

Global Views

Weekly commentary on economic and financial market developments

August 26, 2011

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Domestic Demand To Drive Small Business Activity

- **Expectations for global growth are being downgraded in the face of continuing disappointing economic data and renewed turmoil in financial markets. For Canadian small businesses, the adjustment to this lower growth trajectory depends crucially on the resilience of domestic demand.**

Small firms (those with fewer than 100 employees) in Canada tend to be more domestically focused than their medium or large counterparts. They have a relatively high representation in several primarily service-based industries, including retail, hospitality & tourism, construction & real estate, professional business services and private health care. Combined, these industries account for 57% of small business employment, compared with only 39% for medium-sized firms and 37% for large firms (see table). Meanwhile, small firms have a comparatively lower exposure to manufacturing, transportation, resources and finance.

The current environment remains most challenging for retailers and other consumer-oriented businesses (e.g. restaurants and other hospitality services). These providers face a more cautious, price-sensitive consumer, with discretionary spending slowing markedly over the spring and early summer. They must also contend with a persistently strong Canadian dollar, which is increasing the lure of cross-border shopping while simultaneously deterring international tourist visits.

We expect continuing job gains, combined with the purchasing power boost from the sharp drop in energy prices from earlier in the year, will maintain some spending momentum. Nonetheless, a steady deterioration in consumer confidence in recent months suggests considerable downside risk to the outlook. The Conference Board of Canada's consumer sentiment index fell for a fourth straight month in August, primarily on waning expectations for jobs and household finances.

In the construction sector, the winding down of government infrastructure projects should begin to temper activity by year-end. Residential building and renovation activity are also expected to cool. Yet considerable overall momentum should be maintained by large scale investments in the primary sectors that are benefitting from high commodity prices and continuing strong emerging market demand for Canadian resources.

Indeed, tight labour market conditions in the industry suggest some resources could be re-allocated from residential and public projects to the private non-residential sector. Construction sector employment has jumped 4% this year, more than double the pace of job creation in the aggregate economy, while the industry's unemployment rate has fallen sharply. According to the CFIB's latest survey of small- and medium-sized firms, a shortage of skilled labour is the main business constraint facing the industry, affecting half of all respondents.

Demand for professional services should also remain fairly buoyant. Professional services employment, which includes lawyers, accountants, architects, engineers and consultants, has climbed over 3% this year. While businesses may become a bit more cautious with hiring and expansion plans in the current more uncertain economic environment, strong corporate profitability and support services required for a resurgent resource sector suggest this will remain a high-growth area.

Private Sector Employment By Firm Size (% 2010)				
	Small (<100)	Medium (100-499)	Large (500+)	All Firms
Retail Trade	15.6	12.0	22.2	17.4
Hospitality	13.7	10.7	4.7	10.0
Construction	11.8	6.7	2.7	7.7
Manufacturing	10.4	22.4	14.6	13.8
Prof. Services	8.8	7.1	4.9	7.1
Wholesale Trade	7.5	8.8	5.2	6.9
Health Care	4.0	0.3	0.6	2.2
Transportation	3.6	4.1	7.5	5.1
Real Estate	3.0	2.2	1.4	2.3
Finance	2.7	4.6	12.2	6.4
Resources	1.5	2.2	3.0	2.1
Utilities	0.0	0.2	2.6	1.0
Source: Statistics Canada, Industry Canada, Scotia Economics. SEPH data exclude self-employed workers not on a payroll as well as agricultural workers.				

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More U.S. Households Opting To Rent

- **Tightening dynamics in the rental housing market boost landlords' pricing power.**

The July update on U.S. consumer prices revealed that, aside from costly gasoline and food bills, home prices — as captured by the owners' equivalent rent (OER) — have been adding to the cost of living at a stepped-up pace for three straight months (see chart 1). The OER, which composes nearly 25% of the consumer basket, posted a steep 0.3% m/m gain in July, its biggest in nearly three years. In this case, rising OER does not reflect improving demand in the housing market. Unlike in Canada, where homeowner housing costs reflect house prices and mortgage rates, in the United States the OER is implicitly priced off of the rental market, representing the amount homeowners would receive if they decided to rent their home out. It is the tightening dynamics in the U.S. rental housing market that are driving up the cost of shelter.

