

# Global Views

Weekly commentary on economic and financial market developments

June 24, 2011

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Karen Cordes Woods (416) 862-3080  
[karen\\_woods@scotiacapital.com](mailto:karen_woods@scotiacapital.com)

Derek Holt (416) 863-7707  
[derek\\_holt@scotiacapital.com](mailto:derek_holt@scotiacapital.com)

### *Another Week Of Summer Doldrums, Before An Anticipated Rebound*

- Please see our full indicator, central bank, auction and event calendars on pp. A3-A10.

**European** markets will dominate global concerns next week and there are three key factors to watch. One is that Greek politicians will vote Tuesday on whether or not to approve further austerity equaling €78 billion worth of cuts, not to mention privatization efforts and a so-called “crisis levy” on wages. Greece has stated that its ability to cover its payroll and pensions ceases following July 15th should EU and IMF funding not come through in time, and that raises the spectre of a disorderly default. The key deadlines are a July 3rd meeting of euro-region finance ministers, and a July 8th timeline for the next payment to Greece. There is still enormous uncertainty over whether the Euro zone leaders will approve additional aid, and if so whether it is strictly short-term aid that only bridges Greece to the next deadline in September, or longer-lived.

Also on tap for European markets are a series of Italian government bond auctions on Tuesday following warnings by S&P and Moody’s that Italy’s debt rating may be cut. Italy’s last auction was for five-year bonds on June 14th and it garnered a soft bid-to-cover ratio of 1.28 at a yield of 3.9%, and the five-year generic yield has since risen close to the high of 4.09% set in late April compared to 2.6% last October. Lastly, markets will also digest the latest German state-level CPI prints for June that could extend the prior month’s negative prints as commodities moved lower, and German retail sales in May will be closely watched after the previous month only registered a modest gain on the heels of the steep decline in March.

Far and away the largest risk emanating from **Asian** markets will be China’s manufacturing sector purchasing managers’ index (PMI) on tap for Thursday evening (ET). Consensus is expecting a print just over the critical divide between expansion and contraction as manufacturing growth cools; the preliminary private sector PMI would support this view. Given that China’s current account to GDP ratio is now just half its over 10% level of four years ago, a confirmed disappointing reading will amplify global market concerns about a slowing Chinese economy. Japan will release retail sales and CPI that will be looked through as earthquake/tsunami related readings, but the Tankan survey of manufacturing sentiment may signal expectations for a sharp rebound in manufacturing activity.

**Canadian** markets won’t sway the global market bias, but the last CPI and GDP reports to be released before the next BoC statement on July 19th and the ensuing quarterly Monetary Policy Report will arrive on Wednesday and Thursday, respectively. The implications should be dovish for the Canada curve. Headline CPI for May should be soft given the reversal in commodity prices over the month; recall that headline CPI spiked by 1.1% m/m in March and then abruptly cooled to 0.3% in April. On April’s GDP figures, small pluses include slightly higher inflation-adjusted retail sales on what remains a general downward trend, and a small rise in hours worked. Drag effects stem from net merchandise trade, manufacturing shipments, and housing starts. As usual, however, we can at best track about one-third of the economy and Canada lacks the richness of indicators covering services, natural resources, public and utility sectors that are available elsewhere. Canadian markets will be closed on Friday July 1st for Canada Day.

Just as the last round of Treasury purchases by the US Fed is completed next week, **American** markets face a pair of releases that are likely to continue to paint a disappointing picture of the US economy. We expect a soft print for May consumer spending as high commodity prices continue to erode purchasing power. The headline figure that flashes on traders’ screens will be of less importance than the inflation-adjusted volume-based measure that is likely to be even softer. On balance, a weak consumer will persist through Q2, and will act to limit GDP growth to about 2% at an annualized rate. Friday’s ISM manufacturing print is likely to follow regional manufacturing surveys lower, including the Philly Fed and Empire surveys. Indeed, the softest ISM reading in almost two years is plausible. A softer but still expansionary reading may be looked through by markets on supply disruptions, but renewed contraction in the manufacturing sector will fan the debate over whether the growth disruption is temporary or longer-lived. Consumer confidence, pending home sales and vehicle sales round out data risk. Several Fed speeches will also garner attention including St. Louis Fed President James Bullard (non-voting, non-alternate but influential) who will speak on QE, and Minneapolis Fed President Narayana Kocherlakota (voting) who speaks on “rethinking leverage subsidies.”

Karen Cordes Woods (416) 862-3080  
[karen\\_woods@scotiacapital.com](mailto:karen_woods@scotiacapital.com)

Derek Holt (416) 863-7707  
[derek\\_holt@scotiacapital.com](mailto:derek_holt@scotiacapital.com)

### **QE3 Wouldn't Help, Just As QE2 Didn't**

- **Even if downsides to markets and the economy are longer-lived, QE3 wouldn't be the right response.**

The FOMC statement and Federal Reserve Chairman Ben Bernanke's press conference were right not to have given a nod to QE3 prospects, as we had expected. Much of this view stems from our ongoing belief that QE2 was a counter-productive failure such that QE3 would be an even bigger one. Thus, the opportunity here lies in betting against QE3 and selling Treasuries into the back half of the year once it becomes clearer that stronger (not strong) fundamentals are beginning to reappear.

Analysts who laud the beneficial role of QE2 in driving the risk trade are cherry-picking the influences to suit their case. If one is comfortable with assuming that QE2 drove the risk trade beyond all other influences that I think are actually more important, then QE2 on net served to squeeze out growth in the US economy. If it raised equity premiums, as the Fed argues, then that principally benefits the upper 10% of income earners who own the lion's share of outstanding equities (chart 1). But if one accepts the role of QE2 in driving equities then, to be consistent, one has to consider its influences upon other market variables of greater importance to main street households.

One is that if QE2 is what drove commodities higher, then the last thing US consumers needed was higher gasoline and food prices. Higher staples prices are part of why we're in a global soft spot on growth right now since nominal wage growth is being fully squeezed out by commodity gains over the past year.

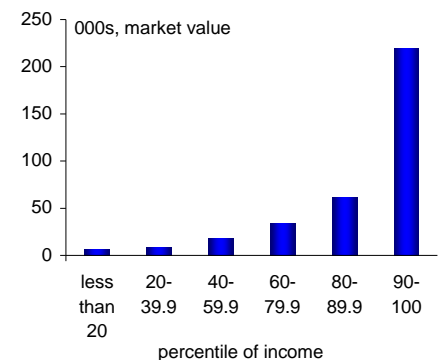
Another is that if QE2 averted deflation and raised inflation expectations, then the cost was to raise fixed borrowing costs including the key 30-year mortgage rate. Having done so is a part of the reasoning behind why housing is in a renewed funk.

Even in terms of corporate spreads the results are hardly a ringing endorsement; indeed if QE2 lifted equities, then why didn't the spread between the BAA benchmark and US 10s pull tighter in sympathy to the equity trade? Last August, that spread stood at about 300bps, then narrowed modestly to 270bps by the end of December, and now sits at about 280bps (chart 2).

Overall, QE1 made sense in leaning the Fed's balance sheet against a private market failure in the pricing of risky assets that was marked by the total evaporation of liquidity and numerous relative pricing anomalies. We supported QE1 and had forecast its arrival first through buying spread products but by also arguing that the Fed had to also buy Treasuries in order to avoid relative price distortions emerging from buying one set of assets only to witness flows coming out of Treasuries as investors chased the targeted asset classes. But on balance, I was deeply skeptical of the merits to QE2 last summer (and hoped the Fed wouldn't do it) and remain so. Advice from firms hoping to benefit from another round of QE is quite possibly doing a disservice to the US and global economies, not to mention their books if they don't understand the full longer-run consequences. As for the present, if the US really is just going through a soft spot right now that will correct itself once Japan's shock to global supply chains dissipates and once the lagged effects of the

**Chart 1**

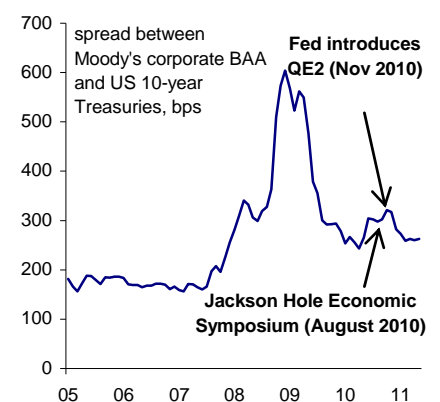
#### **Median value of stock holdings among US families with holdings**



Source: Federal Reserve's 2007 Survey of Consumer Finances, Scotia Capital Economics

**Chart 2**

#### **US Corporate spreads**



Source: Bloomberg, Scotia Capital Economics

Karen Cordes Woods (416) 862-3080  
[karen\\_woods@scotiacapital.com](mailto:karen_woods@scotiacapital.com)

Derek Holt (416) 863-7707  
[derek\\_holt@scotiacapital.com](mailto:derek_holt@scotiacapital.com)

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May-June commodity price correction work through in lifting growth later this year, then adding QE3 in the current context would make no sense whatsoever. It would fan the flames of inflation expectations that are well above the deflation risks of late 2008 (chart 3), and risk a repeat of all that QE2 may have done to commodities and fixed borrowing costs. As one additional point, destabilizing market influences would also be a consequence to what QE3 would most certainly bring by way of a sharply divided FOMC. Overall, perhaps the perverse outcome of QE3 when combined with the likely advent of fiscal drag in the US economy over coming years would be to really dust off double dip calls for the US economy that may be just delayed pending future policy directions.

Such concerns aside, in a broader global context, I maintain the belief that emerging markets in particular are excessively blaming the Fed for their own capital inflows. Strong growth in their own economies has created a pull effect on capital flows out of other slower-growing regions of the world for a much longer period of time than the period since the Fed lowered rates to zero, or pursued QE1, let alone before it pursued QE2. Fiscal policy excesses in some emerging market economies are also sparking inflation and capital financing inflows such that some of the countries who are blaming the Fed are in fact at least partly the architects of their own woes. What is also lost in the whole debate is that QE1 and QE2 were all about expanding the Fed's balance sheet in order to partially replace the vast loss of broader money creation through weak money multipliers and tepid growth in M2 money, let alone the destruction of the shadow banking sector. If EMs argue that the world is awash with excess liquidity, they are looking at only one measure of liquidity and ignoring the broader money destruction that has occurred over recent years.

In closing, my bias remains that the Fed is simultaneously and disproportionately blamed by EMs and credited by analysts for roles it has played in various markets through quantitative easing. But if one chooses to make the argument that QE2 worked and QE3 deserves a shot, then a holistic view upon all of its competing influences is required at a very minimum. Such a view is not flattering to the Fed without even getting into the issues associated with how money demand remains interest rate insensitive such that the link between Fed policy and economic growth is weak at best.

Chart 3

Deflation Still Absent



Pablo Bréard (416) 862-3876  
[pablo\\_breard@scotiacapital.com](mailto:pablo_breard@scotiacapital.com)

### ***Brazil's Latest Sovereign Credit Rating Upgrade; Outlook Remains Positive***

- **Brazil continues to show evidence of improved creditworthiness, prompting upgrade revisions.**

Brazil continues to consolidate its position as the most systemically relevant economy within the developing Americas. Its fundamental macroeconomic strength led international rating agencies to upgrade both the ratings and outlook of the country's sovereign debt obligations. At present, both Standard & Poor's and Moody's assign a "positive" outlook on Brazil's sovereign credit ratings.

As widely anticipated by market participants, Moody's upgraded Brazil's long-term foreign-currency rating to "Baa2" from "Baa3" on June 20<sup>th</sup>, positioning Brazil one investment-grade notch below Mexico. By maintaining a "positive outlook", the rating agency implies the likelihood of subsequent upgrade revisions over the next 12 to 18 months. Moody's highlighted Brazil's highly diversified economic structure and policy continuity, while firmly addressing potential overheating risks fuelled by excessive (election-related) government spending last year. Brazil is not immune to structural and/or cyclical challenges such as robust credit expansion, growing inflationary pressures, domestic relative-price distortions and the need to improve medium-term fiscal sustainability (focused on the primary balance).

A favourable external (financial and monetary) context, sustainable — yet at a decelerated pace — economic growth, inflationary build-up and a bias towards local-currency strength are clear features of Brazil's macroeconomic landscape. At present, there is broad-based consensus that the economy will decelerate from the high growth rate enjoyed last year to a more sustainable 4-4.5% expansion phase over the next 18-24 months. The government has adopted a decisive stance to contain potential overheating risks by combining fiscal consolidation measures with monetary tightening. In fact, the administration of President Dilma Rousseff announced a reduction of public spending equivalent to US\$50 billion, while Banco Central do Brasil has been tightening monetary conditions since April 2010, taking the market-reference SELIC rate from 8.75% to 12.25% today. In the context of ample global liquidity, the Brazilian economy and its currency, the real (BRL), have been benefitting enormously from the near-zero interest rate environment present in the US and the constant search for high-yielding investment options. Brazil, the world's seventh largest economy measured in purchasing power parity terms, currently offers the highest (and most attractive) interest rate environment amongst the G10 member countries.

