	1077.4	1061.5	1080.6	(Mar)	FX Reserves (US\$B)	38.1	38.7	33.3	(Mar)

Exchange Rates (end of period)

USDCAD	1.00	0.97	0.97	0.97	¥/US\$	81.12	83.13	80.63	80.68
CADUSD	1.00	1.03	1.03	1.03	US\$/Australian\$	102.33	103.29	107.00	105.83
GBPUSD	1.561	1.603	1.637	1.620	Chinese Yuan/US\$	6.61	6.55	6.49	6.50
EURUSD	1.338	1.416	1.432	1.417	South Korean Won/US\$	1126	1097	1083	1087
JPYEUR	0.92	0.85	0.87	0.87	Mexican Peso/US\$	12.340	11.905	11.637	11.728
USDCHF	0.94	0.92	0.88	0.89	Brazilian Real/US\$	1.661	1.632	1.615	1.638

Equity Markets (index, end of period)

United States (DJIA)	11578	12320	12639	12629	U.K. (FT100)	5900	5909	5977	5936
United States (S&P500)	1258	1326	1340	1342	Germany (Dax)	6914	7041	7492	7414
Canada (S&P/TSX)	13443	14116	13567	13381	France (CAC40)	3805	3989	4058	4022
Mexico (Bolsa)	38551	37441	35212	35089	Japan (Nikkei)	10229	9755	9859	9649
Brazil (Bovespa)	69305	68587	64417	63219	Hong Kong (Hang Seng)	23035	23528	23262	23276
Italy (BCI)	1048	1120	1123	1124	South Korea (Composite)	2051	2107	2181	2120

Commodity Prices (end of period)

Pulp (US\$/tonne)	960	990	1020	1020	Copper (US\$/lb)	4.42	4.26	3.99	4.02
Newsprint (US\$/tonne)	640	640	640	640	Zinc (US\$/lb)	1.10	1.05	0.95	0.99
Lumber (US\$/mfbm)	308	290	236	228	Gold (US\$/oz)	1405.50	1439.00	1486.50	1505.75
WTI Oil (US\$/bbl)	91.38	106.72	97.18	98.22	Silver (US\$/oz)	30.63	37.87	34.20	36.20
Natural Gas (US\$/mmbtu)	4.41	4.39	4.24	4.16	CRB (index)	332.80	359.43	337.35	337.95

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

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