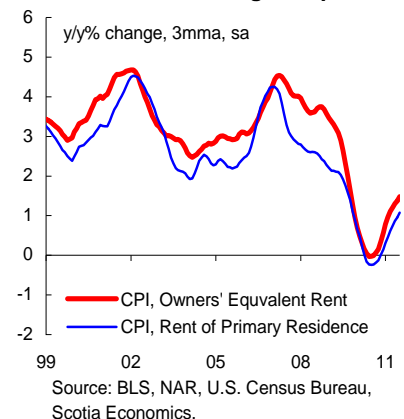
Some 30% of all housing units in the United States are either occupied or vacant rental properties, with a large share of tenants represented by youth, single persons and minority groups. Nearly 40% of rental properties are single-family homes, with roughly 60% located outside central metropolitan areas. The heaviest representation of rental housing units is in the South, accounting for 36% of the total inventory.

Driven by shaky labour market prospects, ongoing deleveraging, stricter lending standards and a struggling housing market, demand for rental properties is on the rise. While the homeownership rate (at 65.9% without excluding delinquent borrowers) recorded a fourteen-year low in the second quarter, the rental vacancy rate sat at its lowest since mid-2002, despite some of the distressed properties being turned into rentals. After staying relatively flat from 1997 to 2005, the number of renter households increased by on average 1.0% per year through 2009 (latest data available), a trend that likely extended through 2011, as hinted by the declining duration of vacancy for rental properties. Some 16% of all U.S. households changed residence, with just under 3 million turning from homeowners to renters. More younger Americans — those under the age of 35 — reported living with parents or roommates, unable to afford living on their own.

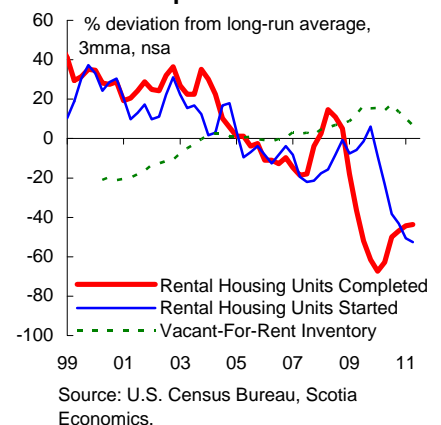
Constraining supply factors — tightening unused inventory, a record-low 125,000 new rental-unit completions in 2010 (see chart 2) and long development lags — are further boosting landlords' pricing power, helping drive up the CPI's OER component. Rents did not undergo the 30% price correction witnessed in the owner-occupied housing market (see chart 3), and as of July sit roughly 20% above their long-run average.

The outlook for the rental housing market is positive, with the Joint Center for Housing Studies estimating that the excess rental inventory (see chart 2) could be worked off in a year, and forecasting for the number of renter households to rise by 360,000 to 470,000 annually between 2010 and 2020. These figures underline the expectation for a gradual and prolonged economic recovery, as well as future immigration trends and demographic changes. Aside from starting a family later, younger generations may be more reluctant to get onto the property ladder, at least until the labour and housing markets show signs of a more sustainable recovery.

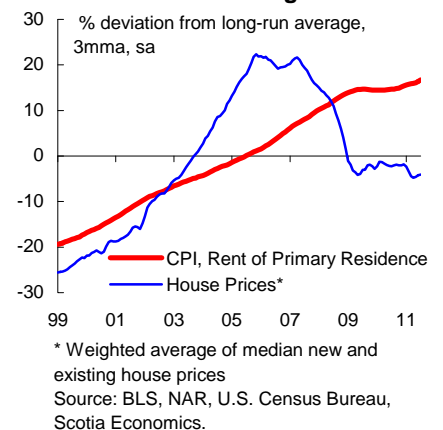
**CPI's OER Closely Tracks
The Rental Housing Component**



**Record-Low 125,000 Units
Completed in 2010**



**Rental Housing Prices
On The Rise Again**



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The CBO's Mid-Year Update Underlines Washington's Budget Dilemma

- CBO assumptions reinforce forecast of FY12 deficit remaining wider than US\$1 trillion.