The current state of debt-related strains within the euro zone also provides an area of relative strength in developing countries in the Americas. Market metrics imply that investors differentiate between fiscally distressed peripheral European sovereign credits and Latin American economies. Brazil is a primary magnet of foreign capital flows. The combined effect of attractive interest rates, sustained broad-based economic growth, massive foreign direct (equity) investments, favourable terms of trade (as a result of the commodity market boom under way), and large basic infrastructure needs ahead of global sports events including the football World Cup and the Olympic games, is exerting strengthening pressure on the Brazilian currency and improving the country's ability to service external debt obligations. International credit agencies are aligning their sovereign debt ratings with the visible improvement in Brazil's sovereign debt profile.

Karen Cordes Woods (416) 862-3080  
[karen\\_woods@scotiacapital.com](mailto:karen_woods@scotiacapital.com)

Derek Holt (416) 863-7707  
[derek\\_holt@scotiacapital.com](mailto:derek_holt@scotiacapital.com)

### Canadians Still Less Leveraged Than Americans ...

... even though Canadian household leverage is itself at a record high.

Canadian household finances remain somewhat sounder than they are in the United States as illustrated by updated Q1 data. Canadians are more heavily leveraged than they have ever been, but remain considerably less leveraged than Americans and Canadians own more assets relative to their incomes even following the deleveraging experiences and house price correction south of the border. What follows are several key observations after properly adjusting the data.<sup>1</sup>

Total debt relative to after-tax incomes still positions Canada to be lower than the US (chart 1). The US sits fifteen full percentage points higher than Canada on this measure. That said, even by this measure Canada could well cross the United States within the next 2-3 years.

Canadians, however, have more assets relative to income now than Americans do, and this ratio is near the pre-crisis all-time high in Canada (chart 2).

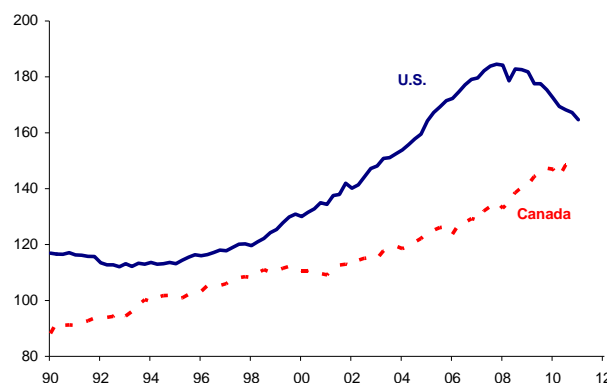
Total debt relative to assets also positions Canada to be lower than the US (chart 3). This is because Canadians use less debt to finance real estate purchases (chart 4) and less debt to purchase other non-real estate assets (chart 5). That said, real estate related debt is a slightly higher share of total household debt in Canada than in the US (chart 6).

Total Canadian home equity as a share of the outstanding value of residential real estate assets is much higher than in the US (chart 7), and this is not solely because of the US house price correction. The gap between the two countries began to emerge when Americans aggressively pursued cash-out refinancing and mortgage equity withdrawals. Canada has done less of this through secured lines of credit in recent years. As a partial consequence, Canadian household net worth is higher relative to income than it is in the US (chart 8).

We remain of the belief that Canadian house prices are exceptionally rich and that massive house price gains have been booked across the whole country over the past decade. That said, lower household leverage and — more importantly — the near absence of a shadow banking sector that has meant little by way of heavily leveraged CDO and SIV markets are among the many micro foundations to the mortgage market that insulate Canadian household finances to a greater extent than stateside. On net, the Canadian household sector is operating at structural and cyclical peaks, but we maintain that a soft landing toward cooler growth is likely.

Chart 1

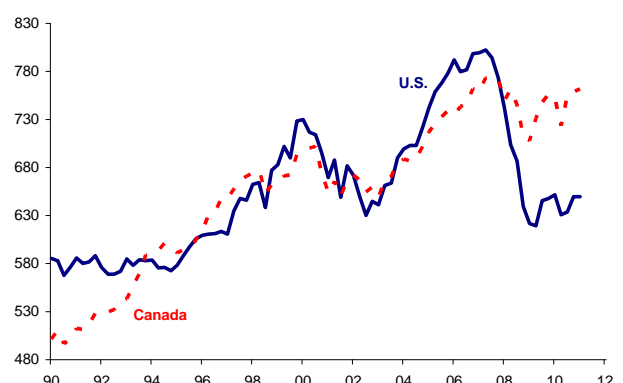
Total Debt as % PDI



Source: Federal Reserve, Statistics Canada, Scotia Capital Economics

Chart 2

Total Assets as % PDI



Source: Federal Reserve, Statistics Canada, Scotia Capital Economics

1. In order to compare Canadian and US household leverage, adjustments are needed to account for some key differences like:

- Unincorporated businesses are split out from households in the US but not in Canada. Therefore to compare to Canada, households and unincorporated businesses have to be carefully combined by avoiding double counting of equity in unincorporated businesses. Combining the sectors makes sense due to unlimited liability and the household's claim on the residual assets of unincorporated businesses, and to neutralize the effect tax policy has on where to park debt and assets.
- We include ALL liabilities not just credit market debt, since households are ultimately on the hook for various other debts like trade and tax payables.
- Canadian secured lines of credit are counted as consumer loans, but in the US, HELOCs are counted as mortgage credit. Thus, you need to add secured lines of credit to Canadian real estate debt.
- In both Canada and the US, real estate assets and liabilities must reflect both residential and nonresidential structures given the combination of households with unincorporated businesses.



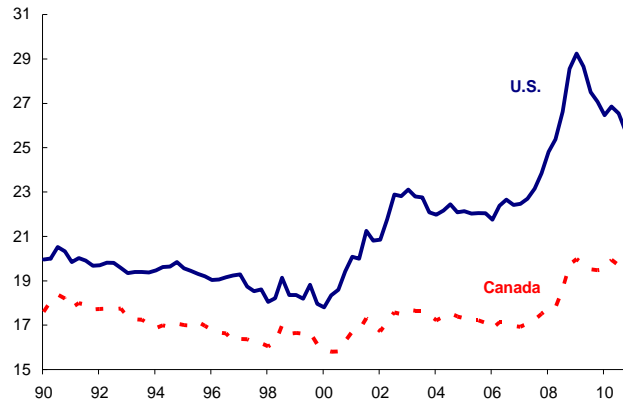
Karen Cordes Woods (416) 862-3080  
[karen\\_woods@scotiacapital.com](mailto:karen_woods@scotiacapital.com)

Derek Holt (416) 863-7707  
[derek\\_holt@scotiacapital.com](mailto:derek_holt@scotiacapital.com)

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**Chart 3**

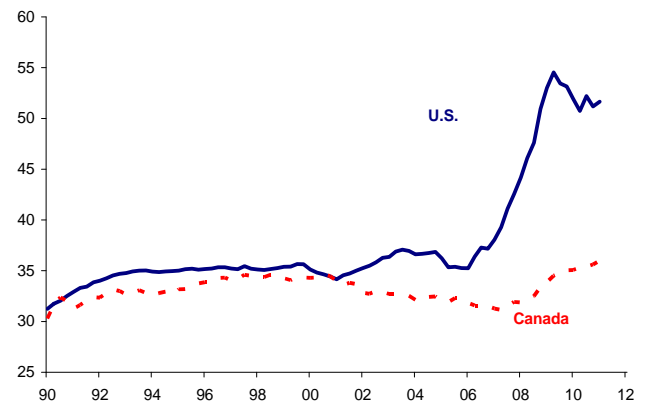
**Total HH Liabilities as % Total Assets**



Source: Federal Reserve, Statistics Canada, Scotia Capital Economics

**Chart 4**

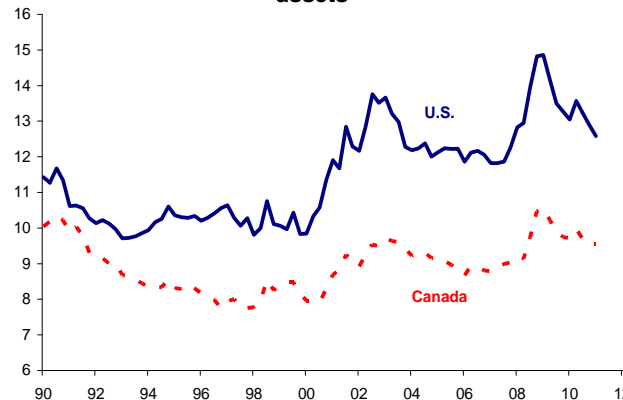
**Real Estate Debt as % Total Real Estate Assets**



Source: Federal Reserve, Statistics Canada, Scotia Capital Economics

**Chart 5**

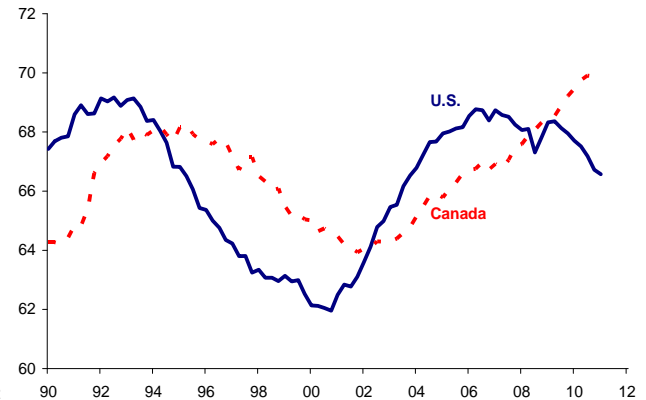
**Total non-real estate liabilities as % total non-real estate assets**



Source: Federal Reserve, Statistics Canada, Scotia Capital Economics

**Chart 6**

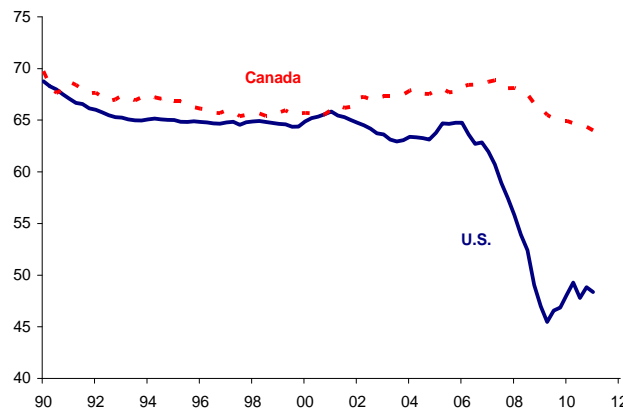
**Real Estate Debt as % Total HH Liabilities**



Source: Federal Reserve, Statistics Canada, Scotia Capital Economics

**Chart 7**

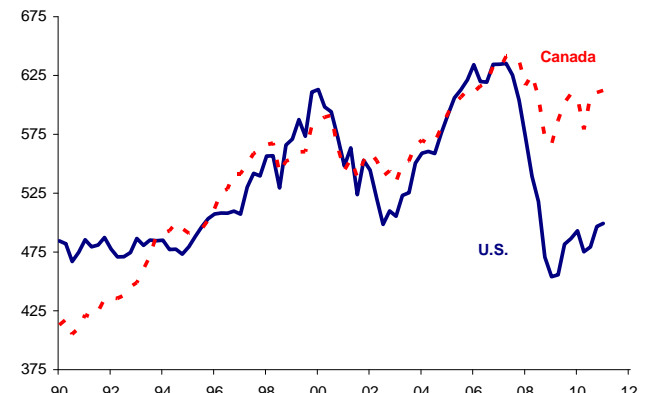
**Owners' Equity as % Real Estate Assets**



Source: Federal Reserve, Statistics Canada, Scotia Capital Economics

**Chart 8**

**Net Worth as % PDI**



Source: Federal Reserve, Statistics Canada, Scotia Capital Economics

Nathan Joshua (416) 866-5338  
[nathan\\_joshua@scotiacapital.com](mailto:nathan_joshua@scotiacapital.com)

Mary Webb (416) 866-4202  
[mary\\_webb@scotiacapital.com](mailto:mary_webb@scotiacapital.com)

### The Post-Recession Challenges of Curtailing Canada's GHG Emissions

- Reflecting the recession, Canada's 2009 GHG emissions dropped to the lowest level since 1999. The challenge lies in sustaining this level and achieving further declines.

For developed nations reporting to the United Nations Framework Convention on Climate Change (UNFCC), the recent recession lowered their 2009 greenhouse gas (GHG) emissions, pushing out the challenge of achieving their emissions reduction targets (*chart 1*). Canada estimates that its GHG emissions in 2009 dropped almost 6% to 690 megatonnes of carbon dioxide equivalent (Mt CO<sub>2</sub>e), following a decline of about 2% in 2008. At the lowest level since 1999, Canada's GHG emissions in 2009 are about 13½% above our Copenhagen Target of 607 Mt CO<sub>2</sub>e, set 17% below the 2005 emissions level, in line with the U.S. target. With respect to the Kyoto Protocol, Canada's 2009 emissions were 17% higher than 1990, and our commitment was to lower average national GHG emissions from 2008 to 2012 (the first five-year commitment period) 6% below the 1990 level.