The Congressional Budget Office (CBO) estimates a fiscal 2011¹ (FY11) deficit of US\$1.284 trillion¹ (*top graph*), a fraction narrower than the FY10 shortfall. Estimated FY11 revenue growth picked up to 7.0% after a 2.8% advance in FY10 (*middle graph*). The post-recession rebound is being dampened by additional tax relief such as the cut in employees' Social Security payroll taxes from 6.2% to 4.2% for calendar 2011 and the full expensing allowed for corporations' machinery & equipment purchases until 2012².

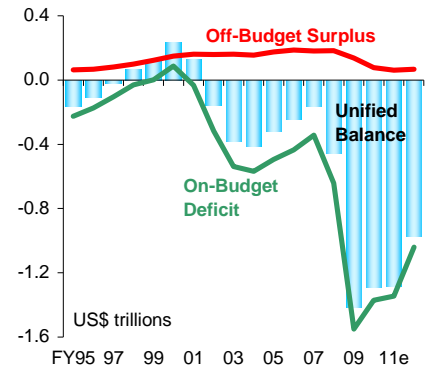
Expenditures for FY11 are expected to climb 4.1%, following a 1.8% decline in FY10. In part, the FY11 spending increase reflects a smaller \$39 billion drop in Troubled Asset Relief Program costs than the \$115 billion FY10 decline and for the Federal Deposit Insurance Corporation, given 2011-13 premium prepayments largely in FY10, negative outlays of \$6 billion this year compared with \$32 billion in FY10. Several factors have limited the FY11 spending increase including: a \$35 billion drop in outlays to \$5 billion for Fannie Mae and Freddie Mac due to lower mortgage investment/guarantee losses; no January 2011 cost-of-living adjustment for Social Security benefits; and, reduced outlays related to the *American Recovery and Reinvestment Act 2009 (ARRA)* such as decreases for the State Fiscal Stabilization Fund and the end of additional federal support for Medicaid in June 2011 (*bottom table*).

Mandated to assume only legislation in place, the CBO forecasts an FY12 deficit of just \$973 billion, but its assumptions illustrate why the deficit is likely to remain wider than \$1 trillion for at least FY12. For instance, as outlined in the December 2010 tax act, the CBO incorporates the expiry of the payroll tax reduction and the Alternative Minimum Tax indexation (that mitigates the AMT's impact) after December 2011, and the expiry of the 2001 and 2003 Bush tax cuts after December 2012. The provision to trim Medicare's payments to physicians by almost 30%, waived since 2003 by Congress, is assumed for 2012. In addition, the CBO's estimate of 2.3% real GDP growth for 2011 was finalized before GDP data revisions and several lacklustre indicators caused many private-sector forecasters, including Scotia Economics, to drop their 2011 growth estimates well below 2%, adding to the current debate on the appropriate level and composition of any remaining stimulus for 2012.

Longer term, the CBO expects the gap between actual and potential U.S. real GDP to close only in 2017, even with a surge in annual output gains averaging 4.2% from 2014 to 2016. From 2017 to 2021, the CBO estimates that the financial crisis and recession will lower potential real GDP growth by 2%. These conclusions reinforce prioritizing private-sector investment and job creation within Washington's fiscal repair strategy. Details of the CBO's budget projections emphasize the bipartisan committee's open slate this Fall to determine further deficit reduction measures, including tax and entitlement adjustments, and the considerable current uncertainty in the *Budget* estimates stemming from this process.