Several details of the 2009 emissions data are encouraging. The federal government estimates that its initiatives have trimmed GHG emissions by 25-40 Mt CO<sub>2</sub>e from a business-as-usual case and climate change plans in each of the ten Provinces also have contributed to the national decline. Overall, Canada's GHG intensity (measured as megatonne of carbon dioxide equivalent per \$(2002) one billion of real GDP) dropped a hefty 25% between 1990 and 2009 (*chart 2*). From energy usage in manufacturing, the 24% fall in emissions since 1990 is in part due to the 2009 slump in output, notably in the pulp & paper and iron & steel industries. However, it also reflects energy efficiency and technology improvements and switching fuels. As well, the shift to lower emissions service-sector activity continues. GHG emissions from power generation in 2009 were 6% higher than 1990 despite a 27% jump in power generation as domestic demand increased and power exports doubled. From the peak in 2003, GHG emissions from power generation have dropped 24% given the shift away from refined petroleum products towards natural gas in thermal generation, restraint in coal-fired generation emissions (particularly in Ontario), greater reliance on renewable power and gains in energy efficiency. In 2009 the share of nuclear in total power generation was unchanged from 1990 at 16%, as was the share of hydro at 62%, but increases are anticipated in the latter, as well as in non-hydro renewable sources, whose 2009 share was just 1.2%.

Yet the Copenhagen Target will still be a challenge. Canada's industrial production continues to recover towards the early 2007 peak, and oil & natural gas, minerals, iron & steel and forest products remain essential exports. One well-publicized GHG emissions issue is the rise in nonconventional oil

Chart 1

#### International GHG Emissions

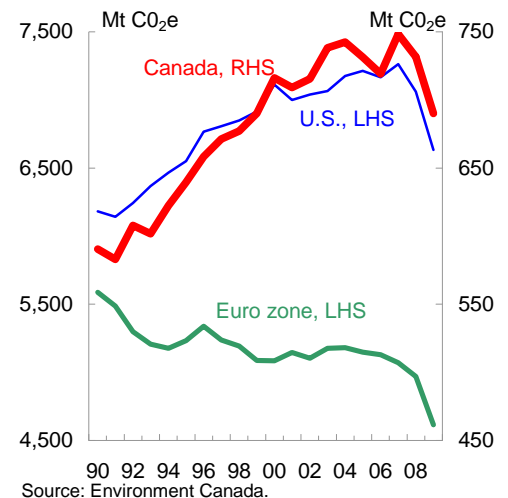
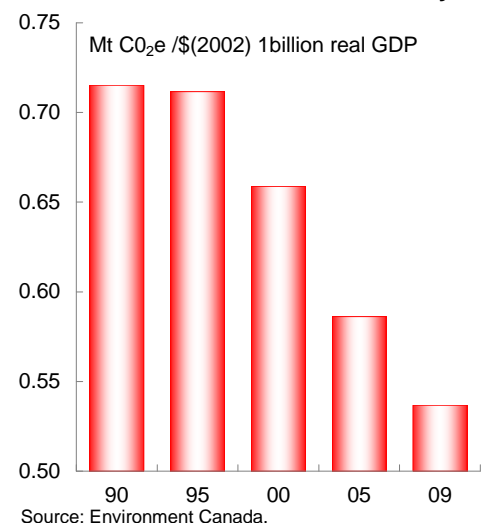


Chart 2

#### Canada's GHG Emissions Intensity





Nathan Joshua (416) 866-5338  
[nathan\\_joshua@scotiacapital.com](mailto:nathan_joshua@scotiacapital.com)

Mary Webb (416) 866-4202  
[mary\\_webb@scotiacapital.com](mailto:mary_webb@scotiacapital.com)

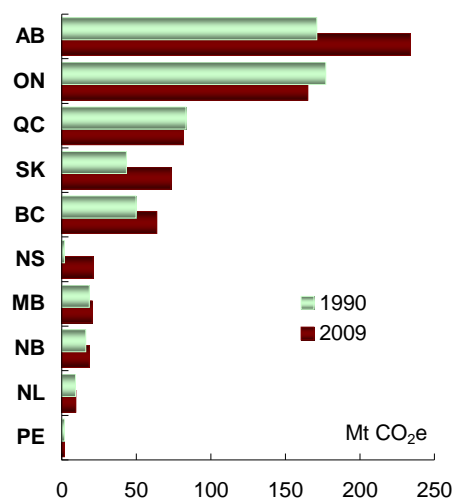
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production, from a one-fifth share of total crude oil output in 1990 to a one-half share in 2009. Although oil sands operations have trimmed their GHG intensity 29% since 1990 and further improvements are planned, Environment Canada still estimates that oil sands mining, extraction and upgrading activities were about 1.6 times more GHG-intensive than conventional oil production in 2009. For auto emissions, the continuing escalation in passenger kilometres travelled will pose a major offset to the anticipated benefits from shifting to lower horsepower, lower-emission vehicles over the next decade as global oil prices track higher and regulations come into force. Freight volumes relying on trucking will continue to grow, with emissions in 2009 from heavy-duty diesel trucks 91% above 1990 levels.

Canada's federal government, mindful of the ongoing competition with the United States for business investment and production activity, has committed to pace Washington's climate change policies. With the President's initial cap-and-trade proposal indefinitely shelved, the Environmental Protection Agency is proceeding with regulations by sector, an option that is both cumbersome and less efficient for the economy. Even this approach is encountering intense opposition, with concerns over the cost and employment impact of new rules to curb GHG emissions from power plants delaying their release until the end of September. With the slow pace of federal action, a number of States and Provinces have moved forward on climate change, a fragmented approach that also is costly for the economy. All ten Provinces, for example, have adopted climate change policies with GHG emissions targets, provided funding for energy efficiency and renewable energy programs and undertaken public building retrofits. Important individual initiatives include British Columbia's revenue-neutral carbon tax, Ontario's current goal to shutter its coal-fired power stations by 2014 (that contributed to its outsized 17½% GHG emissions reduction during 2008 and 2009) and Alberta's framework for limiting GHG emissions intensity for its large emitters.

Chart 3

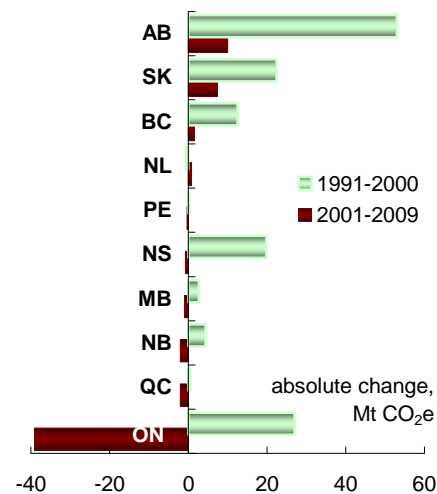
Provincial GHG Emissions and...



Source: Environment Canada.

Chart 4

...Their Growth



Source: Environment Canada.

Oscar Sánchez (416) 862-3174  
[oscar\\_sanchez@scotiacapital.com](mailto:oscar_sanchez@scotiacapital.com)

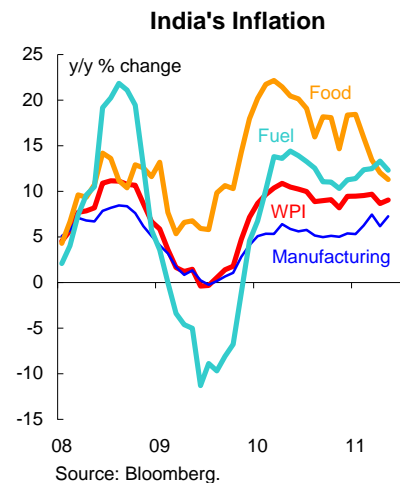
### **India's Inflation to Moderate in 2011H2, Barring an Unfavourable Weather Twist**

- **Declining food-related inflation being compensated by rising fuel costs and oil price volatility.**

India's annual inflation will continue on a downward trend, with prospects for the winter's harvest output key to determining the ultimate path of food-related costs. Wholesale price gains (the benchmark measure for inflationary trends in the country) are currently 9.1% y/y, having come down from 9.7% in March, and from the most recent peak of 10.9% back in April 2010 (see chart).

A stationary inflationary outlook can only be envisaged if the downtrend in food price growth is reversed because of an unfavourable monsoon harvest. However, given that fuel costs will stabilize, a persistent downtrend in overall inflation is possible, if weather-related issues do not emerge. India's wholesale price inflation will trend lower as reduced food price gains offset range-bound fuel cost gains. With these considerations in mind, we expect wholesale price inflation to close the year at 7.5% y/y.

Oil-related costs have recently become the leading inflationary driver in India as a result of the government's decision to withdraw public subsidies for gasoline and diesel in order to streamline public finances. While this move will likely lead to a more stable outlook for the economy as a whole, it has fanned the inflationary flames once more, notwithstanding improved conditions on the agricultural front. The increasing fuel costs have been transferred through the production chain to final prices, as economic performance remains hostage to an inefficient transport infrastructure.



Mounting inflationary expectations remain the main concern of the Reserve Bank of India (RBI), leaving it compelled to continue to raise interest rates. We expect one or two more 25 basis point rate hikes in the remainder of the year, leading to an 8% repo rate at end-2011. The RBI lifted the benchmark repo rate to 7.5% on June 16, after hiking at 10 of the past 15 monetary policy meetings. However, if inflation continues to stabilize in coming months, a slowdown in the pace of monetary tightening is likely.

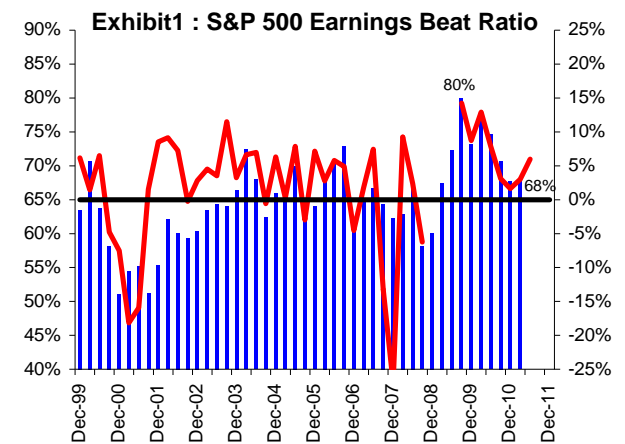
India's GDP growth slowed to a 7.8% y/y pace during the first quarter of 2011, following the 9% yearly advance of the previous three months in part as a result of persistent fiscal and monetary tightening. As the downtrend in government outlays is compensated by rising discretionary consumer spending combined with an extraordinary pickup in net exports, we expect GDP to gain momentum and reach an 8.3% y/y growth rate for 2011 overall. Indeed, foreign shipments averaged 40% y/y growth during the first four months of 2011, well above the 30% y/y gain of 2010, while imports have slowed to 16% y/y on average from the 33% pace of last year. An acceleration in net foreign demand bodes well for growth, notwithstanding accentuated monetary tightening. The pickup in net exports is partly a result of the relatively weak position of the Indian rupee (INR) against other regional currencies, as the latter have strengthened against the US dollar. The INR has remained range-bound, having depreciated slightly — 0.6% vis-à-vis the US dollar — so far in 2011.

Hugo Ste-Marie (514) 287-4992  
[hugo\\_ste-marie@scotiacapital.com](mailto:hugo_ste-marie@scotiacapital.com)

## Beat the Street — Q2/11

### Expect a Lower Beat Ratio in Q2

- After posting positive surprises for almost two years, the upcoming Q2 earnings season will be facing more challenges. Amongst the headwinds, the negative impacts from Japan's natural disaster on the global supply chain, a rising number of earnings warnings and stabilizing profit margins reduce the odds of a major earnings beat in Q2. Amongst the positive tailwinds, top-line growth continues to support earnings growth and U.S. dollar weakness is friendly to S&P 500 earnings. Earnings growth is not over, but S&P 500 Q2 EPS could "only" meet Street expectations.
- Ripple effects from Japan's earthquake.** The negative impacts from Japan's natural disaster have started to filter through global economic data. In the last few weeks, most U.S. and global macro data have been softer than expected, especially in manufacturing and auto production. In the United States, the ISM manufacturing dropped to 53.5 in May from a peak of 61.2 in March, industrial production has stalled since March, while capacity utilization, a key indicator on profit margins, has been flat to down over the last six months. Jobless claims, retail sales, and consumer confidence have all lost some momentum in recent months. These indicators are pointing toward slower growth, not a recession. We believe the disruption on the global supply chain will be relatively short-lived, and the U.S. economic activity is expected to regain momentum in 2H/11.
- More warnings.** According to Thomson Financial data, the number of companies issuing profit warnings for Q2 is increasing. There have been 78 negative EPS preannouncements for Q2/11 versus 32 positive ones, implying a negative-to-positive preannouncement ratio (N/P ratio) of 2.44 (78/32). The S&P 500 Q2 N/P ratio is higher than the 1.95 level seen in Q1 and above its long-term average of 2.1 (see Exhibit 1).
- Profit margins levelling off.** Margins have recovered strongly following the recession and the S&P 500 12-month trailing profit margin (8.8% in Q1) is almost back to its pre-recession peak of 9.3% hit in Q2/07. S&P 500 profit margins have expanded 455 bp since bottoming in Q2/09. Although profit margins are still modestly expanding on a 12-month trailing basis, the pace of expansion is stalling and even modestly contracting on a quarterly basis.
- Bottom line.** U.S. earnings growth should be sustained well into 2012, albeit at a slower pace. Muted Q2 economic activity, especially in manufacturing, coupled with stalling margin improvement should challenge the streak of strong beat ratios witnessed since 2009. Earnings are growing, but odds of a major positive surprise are lower.



### S&P 500: Q2/11 Earnings Preview

#### EPS Still growing, but positive surprise fading

- The S&P 500 beat ratio has been steadily declining since its Q3/09 peak of 80%. The beat ratio hit 68% in Q1, barely above its 10-year average of 65%. As pointed out in Exhibit 1, a decline in the S&P 500 beat ratio has been accompanied by lower sequential EPS growth in the last couple years. After nine straight quarters above its long-term average, we expect a weaker beat ratio in Q2.

Hugo Ste-Marie (514) 287-4992  
[hugo\\_ste-marie@scotiacapital.com](mailto:hugo_ste-marie@scotiacapital.com)

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- S&P 500 quarterly EPS is expected to reach US\$23.99 in Q2/11, suggesting a run rate of US\$96. Bottom-up estimates are implying a 6.2% sequential EPS improvement (US\$22.58 in Q1) and a gain of 15% YOY (see Exhibit 2). On a 12-month trailing basis, S&P 500 EPS should reach US\$90 in Q2/11 versus US\$86.97 in Q1 and US\$83.77 in Q4. Trailing earnings have increased 127% since its US\$39.61 trough in Q3/09.

Exhibit 2: S&P 500 EPS: Q2/11 Consensus Estimates					
	Q2/11 E		Contribution to Earnings	Sector Weighting	
	\$	QOQ			
<b>S&amp;P 500</b>	<b>23.99</b>	<b>6%</b>	<b>15%</b>	<b>100%</b>	<b>100%</b>
<b>Energy</b>	<b>12.32</b>	<b>14%</b>	<b>33%</b>	<b>15%</b>	<b>13%</b>
<b>Materials</b>	<b>4.97</b>	<b>0%</b>	<b>43%</b>	<b>4%</b>	<b>4%</b>
<b>Industrials</b>	<b>5.20</b>	<b>14%</b>	<b>13%</b>	<b>10%</b>	<b>11%</b>
<b>Discretionary</b>	<b>5.11</b>	<b>10%</b>	<b>10%</b>	<b>9%</b>	<b>10%</b>
<b>Cons. Staples</b>	<b>5.28</b>	<b>8%</b>	<b>10%</b>	<b>10%</b>	<b>11%</b>
<b>Health Care</b>	<b>8.21</b>	<b>5%</b>	<b>13%</b>	<b>12%</b>	<b>12%</b>
<b>Financials</b>	<b>4.03</b>	<b>6%</b>	<b>6%</b>	<b>17%</b>	<b>15%</b>
<b>Technology</b>	<b>7.12</b>	<b>0%</b>	<b>17%</b>	<b>18%</b>	<b>18%</b>
<b>Telecom</b>	<b>1.93</b>	<b>1%</b>	<b>-3%</b>	<b>2%</b>	<b>3%</b>
<b>Utilities</b>	<b>2.76</b>	<b>-13%</b>	<b>4%</b>	<b>3%</b>	<b>3%</b>
<b>S&amp;P SmallCap 600</b>	<b>5.53</b>	<b>15%</b>	<b>29%</b>	<b>n/a</b>	<b>n/a</b>

Source: Scotia Capital, S&P

- S&P 500 revenues.** Top-line is expected to expand 12.6% YOY in Q2. We have to go back to 2004/2005 to witness double-digit S&P 500 revenue growth. From a sector perspective, all 10 GICS sectors should enjoy top-line improvement, with Financials (+30% YOY), Energy (+27%), and Utilities (+19%) leading the way. The weakest top-line growth should come from Discretionary (+3% YOY) and Health Care (+5%).
- Small caps.** S&P 600 Small Cap EPS is expected to hit US\$5.53 in Q2, a 15% sequential increase and 29% YOY gain. Although small caps have more earning power than large caps, the bar is set high. Small caps beat ratio was weaker than large caps in Q1 (62% versus 68%), and actual earnings (US\$4.81) only marginally exceeded consensus (US\$4.74). A repeat of Q1 is likely.

### S&P/TSX: Q2/11 Earnings Preview

#### We expect a Miss

- According to bottom-up forecasts, TSX quarterly EPS should reach \$226 in Q2, up from \$205 in Q1 and \$209 in Q4. Bottom-up consensus is implying earnings growth of 10% on a sequential basis and 46% YOY (see Exhibit 3 on the following page). The robust YOY improvement is mainly due to a strong base effect as TSX Q2/10 EPS (\$154) was negatively impacted by a disastrous quarter in the Insurance space. This base effect is also having positive implications on yearly comparisons for Financials and TSX 60 indices. TSX quarterly revenues are expected to grow about 3% on both sequential and YOY basis. The TSX earnings season is actually starting in late July.
- On a 12-month trailing basis, TSX EPS should hit \$798 in Q2/11, the strongest level since December 2008 (\$844). TSX trailing earnings troughed at \$576 in Q2/09 and have rebounded 39% since then. TSX EPS is 16% below its pre-recession peak of \$925. In comparison, S&P 500 EPS rebounded 127% since their trough and 1.6% below the pre-crisis peak.

Hugo Ste-Marie (514) 287-4992  
[hugo\\_ste-marie@scotiacapital.com](mailto:hugo_ste-marie@scotiacapital.com)

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- **Small caps.** TSX Completion EPS is expected to hit \$13 in Q1, a 24% sequential improvement. On a YOY basis, earnings growth should come in at 41%, which is slightly below large caps (+48%) due to last year's base effect in the Insurance sector.
- We believe TSX Energy EPS could beat Street consensus, while Financials, Golds, and Mining EPS could disappoint. As we expect the TSX largest earnings' contributors to report earnings below expectations, TSX Q2 EPS could overall come short of Street expectations.
- **Bottom Line:** A weaker than expected U.S. and Canadian Q2 earnings season could maintain downward pressure on sentiment and equity markets through July and August. However, we believe the risk-off trade is in its late innings.

Exhibit 3: S&P 500 EPS: Q2/11 Consensus Estimates

	Q2/11 E			Contribution to Earnings	Sector Weighting
	\$	QOQ	YOY		
<b>S&amp;P/TSX</b>	<b>226</b>	<b>10%</b>	<b>46%</b>	<b>100%</b>	<b>100%</b>
<b>Energy</b>	<b>40</b>	<b>8%</b>	<b>29%</b>	<b>20%</b>	<b>27%</b>
<b>Materials</b>	<b>64</b>	<b>42%</b>	<b>60%</b>	<b>22%</b>	<b>21%</b>
<i>Divers. M/Mining</i>	<b>236</b>	<b>63%</b>	<b>77%</b>	<b>5%</b>	<b>4%</b>
<i>Gold</i>	<b>45</b>	<b>17%</b>	<b>68%</b>	<b>9%</b>	<b>11%</b>
<i>Fertilizers</i>	<b>118</b>	<b>44%</b>	<b>37%</b>	<b>5%</b>	<b>4%</b>
<b>Industrials</b>	<b>20</b>	<b>26%</b>	<b>7%</b>	<b>5%</b>	<b>6%</b>
<i>Transportation</i>	<b>53</b>	<b>48%</b>	<b>-1%</b>	<b>3%</b>	<b>2%</b>
<i>Capital Goods</i>	<b>9</b>	<b>0%</b>	<b>25%</b>	<b>1%</b>	<b>3%</b>
<b>Discretionary</b>	<b>22</b>	<b>44%</b>	<b>21%</b>	<b>5%</b>	<b>4%</b>
<b>Cons. Staples</b>	<b>34</b>	<b>49%</b>	<b>7%</b>	<b>3%</b>	<b>3%</b>
<b>Health Care</b>	<b>9</b>	<b>13%</b>	<b>115%</b>	<b>1%</b>	<b>1%</b>
<b>Financials</b>	<b>34</b>	<b>-3%</b>	<b>104%</b>	<b>34%</b>	<b>30%</b>
<i>Banks</i>	<b>44</b>	<b>2%</b>	<b>22%</b>	<b>24%</b>	<b>19%</b>
<i>Insurance</i>	<b>19</b>	<b>-4%</b>	<b>n/a</b>	<b>7%</b>	<b>6%</b>
<b>Technology</b>	<b>5</b>	<b>-21%</b>	<b>-3%</b>	<b>3%</b>	<b>2%</b>
<b>Telecom</b>	<b>19</b>	<b>11%</b>	<b>2%</b>	<b>5%</b>	<b>2%</b>
<b>Utilities</b>	<b>17</b>	<b>-55%</b>	<b>-8%</b>	<b>1%</b>	<b>4%</b>
<b>TSX 60</b>	<b>14</b>	<b>7%</b>	<b>48%</b>	<b>80%</b>	<b>n/a</b>
<b>TSX Completion</b>	<b>13</b>	<b>24%</b>	<b>41%</b>	<b>20%</b>	<b>n/a</b>

Q2/11 estimates include companies with quarter ending in May, June, and July - Data as at June 15, 2011.

Source: Scotia Capital estimates, Thomson Financial, Bloomberg

Alan Clarke (44 207) 826-5986  
[alan\\_clarke@scotiacapital.com](mailto:alan_clarke@scotiacapital.com)

## The View from Europe — UK

### Things can only get better...just not yet

- **Near zero economic growth, sky-high inflation and severely stretched public finances. Surely things can only get better for the UK economy? Not yet. We expect a worsening in growth, inflation and the public finances over the next six months, before the UK economy embarks on a more enduring recovery.**

### The lesser of two evils

Despite widespread suggestions that the government's austerity measures are killing the recovery, we believe that it is inflation that is doing the most damage. Government consumption is on track to grow at the same pace as it did a year ago. Although government investment is likely to slump by 12% y/y this year, its share of overall GDP is small (less than 3%). Combined, the drag on growth this year as a direct result of government spending cuts is worth less than ½% point.

The drag from the slowdown in household consumption growth is likely to be far more significant. Household consumption represents around 2/3 of overall GDP. We expect household consumption to shrink by 1% y/y during 2011. In turn, the main reason for our pessimism is the squeeze from inflation on real household disposable incomes. More specifically, household incomes are rising at around 2½% y/y. That is half the pace of inflation meaning that in real terms it is incredibly hard for household consumption to rise this year — more likely it will fall (Chart 1).

Admittedly, part of the reason that inflation is high is the government's VAT and other indirect tax increases. These account for 1.2 points of the headline 4.5% y/y inflation rate. That compares to the 1.6 percentage point contribution to inflation that is coming from food and energy price inflation. Moreover, both of those are likely to increase further in the coming months.

More specifically, domestic energy providers look set to raise gas and electricity tariffs by between 10 and 20% by the autumn (Chart 2). Food price inflation is also likely to continue rising — catching up with the surge in agricultural commodity prices. These are likely to push CPI inflation to over 5% y/y. This will intensify the squeeze on household disposable incomes; hold back consumption growth and in turn overall GDP. Against this

Chart 1: Consumption vs Real Income Growth

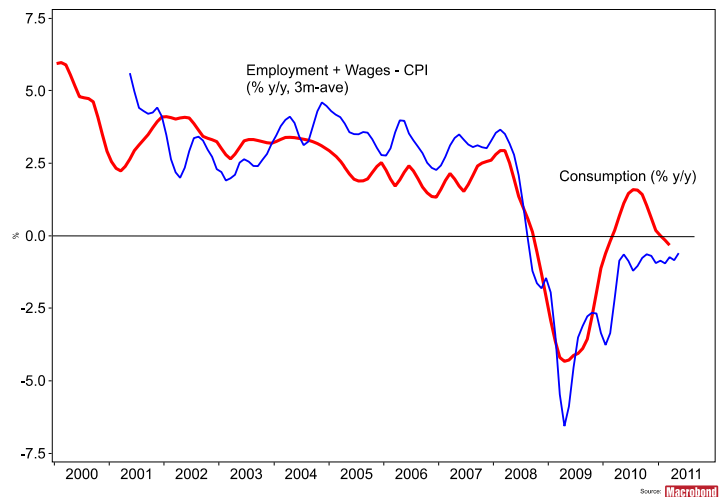
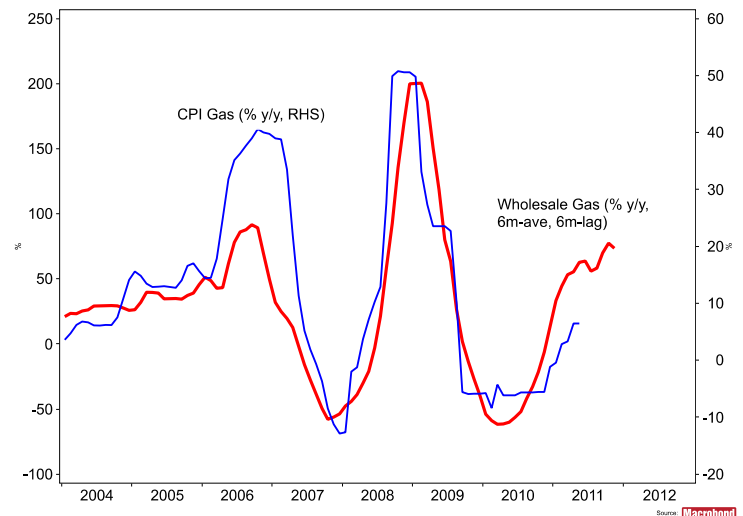