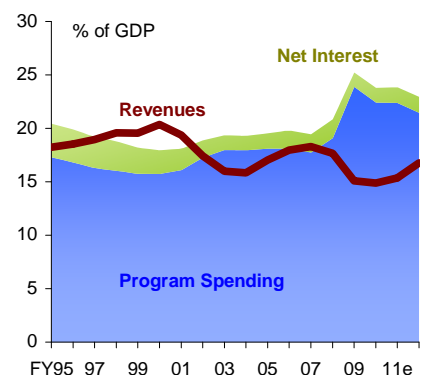
¹ Fiscal year-end is September 30; budget data in US dollars. ² Corporate equipment purchases from September 8, 2010, to December 31, 2011, may be fully expensed; retroactively, equipment purchases from January 1, 2010, to September 7, 2010, can be partially expensed. In 2012, half the value of equipment purchases can be fully expensed; thereafter, only relatively small equipment investment can be immediately expensed.

U.S. Federal Budget Balances...



Source: Congressional Budget Office.

...Given Revenues and Expenditures



Source: Congressional Budget Office, GDP estimates: Scotia Economics.

U.S. Federal Mandatory Spending

Fiscal Years	00-07	08-11e	12-15f	16-21f
	annual % change			
Social Security	5.2	5.7	5.4	6.0
Medicare*	8.9	6.5	4.3	6.4
Medicaid	7.4	9.5	7.4	7.5
Income Security	5.8	18.7	-8.2	0.8
Other**	2.1	8.1	12.4	6.2
Total				
Mandatory	6.1	8.7	3.7	5.8

*Net of premiums.** Includes civilian employee and military retirement and veterans' benefits.

Source: CBO, August 2011.

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On The Effects Of A Slowdown In North Atlantic Countries On Asian Growth

- **Commercial trade pattern changes imply a much lower impact than in the past.**
- **The region supports itself as consumer spending patterns are the backbone for growth.**

Asia will not entirely avoid the effects of a growth slowdown in the US and Europe. However, save for another global financial catastrophe, the impact will not derail the region's economic momentum. The factors underpinning this assessment lie mainly in structural developments 10 to 20 years in the making, over which time the region's commercial trade relationships have changed substantially.

Of the seven largest Asian economies — Japan, China, India, South Korea, Indonesia, Taiwan and Thailand — those less dependent on exports — China, India and Indonesia — will be less affected, as domestic demand will continue to drive the expansion in the midst of relatively low leveraged public and private sectors and stable job markets underpinning firm income growth. The more commercially active nations — Japan, South Korea, Taiwan and Thailand — are exposed to a larger blow. However, the right measure of vulnerability is the share of exports destined to the US and Europe, the source of uncertainty and where demand is most at risk.

Trade patterns in Asia have changed substantially over the past two decades. Out of the subset considered above, the countries whose exports represent a double-digit share of GDP have in general been refocusing commercial transactions towards the rest of Asia and therefore away from the US and Europe (table).

Notwithstanding Japan's openness to trade, its vulnerability to a shock emanating from the US and Europe has greatly diminished, given that the country has been directing transactions more towards Asia, with China now standing as its main trading partner. While back in 1990 the share of Japan's exports going to North Atlantic countries was 52%, it has since practically halved to 27%, with foreign sales to the rest of Asia climbing at the same time from a meager 2% to 56% today, with the share of shipments to China ten times larger.

The pattern is the same in all of the other large Asian countries, with the interesting caveat that trade with Japan, an important commercial partner 20 years ago, has been coming down as well, on the back of the country's low growth performance. Thus, a shift to single digits of the share of South Korean exports going to each of the US, Europe and Japan, has been replaced by a double-digit proportion of foreign sales going to Asia, with China now the most prominent partner. The evolution is repeated in Taiwan and Thailand.

Looking ahead, it is important to note that Asian countries have intensified trade relations not only with China, but with other countries in the region as well. This is clearly discerned in the case of South Korea or Thailand where the share of exports going to Asia other than China or Japan surpasses that directed to the US and Europe together, implying that demand across the whole Asian region is supportive of the countries' growth momentum. This latter point becomes relevant as we recognize the stability of consumption patterns when compared with fluctuations in investment. For Asia's largest economies, consumer spending represents between 50 and 60% of GDP (with the exceptions of Singapore and China, where investment is more prominent). Household spending has rebounded fully from the global recession, and the outlook remains positive, as it is supported by relatively low-leveraged family finances and real wage growth substantiated by productivity enhancements within a context of stability in labour markets.