Chart 2: CPI Gas vs Wholesale Gas





Alan Clarke (44 207) 826-5986  
[alan\\_clarke@scotiacapital.com](mailto:alan_clarke@scotiacapital.com)

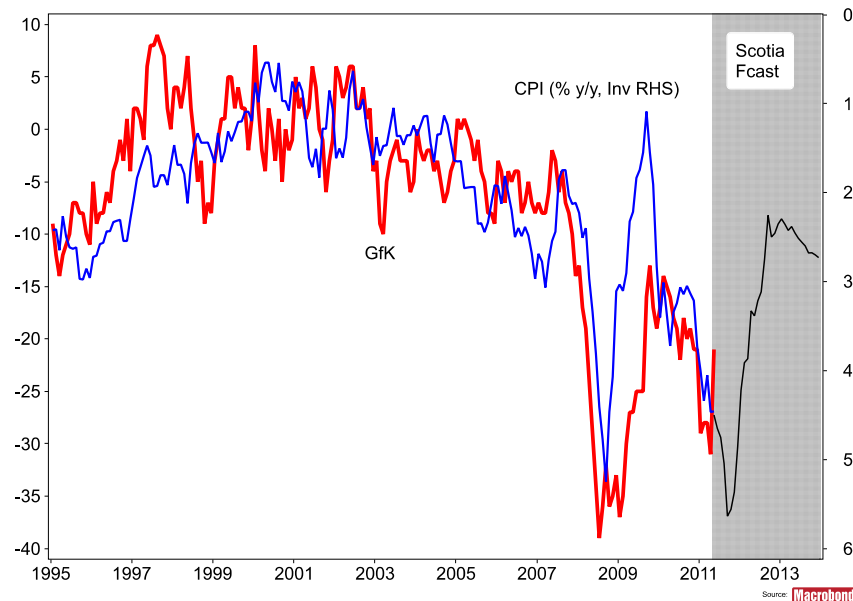
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backdrop, further question marks are likely to be raised over the coalition government's wisdom in consolidating the public finances as rapidly as they currently plan.

### **2012 will be a better year**

However, every cloud has a silver lining. Inflation is likely to fall sharply over the course of 2012. The VAT hike and other one-off increases (such as energy hikes in early 2010) will drop out of the inflation calculation, helping to push inflation back down towards 2% y/y (Chart 3). In turn, that should alleviate the pressures on household disposable incomes and help to boost overall GDP growth. Further still, that should assist the consolidation in the public finances. To be clear, the economy is unlikely to suddenly lurch forward. Rather, next year should look rather less gloomy.

Chart 3: Consumer Confidence vs Inflation



The bottom line is the situation in the UK is very challenging indeed. If the government (or indeed the Bank of England) can get through the next six months without flinching (i.e. resorting to 'plan b' on the public finances in the case of the government and refraining from higher interest rates in the case of the BoE) then next year promises to be an altogether better year. Keep the faith!

Karen Cordes Woods (416) 862-3080  
[karen\\_woods@scotiacapital.com](mailto:karen_woods@scotiacapital.com)

Derek Holt (416) 863-7707  
[derek\\_holt@scotiacapital.com](mailto:derek_holt@scotiacapital.com)

## Key Data Preview

### CANADA

Growth and inflation will take centre stage in Canada next week with the release of April's real GDP report along with May's CPI report. Results from both reports will likely support monetary policy accommodation.

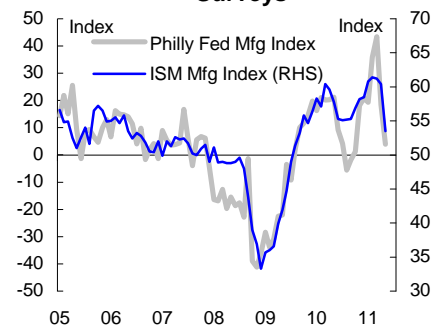
After a rebound in March to end the quarter on a solid note, expectations for next week's **real GDP report** (Thursday) suggest that growth stalled in April as stronger aggregate hours worked and real retail sales — only the second monthly gain over the past five months — are offset by weaker housing, manufacturing shipment volumes, a decline in net exports and inflation-adjusted wholesale sales. And, this is only a reflection of the observable factors that play into the monthly GDP report. Poor weather during the month may also have had a negative impact on many of the unobservable industries such as agriculture, suggesting that the risk is to the downside for this report. This weak economic environment will likely continue over the quarter as a whole given the supply chain constraints associated with the mid-March earthquake/tsunami in Japan and further weakness in inflation-adjusted consumer spending from the recent run-up in food and fuel costs. Going into the second half of the year, however, we should witness a more positive growth story as several industries, especially the auto sector, rebound as Japanese production comes back on line.

Higher food prices will likely offset lower gasoline prices to result in a modest monthly gain in headline **Canadian consumer prices** (Wednesday) in May although on a year-over-year basis, prices should moderate, a welcome sign with headline CPI above the BoC's upper bound of 3%. Core prices should also push up once again in May partially as a result of temporary factors such as higher new motor vehicle prices stemming from the shortages created by the recent Japanese disaster. As auto production comes back on line, however — and we are already seeing evidence of this — vehicle prices will start to move down once again. Indeed, going forward underlying prices may remain soft given the current weak spending environment which will likely keep a cap on retailers' pricing power. This should keep downward pressure on monthly gains although on a year-over-year basis, prices will likely continue to move up on base effects after prices declined at the end of last year.

### UNITED STATES

While we don't have all of the results for the different regional Fed manufacturing surveys yet, we do know that both the New York Empire manufacturing survey as well as the Philadelphia Fed survey unexpectedly pushed below zero in June, suggesting that the manufacturing sector contracted in both regions. We also know that the Philly Fed is roughly 87% correlated with the **ISM manufacturing index** (Friday) while the Empire State is about 80% correlated with the ISM. This suggests that we could witness the first sub-50 print for the ISM (equal to a sub-zero print for both the Philly and Empire) since July 2009, a sign that the US manufacturing sector is contracting across the US. Bear in mind, however, that some of this weakness is likely the result of the supply chain distortions stemming from Japan's earthquake and thus should be temporary although weaker US domestic growth will still keep downward pressure on the index as a whole. Given how jittery markets have been amid multiple signs of a global economic slowdown, a surprise in either direction for the ISM could result in a large market reaction.

ISM Manufacturing Index tightly correlated with Philly Fed Surveys



Source: Bloomberg, Scotia Capital Economics.

We already know that US retail sales turned negative in May on the back of weaker auto sales and this will likely put downward pressure on **personal consumption** (Monday) in May. However, we do not expect to see a decline in total consumption given further gains in the services sector. Indeed, while retail sales account for about 30% of total consumption, services still account for the lion's share. Real consumption will also likely increase once again, providing a lift to real GDP in May, while income growth should continue to benefit from government stimulus and rising wages — albeit at a relatively sluggish pace.

Daniela Blancas (416) 862-3908  
[daniela\\_blancas@scotiacapital.com](mailto:daniela_blancas@scotiacapital.com)

Alan Clarke (44 207) 826-5986  
[alan\\_clarke@scotiacapital.com](mailto:alan_clarke@scotiacapital.com)

Oscar Sánchez (416) 862-3174  
[oscar\\_sanchez@scotiacapital.com](mailto:oscar_sanchez@scotiacapital.com)

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## EUROPE

We expect headline German National CPI inflation to remain unchanged at 2.3% y/y — though with a significant risk of a slightly lower 2.2% y/y outcome. Meanwhile, the harmonized measure is likely to edge up to 2.5% y/y. The first of the 6 regions, Saxony, released its data rather earlier than the other regions. This showed a 0.1% m/m rise with the yearly rate stable at 2.3% y/y. However, if the breakdown of Saxony is replicated at the national level, it would imply a 2.2% y/y rate of inflation. Within the breakdown, the main signals at this stage were a more subdued than expected reading for food prices, a continued fall in transport energy — offset by a surprisingly large increase in leisure prices. We suspect that the (earlier than usual) timing of holidays in Saxony has contributed to the higher than expected print. Leisure prices — particularly package holidays — tend to spike higher in July. If this is repeated at the national level, we would expect some payback via lower than normal increases next month. At a broader level, these developments imply that core inflation picked up sharply (from 1.1% y/y to 1.4% y/y), though would be likely to reverse most of that next month. Meanwhile, energy price inflation slows from 9.4% y/y to 8.8% y/y. Given the recent fall in the price of oil, y/y energy price inflation is likely to continue to slow. Meanwhile, we expect faster food price inflation to resume, which should mean that the peak in headline inflation is still ahead of us. At the euro zone level we expect a moderate downward surprise, with headline inflation nudging down to 2.7% y/y from 2.8% y/y previously. The pattern of the breakdown is likely to be largely the same. However, if it does deviate from Germany it is likely to be due to higher food price inflation elsewhere in the euro zone, though offset by lower leisure price increases than implied by the early German data.

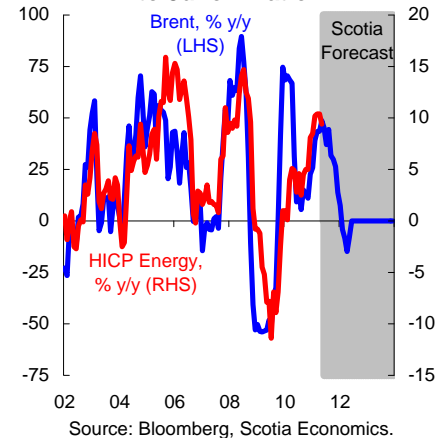
## LATIN AMERICA

Chile and Brazil will be releasing industrial production (IP) data next week. Following two months of high rates of growth in Chile — due to the low base effect caused by the natural disaster last year — we expect IP to maintain its upward trend, but at a more moderate pace. In April, IP grew 9.5% y/y after an increase of 30.9% y/y in February, driven by a stronger local and foreign demand. In Brazil, IP has slowed in recent months, posting a 1.3% y/y decrease in April and the largest monthly decline in almost three years. The slide in the manufacturing sector should help ease pressures on the central bank's fight against inflation and calm somewhat concerns of an overheated economy. In addition, the monetary authorities in Brazil will announce the 2013 inflation target.

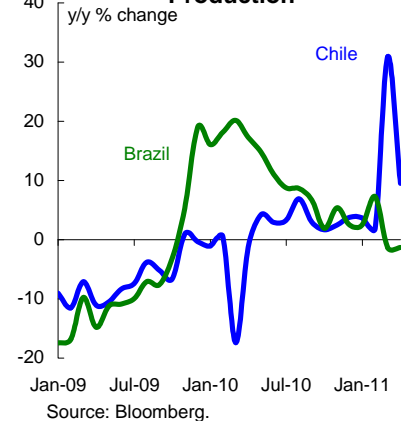
## ASIA

Japan's industrial production is expected to display a rebound from the double-digit year-over-year drop posted in April to a less severe contraction of -5.0% y/y in May. While the total value of export shipments to China continued to fall through May, export growth did show a pickup in yearly terms, from 4.6% y/y to 7.8%.

### Modest Downside Risk to June Inflation



### Brazilian and Chilean Industrial Production



### Japan's Industrial Production



## Key Indicators for the week of June 27 - July 1

## North America

Country	Date	Time	Event	Period	BNS	Consensus	Latest
US	06/27	08:30	Personal Income (MoM)	MAY	0.3	0.4	0.4
US	06/27	08:30	Personal Spending (MoM)	MAY	0.0	0.1	0.4
US	06/27	08:30	PCE Deflator (YoY)	MAY	--	2.4	2.2
US	06/27	08:30	PCE Core (MoM)	MAY	--	0.2	0.2
US	06/27	08:30	PCE Core (YoY)	MAY	--	1.1	1.0
US	06/27	10:30	Dallas Fed Manf. Activity	JUN	--	-3.1	-7.4
MX	06/28	09:00	Global Economic Indicator IGAE (YoY)	APR	4.26	3.2	3.6
US	06/28	09:00	S&P/CS 20 City (MoM) SA	APR	--	-0.2	-0.2
US	06/28	10:00	Consumer Confidence Index	JUN	59.0	61.0	60.8
US	06/28	10:00	Richmond Fed Manufact. Index	JUN	--	-2.0	-6.0
CA	06/29	07:00	Consumer Price Index (MoM)	MAY	0.2	0.3	0.3
CA	06/29	07:00	Consumer Price Index (YoY)	MAY	3.2	3.3	3.3
CA	06/29	07:00	Bank Canada CPI Core (MoM)	MAY	0.2	0.2	0.2
CA	06/29	07:00	Bank Canada CPI Core (YoY)	MAY	1.5	1.5	1.6
US	06/29	07:00	MBA Mortgage Applications (WoW)	24-Jun	--	--	-5.9
CA	06/29	09:00	Teranet/National Bank HPI (MoM)	APR	0.8	--	0.6
US	06/29	10:00	Pending Home Sales (MoM)	MAY	--	0.8	-11.6
CA	06/30	08:30	Gross Domestic Product (MoM)	APR	0.0	-0.1	0.3
US	06/30	08:30	Initial Jobless Claims (000s)	24-Jun	430	420	429
US	06/30	08:30	Continuing Claims (000s)	18-Jun	3700	3690	3697
US	06/30	09:45	Chicago Purchasing Manager Index	JUN	--	54.0	56.6
MX	06/30	15:30	Budget Balance (MXN billions YTD)	MAY	--	--	-6.6
US	07/01	09:55	U. of Michigan Confidence Index	JUN F	--	72.0	71.8
MX	07/01	10:00	Central Bank Economists Survey				
US	07/01	10:00	Construction Spending (MoM)	MAY	--	0.0	0.4
MX	07/01	10:00	Remittances (USD millions)	MAY	--	--	1872.8
US	07/01	10:00	ISM Manufacturing Index	JUN	49.5	51.5	53.5
US	07/01	17:00	Domestic Vehicle Sales (units, millions)	JUN	--	9.4	9.2
US	07/01	17:00	Total Vehicle Sales (units, millions)	JUN	12.2	12.0	11.8

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

## Key Indicators for the week of June 27 - July 1

## Europe — continued on next page

Country	Date	Time	Event	Period	BNS	Consensus	Latest
UK	06/26	19:01	Lloyds Business Barometer	JUN	--	--	14.0
IT	06/27	04:00	Hourly Wages (MoM)	MAY	--	--	0.1
GE	06/27	00:00	Retail Sales (MoM)	MAY	--	0.5	0.3
GE	06/27	00:00	Import Price Index (MoM)	MAY	--	-0.3	0.3
UK	JUN 27-30		Nat'wide House prices sa (MoM)	JUN	0.0	0.0	0.3
GE	06/28	02:00	GfK Consumer Confidence Survey	JUL	--	5.3	5.5
IT	06/28	04:00	PPI (MoM)	MAY	--	0.1	0.6
UK	06/28	04:30	Total Business Investment(QoQ)	1Q F	--	-7.1	-7.1
UK	06/28	04:30	Current Account (BP)	1Q	--	-4.7	-10.5
UK	06/28	04:30	GDP (QoQ)	1Q F	--	0.5	0.5
IT	06/28	05:00	Business Confidence	JUN	--	101.0	101.3
GE	06/28		Consumer Price Index (MoM)	JUN P	0.1	0.1	0.0
GE	06/28		Consumer Price Index (YoY)	JUN P	2.3	2.3	2.3
GE	06/28		CPI - Brandenburg (MoM)	JUN	--	--	-0.1
GE	06/28		CPI - Brandenburg (YoY)	JUN	--	--	1.9
GE	06/28		CPI - Bavaria (MoM)	JUN	--	--	-0.2
GE	06/28		CPI - Bavaria (YoY)	JUN	--	--	2.1
GE	06/28		CPI - Baden Wuerttemberg (MoM)	JUN	--	--	-0.2
GE	06/28		CPI - Baden Wuerttemberg (YoY)	JUN	--	--	2.2
GE	06/28		CPI - Hesse (MoM)	JUN	--	--	-0.2
GE	06/28		CPI - Hesse (YoY)	JUN	--	--	2.0
GE	06/28		CPI - EU Harmonised (MoM)	JUN P	0.1	0.1	-0.2
GE	06/28		CPI - EU Harmonised (YoY)	JUN P	2.5	2.5	2.4
GE	06/28		CPI - North Rhine-West. (MoM)	JUN	--	--	-0.1
GE	06/28		CPI - North Rhine-West. (YoY)	JUN	--	--	2.3
GE	06/28		CPI - Saxony (MoM)	JUN	--	--	0.1
GE	06/28		CPI - Saxony (YoY)	JUN	--	--	2.3
SP	06/28		Spain Budget Balance (€billions YTD)	MAY	--	--	-2450
FR	06/29	01:30	Gross Domestic Product (QoQ)	1Q F	1.0	1.0	1.0
SP	06/29	03:00	Adjusted Real Retail Sales (YoY)	MAY	--	--	-2.0
SP	06/29	03:00	Retail Sales (Real) (YoY)	MAY	--	--	-2.0
UK	06/29	04:30	Index of Services (3mth/3mth)	APR	0.6	1.3	0.9
UK	06/29	04:30	Index of Services (MoM)	APR	-2.0	--	0.6
UK	06/29	04:30	Net Consumer Credit (£ billions)	MAY	0.5	0.4	0.5
UK	06/29	04:30	Net Lending Sec. on Dwellings (£ billions)	MAY	--	0.7	0.7
UK	06/29	04:30	Mortgage Approvals (000s)	MAY	47.0	46.3	45.2
EC	06/29	05:00	Euro-Zone Consumer Confidence	JUN F	-10.2	-10.0	-10.0
EC	06/29	05:00	Euro-Zone Economic Confidence	JUN	105.0	105.0	105.5
EC	06/29	05:00	Euro-Zone Indust. Confidence	JUN	3.5	3.5	3.9
EC	06/29	05:00	Euro-zone Services Confidence	JUN	9.0	9.0	9.2
UK	06/29	19:01	GfK Consumer Confidence Survey	JUN	23.0	-24.0	-21.0

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

## Key Indicators for the week of June 27 - July 1

## Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>	<u>Period</u>	<u>BNS</u>	<u>Consensus</u>	<u>Latest</u>
FR	06/30	02:45	Consumer Spending (MoM)	MAY	0.4	1.0	-1.6
FR	06/30	02:45	Producer Prices (MoM)	MAY	0.1	0.2	0.8
SP	06/30	03:00	CPI (EU Harmonised) (YoY)	JUN P	--	3.4	3.4
SP	06/30	03:00	Consumer Price Index (YoY)	JUN P	--	--	3.5
GE	06/30	03:55	Unemployment Change (000's)	JUN	--	-17.0	-8.0
GE	06/30	03:55	Unemployment Rate (% , SA)	JUN	--	7.0	7.0
EC	06/30	05:00	Euro-Zone CPI Estimate (YoY)	JUN	--	2.8	2.7
IT	06/30	05:00	CPI (NIC incl. tobacco) (MoM)	JUN P	--	0.1	0.1
IT	06/30	05:00	CPI (NIC incl. tobacco) (YoY)	JUN P	--	2.7	2.6
IT	06/30	05:00	CPI - EU Harmonized (MoM)	JUN P	--	0.1	0.2
IT	06/30	05:00	CPI - EU Harmonized (YoY)	JUN P	--	3.0	3.0
SW	07/01	02:30	Swedbank PMI Survey	JUN	--	--	56.1
NO	07/01	03:00	Norway PMI (SA)	JUN	--	56.0	56.9
SP	07/01	03:15	Spain June Manufacturing PMI				
IT	07/01	03:45	PMI Manufacturing	JUN	--	50.5	52.8
FR	07/01	03:50	PMI Manufacturing	JUN F	52.5	52.8	52.5
GE	07/01	03:55	PMI Manufacturing	JUN F	--	54.9	54.9
IT	07/01	04:00	Unemployment Rate (SA)	1Q	--	8.4	8.5
IT	07/01	04:00	Unemployment Rate (SA)	MAY P	--	8.2	8.1
EC	07/01	04:00	PMI Manufacturing	JUN F	--	52.0	52.0
UK	07/01	04:30	PMI Manufacturing	JUN	--	52.3	52.1
IT	07/01	05:00	Deficit to GDP (year to date)	1Q	--	--	4.5
EC	07/01	05:00	Euro-Zone Unemployment Rate (%)	MAY	--	9.9	9.9
IT	07/01	13:00	Budget Balance (€billions)	JUN	--	--	-5.0
IT	07/01	13:00	Budget Balance (€billions YTD)	JUN	--	--	-44.8

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.



## Key Indicators for the week of June 27 - July 1

## Asia Pacific — continued on next page

Country	Date	Time	Event	Period	BNS	Consensus	Latest
CH	JUN 24-28		Leading Index	MAY	--	--	102.1
NZ	06/26	18:45	Trade Balance (NZD millions)	MAY	--	1000.0	1113.1
NZ	06/26	18:45	Exports (NZD millions)	MAY	--	4725.0	4651.0
NZ	06/26	18:45	Imports (NZD millions)	MAY	--	3750.0	3537.9
CH	06/26	22:00	Industrial Profits YTD (YoY)	MAY	--	--	29.7
JN	JUN 26-30		Small Business Confidence Index	JUN	--	--	37.8
SK	06/27	19:00	Goods Balance in (USD million)	MAY	--	--	3926.9
JN	06/27	19:50	Retail Trade (YoY)	MAY	--	-2.2	-4.8
JN	06/27	19:50	Retail Trade (MoM) SA	MAY	--	1.0	4.1
JN	06/27	19:50	Large Retailers' Sales (YoY)	MAY	--	-1.9	-1.9
PH	06/27	21:00	Trade Balance (USD millions)	APR	--	--	-1170.0
PH	06/27	21:00	Total Monthly Imports (USD millions)	APR	--	--	5523.0
PH	06/27	21:00	Total Imports (YoY)	APR	--	--	21.2
HK	06/28	04:30	Trade Balance (HKD billions)	MAY	--	-37.3	-42.4
HK	06/28	04:30	Exports (YoY)	MAY	--	3.5	4.1
HK	06/28	04:30	Imports (YoY)	MAY	--	7.4	6.1
JN	06/28	19:50	Industrial Production (MoM)	MAY P	8.3	5.5	1.6
JN	06/28	19:50	Industrial Production (YOY)	MAY P	-5.0	-6.3	-13.6
AU	06/28	21:00	DEWR Skilled Vacancies (MoM)	JUN	--	--	-0.4
NZ	06/29	18:45	Building Permits (MoM)	MAY	--	3.2	-1.6
SK	06/29	19:00	Industrial Production (MoM)	MAY	1.0	1.0	-1.5
SK	06/29	19:00	Industrial Production Mfg (YoY)	MAY	--	--	7.1
SK	06/29	19:00	Service Industry Output (YoY)	MAY	--	--	3.1
JN	06/29	19:15	Markit/JMMA Manufacturing PMI	JUN	--	--	51.3
NZ	06/29	21:00	NBNZ Activity Outlook Index	JUN	--	--	39.7
NZ	06/29	21:00	NBNZ Business Confidence Index	JUN	--	--	38.3
AU	06/29	21:30	Private Sector Credit (MoM)	MAY	--	0.4	0.0
JN	06/30	00:00	Vehicle Production (YoY)	MAY	--	--	-60.1
JN	06/30	01:00	Construction Orders (YoY)	MAY	--	--	31.4
JN	06/30	01:00	Annualized Housing Starts	MAY	--	0.8	0.8
JN	06/30	01:00	Housing Starts (YoY)	MAY	--	3.1	0.3
TA	06/30	04:00	<b>Benchmark Interest Rate</b>		<b>2.00</b>	<b>1.88</b>	<b>1.75</b>
SK	06/30	19:00	Consumer Price Index (MoM)	JUN	--	0.2	0.0
SK	06/30	19:00	Consumer Price Index (YoY)	JUN	--	4.3	4.1
SK	06/30	19:00	Core Consumer Price Index (YoY)	JUN	--	--	3.5
JN	06/30	19:30	Overall Hhold Spending (YoY)	MAY	--	-1.7	-3.0
JN	06/30	19:30	Jobless Rate (%)	MAY	4.6	4.8	4.7
JN	06/30	19:30	Tokyo CPI (YoY)	JUN	--	-0.1	-0.1
JN	06/30	19:30	Tokyo CPI Ex-Fresh Food (YoY)	JUN	--	0.2	0.1
JN	06/30	19:30	Tokyo CPI Ex Food, Energy (YoY)	JUN	--	0.1	0.1
JN	06/30	19:30	Natl CPI (YoY)	MAY	0.2	0.2	0.3
JN	06/30	19:30	Natl CPI Ex-Fresh Food (YoY)	MAY	0.7	0.5	0.6
JN	06/30	19:30	Natl CPI Ex Food, Energy (YoY)	MAY	-0.1	0.0	-0.1
JN	06/30	19:50	Tankan Lge Manufacturers Index	2Q	--	-7.0	6.0
JN	06/30	19:50	Tankan Non-Manufacturing	2Q	--	-4.0	3.0
JN	06/30	19:50	Tankan Lge Mfg Outlook	2Q	--	2.0	2.0
JN	06/30	19:50	Tankan Non-Mfg Outlook	2Q	--	0.0	-1.0
JN	06/30	19:50	Tankan Large All Indust Capex	2Q	--	2.3	-0.4
SK	06/30	20:00	HSBC Manufacturing PMI	JUN	--	--	51.2
CH	06/30	21:00	PMI Manufacturing	JUN	52	51.5	52.0
AU	06/30	21:00	HIA New Home Sales (MoM)	MAY	--	--	0.2
SK	06/30	21:00	Ext Trade - Export (YoY)	JUN	--	17.6	22.4
SK	06/30	21:00	Ext Trade - Export in US\$ Mln	JUN	--	--	47581.3
SK	06/30	21:00	Ext Trade - Imports (YoY)	JUN	--	32.0	30.3
SK	06/30	21:00	Ext Trade - Import in (USD millions)	JUN	--	--	45398.7
SK	06/30	21:00	Ext Trade - Balance in (USD millions)	JUN	--	2800	2183
TA	06/30	22:00	HSBC Taiwan Manufacturing PMI	JUN	--	--	54.9
CH	06/30	22:30	HSBC Manufacturing PMI	JUN	--	--	51.6
SK	06/30		South Korea FDI (YoY)	2Q	--	--	30.1

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

## Key Indicators for the week of June 27 - July 1

## Asia Pacific

Country	Date	Time	Event	Period	BNS	Consensus	Latest
ID	07/01		Total Trade Balance (USD millions)	MAY	--	--	1629.6
ID	07/01		Exports (YoY)	MAY	--	--	37.3
ID	07/01		Total Imports (YoY)	MAY	--	--	32.5
ID	07/01		Inflation NSA (MoM)	JUN	--	--	0.1
ID	07/01		Inflation (YoY)	JUN	--	--	6.0
ID	07/01		Core Inflation (YoY)	JUN	--	--	4.6
JN	07/01	01:00	Vehicle Sales (YoY)	JUN	--	--	-38.0
IN	07/01	01:30	Exports (YoY)	MAY	--	--	34.4
IN	07/01	01:30	Imports (YoY)	MAY	--	--	14.1

## Latin America

Country	Date	Time	Event	Period	BNS	Consensus	Latest
BZ	06/27	07:00	FGV Consumer Confidence	JUN	--	--	115.4
BZ	06/27	07:00	FGV Construction Costs (MoM)	JUN	--	1.5	2.0
BZ	06/27	07:30	Central Bank Weekly Economists Survey				
BZ	06/27	09:30	Current Account - Monthly (USD billions)	MAY	--	-3750.0	-3487.5
BZ	06/27	09:30	Foreign Investment (USD billions)	MAY	--	3100.0	5512.0
BZ	06/29	07:00	FGV Inflation IGP-M (MoM)	JUN	--	-0.2	0.4
BZ	06/29	07:00	FGV Inflation IGP-M (YoY)	JUN	--	8.6	9.8
CL	06/29	09:00	Industrial Production (YoY)	MAY	--	5.9	9.5
CL	06/29	09:00	Industrial Sales (YoY)	MAY	--	5.5	9.6
CL	06/29	09:00	Copper Production Total (tons)	MAY	--	--	438340
CL	06/29	09:00	Retail Sales (YoY)	MAY	--	9.5	8.7
BZ	06/29		Central Govt Budget (BRL billions)	MAY	--	4.2	15.6
CL	06/30	08:30	Central Bank Meeting Minutes				
CL	06/30	09:00	Unemployment Rate (%)	MAY	--	7.2	7.0
CO	06/30	12:00	Urban Unemployment Rate (%)	MAY	--	11.6	11.8
BZ	06/30		Brazil's Monetary Council announces 2013 inflation target				
BZ	07/01	07:00	FGV CPI IPC-S (WoW)	24-Jun	--	-0.1	0.0
BZ	07/01	08:00	Industrial Production sa (MoM)	MAY	--	1.2	-2.1
BZ	07/01	08:00	Industrial Production (YoY)	MAY	--	1.8	-1.3
BZ	07/01	09:00	PMI Manufacturing	JUN	--	--	50.8
BZ	07/01	10:00	Trade Balance (FOB) - (USD millions)	JUN	--	3850	3529
BZ	07/01	10:00	EXPORTS - (USD million)	JUN	--	22900	23211
BZ	07/01	10:00	IMPORTS - (USD million)	JUN	--	19146	19682
CO	07/01		Monetary Policy Meeting Minutes				
PE	07/01		Consumer Price Index (MoM)	JUN	--	--	0.0
PE	07/01		Consumer Price Index (YoY)	JUN	--	--	3.1

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

## Global Auctions for the week of June 27 - July 1

## North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	06/27	11:00	U.S. Fed to Purchase USD4-5 Bln Notes/Bonds
US	06/27	11:30	U.S. to Sell 3-Month Bills
US	06/27	11:30	U.S. to Sell 6-Month Bills
US	06/27	13:00	U.S. to Sell 2-Year Notes
US	06/28	11:00	U.S. Fed to Purchase USD4-5 Bln Notes/Bonds
US	06/28	11:30	U.S. to Sell 4-Week Bills
US	06/28	11:30	U.S. to Sell 52-Week Bills
US	06/28	13:00	U.S. to Sell 5-Year Notes
US	06/29	11:00	U.S. Fed to Purchase USD2-3 Bln Notes/Bonds
US	06/29	13:00	U.S. to Sell 7-Year Notes
US	06/30	11:00	U.S. Fed to Purchase USD4-5 Bln Notes/Bonds

## Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
IT	06/27	05:00	Italy to Sell Bills & Zero Coupon Notes
GE	06/27	05:15	Germany to Sell EU3 Bln 12-Mth Bills
BE	06/27	05:30	Belgium Cancels Bond Auction of June 27
FR	06/27	09:00	France to Sell Bills
EC	06/27	09:30	ECB Calls for Bids in 7-Day Main Refinancing Tender
EC	06/27	09:30	ECB Announces Bond Purchases
DE	06/28	04:15	Denmark to Buy Back Bonds
IT	06/28	05:00	Italy to Sell Floating 2018 Bonds
MB	06/28	05:00	Malta to Sell 91 Day Bills
IT	06/28	05:00	Italy to Sell 3% 2014 Bonds
IT	06/28	05:00	Italy to Sell 4.75% 2021 Bonds
IT	06/28	05:00	Italy to Sell Floating 2015 Bonds
EC	06/28	05:15	ECB Announces Allotment in 7-Day Main Refinancing Tender
SZ	06/28	05:30	Switzerland to Sell 3-Month Bills
EC	06/28	07:00	ECB Announces Allotment in 7-Day Term Deposits
IC	06/28	07:45	Iceland to Sell 3.25% I/L 2030 Bonds
EC	06/28	09:30	ECB Calls for Bids in 3-Month Tender
EC	06/29	03:15	ECB Calls for Bids in 7-Day Dollar Tender
EC	06/29	05:00	ECB Announces Allotment in 7-Day Dollar Tender
EC	06/29	05:15	ECB Announces Allotment in 3-Month Tender
GE	06/29	05:15	Germany to Sell Add'l EU6 Bln 5-Year Notes

## Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
CH	06/26	23:00	China Muni Bond to Sell CNY 25.4 Bln 5-Year Bonds
JN	06/28	23:35	Japan to Sell 3-Month Bills
NZ	06/29	22:30	New Zealand Plans to Sell Government Bonds

Source: Bloomberg, Scotia Economics.

## Events for the week of June 27 - July 1

## North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	06/27	11:00	Fed's Kocherlakota Speaks on Leverage in Big Sky, Montana
US	06/27	13:00	Fed's Hoenig Speaks in Washington
US	06/28	12:00	Fed's Fisher Speaks in Round Rock, Texas
CA	06/28	12:30	Bank of Canada Deputy Agathe Cote Speaks in Toronto
CA	06/29	07:30	Paul Krugman Speaks in Toronto
US	06/30	09:00	Secretary Geithner Attends Clinton's CGI America in Chicago
US	06/30	10:00	Fed's Bullard Gives Speech on QE
US	06/30	13:00	Fed's Hoenig Speaks in Des Moines, Iowa

## Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
EC	06/25		EU's Ciolos Attends FAO Conference in Rome
EC	06/27	03:00	ECB's Stark Speaks at Event in Frankfurt
EC	06/27	06:30	ECB's Stark Speaks at Conference in Berlin
EC	06/27	12:00	ECB's Stark Speaks at Event in Hamburg
GE	06/28	02:15	China's Wen Jiabao, Merkel Host China-German Economy Forum
EC	06/28	03:00	EU's Almunia Attends Competition Conference in London
GE	06/28	04:30	Merkel Holds Talks With China's Wen Jiabao: Chancellery
EC	06/28	07:00	ECB's Trichet, Wellink, BoK's Choongsoo Kim Speak in Amsterdam
GE	06/29	07:00	Draghi, Ackermann, Schaeuble Speak on Market Regulation
GE	06/29	08:30	Merkel speaks at CDU/CSU Financial Market Conference, Berlin
EC	06/29	11:45	Van Rompuy Speaks at Conference on State of EU
EC	06/29		ECB's Draghi / Weidmann speak at CDU-CSU Conference in Berlin

## Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
AU	06/27	21:00	RBA's Debelle Speaks at Financial Conference in Sydney
NZ	06/29		Finance Minister English Speaks in Auckland
TA	06/30	04:00	<b>Benchmark Interest Rate</b>

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	July 19, 2011	1.00	--
Federal Reserve – Federal Funds Target Rate	0.25	August 9, 2011	0.25	--
Banco de México – Overnight Rate	4.50	July 8, 2011	4.50	--

This week's FOMC statement offered a note of encouragement despite the emphasis that some are placing upon how the Fed is downgrading its assessment of the economy. The Fed acknowledges that the US is in a soft spot, but counsels markets to look through the effects of supply shocks emanating from Japan and the demand destruction caused by previously higher commodity prices. Apart from repeating that the Fed "will act as needed" there are no signals to suggest another round of quantitative easing or other expansionary policy measures. As such, our current forecast that the Fed will remain on hold for an extended period remains intact. In Canada, next week's monthly GDP and CPI reports will likely provide the BoC with further room to keep rates on hold for a while longer.

## 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	July 7, 2011	1.50	--
Bank of England – Bank Rate	0.50	July 7, 2011	0.50	0.50
Swiss National Bank – Libor Target Rate	0.25	September 15, 2011	0.25	--
Central Bank of Russia – Refinancing Rate	8.25	June 30, 2011	8.25	--
Hungarian National Bank – Base Rate	6.00	July 26, 2011	6.00	--
Central Bank of the Republic of Turkey – 1 Week Repo Rate	6.25	July 21, 2011	6.25	--

ECB monetary policymakers will likely remain on a path of gradual policy tightening. ECB President Jean-Claude Trichet has signalled a forthcoming rate increase in July; we expect the main refinancing rate to be raised by 25 basis points to 1.50% following the Governing Council meeting on July 7, followed by another hike in the fourth quarter that will take the benchmark interest rate to 1.75% by the end of 2011.

## 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	July 12, 2011	0.10	--
Reserve Bank of Australia – Cash Target Rate	4.75	July 5, 2011	4.75	4.75
Reserve Bank of New Zealand – Cash Rate	2.50	July 27, 2011	2.50	2.50
People's Bank of China – Lending Rate	6.31	TBA	--	--
Reserve Bank of India – Repo Rate	7.50	July 26, 2011	7.50	--
Hong Kong Monetary Authority – Base Rate	0.50	TBA	0.50	--
Central Bank of China Taiwan – Discount Rate	1.75	June 30, 2011	2.00	1.88
Bank Negara Malaysia – Overnight Policy Rate	3.00	July 7, 2011	3.00	--
Bank of Korea – Bank Rate	3.25	July 13, 2011	3.00	--
Bank of Thailand – Repo Rate	3.00	July 13, 2011	3.00	--
Bank Indonesia – Reference Interest Rate	6.75	July 12, 2011	6.75	--
Central Bank of the Philippines – Overnight Policy Rate	4.50	July 28, 2011	4.50	--

The central bank of Taiwan will raise the benchmark interest rate by 25 basis points at its next meeting on June 30th. Following rate hikes in four consecutive quarters, bank borrowing costs currently sit at 1.75%. Headline consumer inflation increased to 1.66% y/y at the latest reading, from 1.32% in the previous month on the back of robust economic expansion.

## 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	12.25	July 20, 2011	12.50	--
Banco Central de Chile – Overnight Rate	5.25	July 14, 2011	5.50	--
Banco de la República de Colombia – Lending Rate	4.25	July 29, 2011	4.50	--
Banco Central de Reserva del Perú – Reference Rate	4.25	July 7, 2011	4.25	--

## 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
<b>Output and Inflation (annual % change)</b>	<b>Real GDP</b>				<b>Consumer Prices<sup>2</sup></b>			
World <sup>1</sup>	3.6	5.1	4.2	4.5				
Canada	2.1	3.2	2.8	2.6	2.1	1.8	3.0	2.4
United States	1.8	2.9	2.6	2.8	2.6	1.6	2.9	2.1
Mexico	1.9	5.5	4.4	3.8	4.9	4.4	3.9	4.0
United Kingdom	1.7	1.3	1.4	1.7	1.9	3.7	3.7	2.9
Euro zone	1.0	1.6	1.8	1.7	2.1	2.2	2.5	2.3
Japan	0.6	4.0	0.3	3.5	-0.3	0.0	0.8	1.3
Australia	3.1	2.7	3.4	3.0	3.2	2.7	2.8	2.5
China	9.4	10.4	9.3	9.5	2.0	4.6	5.0	4.5
India	7.4	9.0	8.3	8.5	6.2	9.5	7.5	6.0
Korea	4.4	6.2	5.4	5.3	3.1	3.5	3.5	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
<b>Central Bank Rates (% end of period)</b>	<b>11Q1</b>	<b>11Q2f</b>	<b>11Q3f</b>	<b>11Q4f</b>	<b>12Q1f</b>	<b>12Q2f</b>	<b>12Q3f</b>	<b>12Q4f</b>
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	4.75	5.00	5.25	5.50	5.75	6.00	6.25
<b>Exchange Rates (end of period)</b>								
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	6.3	6.3	6.2	6.1	6.0	5.9
Mexican Peso (USDMXN)	11.9	11.6	11.8	12.0	12.1	12.0	12.1	12.3
Brazilian Real (USDBRL)	1.63	1.58	1.59	1.60	1.62	1.65	1.67	1.70
<b>Commodities (annual average)</b>	<b>2000-09</b>	<b>2010</b>	<b>2011f</b>	<b>2012f</b>				
WTI Oil (US\$/bbl)	51	79	100	103				
Brent Oil (US\$/bbl)	50	80	112	115				
Nymex Natural Gas (US\$/mmbtu)	5.95	4.40	4.40	4.75				
Copper (US\$/lb)	1.78	3.42	4.25	4.15				
Zinc (US\$/lb)	0.73	0.98	1.03	1.05				
Nickel (US\$/lb)	7.11	9.89	11.25	8.90				
Gold, London PM Fix (US\$/oz)	522	1,225	1,530	1,600				
Pulp (US\$/tonne)	668	960	1,020	1,050				
Newsprint (US\$/tonne)	572	607	660	715				
Lumber (US\$/mfbm)	275	254	270	285				

<sup>1</sup> World GDP for 2000-09 are IMF estimates; 2010-12f are Scotia Economics' estimates based on a 2009 PPP-weighted sample of 34 countries.

<sup>2</sup> CPI for Canada and the United States are annual averages. For other countries, CPI are year-end rates.



Canada	2010	10Q4	11Q1	Latest	United States	2010	10Q4	11Q1	Latest
Real GDP (annual rates)	3.2	3.1	3.9		Real GDP (annual rates)	2.9	3.1	1.9	
Current Acc. Bal. (C\$B, ar)	-50.9	-41.1	-35.7		Current Acc. Bal. (US\$B, ar)	-471	-449	-477	
Merch. Trade Bal. (C\$B, ar)	-9.0	1.5	5.5	-11.1 (Apr)	Merch. Trade Bal. (US\$B, ar)	-646	-637	-730	-697 (Apr)
Industrial Production	4.6	6.0	5.4	5.2 (Mar)	Industrial Production	5.3	6.2	5.2	8.2 (May)
Housing Starts (000s)	192	179	178	184 (May)	Housing Starts (millions)	0.58	0.54	0.58	0.56 (May)
Employment	1.4	1.7	1.9	2.1 (May)	Employment	-0.8	0.5	0.9	0.2 (May)
Unemployment Rate (%)	8.0	7.7	7.8	7.4 (May)	Unemployment Rate (%)	9.6	9.6	8.9	9.1 (May)
Retail Sales	5.5	5.3	2.5	3.6 (Apr)	Retail Sales	6.8	8.1	8.6	14.3 (May)
Auto Sales (000s)	1561	1554	1577	1656 (Apr)	Auto Sales (millions)	11.5	12.3	13.0	11.8 (May)
CPI	1.8	2.3	2.6	3.3 (Apr)	CPI	1.6	1.3	2.1	4.8 (May)
IPPI	1.0	2.6	3.9	-5.0 (Apr)	PPI	4.2	3.8	5.0	10.7 (May)
Pre-tax Corp. Profits	21.2	19.1	13.4		Pre-tax Corp. Profits	36.8	16.1	9.3	
<b>Mexico</b>					<b>Brazil</b>				
Real GDP	5.4	4.4	4.6		Real GDP	6.7	4.2	3.8	
Current Acc. Bal. (US\$B, ar)	-5.6	-14.0	-5.5		Current Acc. Bal. (US\$B, ar)	-47.4	-48.0	-58.5	
Merch. Trade Bal. (US\$B, ar)	-3.0	-4.2	7.6	6.7 (May)	Merch. Trade Bal. (US\$B, ar)	20.2	30.0	12.7	42.3 (May)
Industrial Production	6.0	4.8	5.3	1.4 (Apr)	Industrial Production	10.5	3.6	2.5	-0.1 (Apr)
CPI	4.2	4.2	3.5	7.1 (May)	CPI	5.1	6.1	6.8	12.2 (May)
<b>Chile</b>					<b>Italy</b>				
Real GDP	5.2	5.8	9.8		Real GDP	1.2	1.5	1.0	
Current Acc. Bal. (US\$B, ar)	3.6	4.9	2.9		Current Acc. Bal. (US\$B, ar)	-0.07	-0.07	-0.11	-0.10 (Apr)
Merch. Trade Bal. (US\$B, ar)	11.6	17.7	17.4	21.5 (May)	Merch. Trade Bal. (US\$B, ar)	-39.1	-46.3	-77.2	-65.2 (Apr)
Industrial Production	0.6	2.7	11.5	8.5 (Apr)	Industrial Production	6.5	5.3	2.4	3.7 (Apr)
CPI	1.4	2.5	2.9	3.3 (May)	CPI	1.6	1.8	2.3	4.0 (May)
<b>Germany</b>					<b>France</b>				
Real GDP	3.5	3.8	4.8		Real GDP	1.4	1.4	2.2	
Current Acc. Bal. (US\$B, ar)	188.0	250.8	195.2	152.3 (Apr)	Current Acc. Bal. (US\$B, ar)	-44.5	-86.6	-57.4	-54.3 (Apr)
Merch. Trade Bal. (US\$B, ar)	201.5	219.8	209.4	206.4 (Apr)	Merch. Trade Bal. (US\$B, ar)	-38.9	-39.1	-54.4	-59.4 (Apr)
Industrial Production	10.1	11.8	13.0	9.6 (Apr)	Industrial Production	5.1	4.6	4.8	2.6 (Apr)
Unemployment Rate (%)	7.7	7.4	7.3	7.0 (May)	Unemployment Rate (%)	9.8	9.6	9.5	9.4 (Apr)
CPI	1.1	1.5	2.1	3.2 (May)	CPI	1.5	1.6	1.8	3.6 (May)
<b>Euro Zone</b>					<b>United Kingdom</b>				
Real GDP	1.7	1.9	2.5		Real GDP	1.3	1.5	1.8	
Current Acc. Bal. (US\$B, ar)	-77	-41	-173	-113 (Apr)	Current Acc. Bal. (US\$B, ar)	-56.2	-62.2		
Merch. Trade Bal. (US\$B, ar)	32.0	53.2	-61.7	-61.7 (Apr)	Merch. Trade Bal. (US\$B, ar)	-153.0	-171.9	-142.4	-144.9 (Apr)
Industrial Production	7.4	8.0	6.6	5.2 (Apr)	Industrial Production	2.1	3.3	2.0	-1.1 (Apr)
Unemployment Rate (%)	10.0	10.0	9.9	9.8 (Apr)	Unemployment Rate (%)	7.9	7.9	7.7	7.7 (Mar)
CPI	1.6	2.0	2.5	4.3 (May)	CPI	3.3	3.4	4.1	7.7 (May)
<b>Japan</b>					<b>Australia</b>				
Real GDP	4.0	2.4	-0.7		Real GDP	2.7	2.7	1.0	
Current Acc. Bal. (US\$B, ar)	195.9	176.8	184.0	58.4 (Apr)	Current Acc. Bal. (US\$B, ar)	-31.8	-37.4	-37.9	
Merch. Trade Bal. (US\$B, ar)	74.8	60.4	29.1	-70.1 (May)	Merch. Trade Bal. (US\$B, ar)	19.3	25.8	21.5	33.3 (Apr)
Industrial Production	16.6	6.8	-2.5	-12.3 (Apr)	Industrial Production	4.3	0.0	-5.4	
Unemployment Rate (%)	5.1	5.0	4.7	4.7 (Apr)	Unemployment Rate (%)	5.2	5.2	5.0	4.9 (May)
CPI	-0.7	0.1	0.0	0.3 (Apr)	CPI	2.8	2.7	3.3	
<b>China</b>					<b>South Korea</b>				
Real GDP	10.3	9.8	9.7		Real GDP	6.2	4.7	4.2	
Current Acc. Bal. (US\$B, ar)	305.4				Current Acc. Bal. (US\$B, ar)	28.2	36.6	10.4	22.5 (Apr)
Merch. Trade Bal. (US\$B, ar)	181.6	247.0	-5.9	156.6 (May)	Merch. Trade Bal. (US\$B, ar)	41.2	52.1	29.6	26.2 (May)
Industrial Production	13.5	13.5	14.8	13.3 (May)	Industrial Production	16.6	9.9	11.2	7.1 (Apr)
CPI	4.6	4.6	5.4	5.5 (May)	CPI	3.0	3.6	4.5	6.9 (May)

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

Source: Bloomberg, Scotia Economics.

## Interest Rates (% , end of period)

Canada	10Q4	11Q1	Jun/17	Jun/24*	United States	10Q4	11Q1	Jun/17	Jun/24*
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	0.96	0.83	3-mo. T-bill	0.12	0.09	0.03	0.01
10-yr Gov't Bond	3.12	3.35	2.95	2.88	10-yr Gov't Bond	3.29	3.47	2.94	2.88
30-yr Gov't Bond	3.53	3.76	3.40	3.37	30-yr Gov't Bond	4.33	4.51	4.21	4.17
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US\$B)	57.0	60.4	62.9	(Apr)	FX Reserves (US\$B)	121.4	128.3	131.9	(Apr)
<b>Germany</b>					<b>France</b>				
3-mo. Interbank	0.96	1.26	1.46	1.49	3-mo. T-bill	0.40	0.80	1.16	1.08
10-yr Gov't Bond	2.96	3.35	2.96	2.83	10-yr Gov't Bond	3.36	3.71	3.37	3.29
FX Reserves (US\$B)	62.3	64.8	66.4	(Apr)	FX Reserves (US\$B)	55.8	61.0	57.5	(Apr)
<b>Euro-Zone</b>					<b>United Kingdom</b>				
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	1.30	0.95	3-mo. T-bill	4.85	4.85	4.85	4.85
FX Reserves (US\$B)	300.2	319.9	316.7	(Apr)	10-yr Gov't Bond	3.40	3.69	3.20	3.13
<b>Japan</b>					FX Reserves (US\$B)	68.3	75.3	79.2	(Apr)
Discount Rate	0.30	0.30	0.30	0.30	<b>Australia</b>				
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	1.12	1.11	10-yr Gov't Bond	5.55	5.49	5.12	5.08
FX Reserves (US\$B)	1061.5	1080.6	1097.8	(Apr)	FX Reserves (US\$B)	38.7	33.3	37.9	(Apr)

## Exchange Rates (end of period)

USDCAD	1.00	0.97	0.98	0.98	¥/US\$	81.12	83.13	80.05	80.35
CADUSD	1.00	1.03	1.02	1.02	US\$/Australian\$	102.33	103.29	106.23	105.18
GBPUSD	1.561	1.603	1.619	1.598	Chinese Yuan/US\$	6.61	6.55	6.48	6.47
EURUSD	1.338	1.416	1.431	1.418	South Korean Won/US\$	1126	1097	1086	1079
JPYEUR	0.92	0.85	0.87	0.88	Mexican Peso/US\$	12.340	11.905	11.902	11.888
USDCHF	0.94	0.92	0.85	0.84	Brazilian Real/US\$	1.661	1.632	1.598	1.595

## Equity Markets (index, end of period)

United States (DJIA)	11578	12320	12004	11964	U.K. (FT100)	5900	5909	5715	5697
United States (S&P500)	1258	1326	1272	1273	Germany (Dax)	6914	7041	7164	7130
Canada (S&P/TSX)	13443	14116	12790	12935	France (CAC40)	3805	3989	3824	3793
Mexico (Bolsa)	38551	37441	35026	35345	Japan (Nikkei)	10229	9755	9351	9679
Brazil (Bovespa)	69305	68587	60881	61120	Hong Kong (Hang Seng)	23035	23528	21695	22172
Italy (BCI)	1048	1120	1027	1018	South Korea (Composite)	2051	2107	2032	2091

## Commodity Prices (end of period)

Pulp (US\$/tonne)	968	970	1020	1020	Copper (US\$/lb)	4.42	4.26	4.13	4.10
Newsprint (US\$/tonne)	640	640	640	640	Zinc (US\$/lb)	1.10	1.05	1.00	1.01
Lumber (US\$/mfbm)	268	297	232	237	Gold (US\$/oz)	1405.50	1439.00	1537.50	1514.75
WTI Oil (US\$/bbl)	91.38	106.72	93.01	90.84	Silver (US\$/oz)	30.63	37.87	35.39	34.73
Natural Gas (US\$/mmbtu)	4.41	4.39	4.33	4.21	CRB (index)	332.80	359.43	335.48	329.60

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

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### 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](mailto:scotia_economics@scotiacapital.com)

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