SHARE OF EXPORTS IN TOTAL					
Japan					
	US	Europe	Japan	China	Asia
1990	32	20	—	2	2
2000	30	16	—	8	42
2011	15	12	—	20	56
South Korea					
	US	Europe	Japan	China	Asia
1990	30	12	20	1	37
2000	20	13	10	13	42
2011	9	5	7	24	49
Taiwan					
	US	Europe	Japan	China	Asia
1990	33	19	14	n.a.	37
2000	23	16	12	n.a.	53
2011	13	9	6	n.a.	68
Thailand					
	US	Europe	Japan	China	Asia*
1993	23	20	18	2	38
2000	21	17	15	5	48
2011	10	11	13	11	56

*Asean (Singapore, Malaysia, Philippines, Indonesia) plus Japan, China, S. Korea and Taiwan.

Source: Scotia Economics with Bloomberg data.

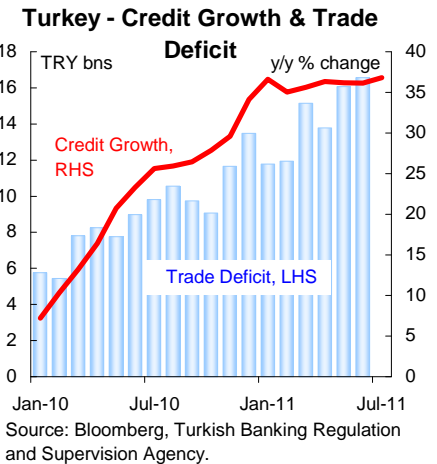
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Economic Imbalances Weaken Turkey's Preparedness To Face External Shocks

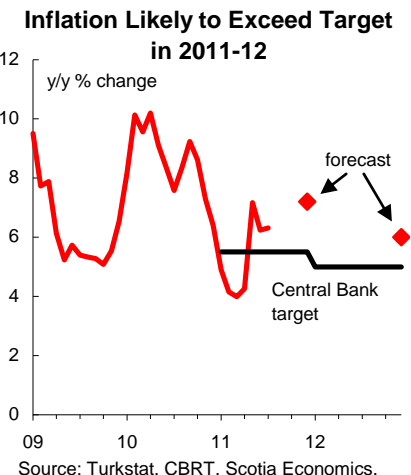
- **Monetary authorities struggle to find a suitable policy path for an overheating domestic economy amid elevated risks stemming from euro zone debt crisis.**

The Turkish economic outlook is dominated by developments in domestic demand while prospects for the external sector continue to be muted. We expect the country's real GDP to advance by 6¾% this year, followed by an expansion of around 4% in 2012. Low interest rates and improving employment conditions (the unemployment rate dropped to 9.4% in May, the lowest in three years) are providing support to consumer spending, which is reflected in rapidly increasing borrowing. Indeed, excessive credit growth (at an annual rate of 37% y/y at the end of July, with early indicators for August pointing to an acceleration to 40% y/y) combined with the lack of dampening impact from earlier increases in the central bank's reserve requirements create an area of intensifying investor nervousness. As a result of massive import growth and the widening of the trade deficit (see chart), the current account shortfall has swelled markedly and is set to reach nearly 10% of GDP in 2011, following a 6¾% deficit in 2010. The deteriorating current account position forms another area of weakness in the Turkish economy. Should eroding global investor sentiment prompt a reversal in volatile capital inflows, the Turkish lira (TRY) may become subject to depreciation forces, fuelling inflationary pressures and a monetary tightening response. As a result, it could end in a marked increase in non-performing loans should domestic activity cool down markedly.



Turkish monetary policymakers are showing signs of increasing unease with the possible adverse growth effects derived from problems in Europe and the global economy. At a surprise interim monetary policy meeting on August 4th, the Central Bank of the Republic of Turkey announced a reduction in the one-week repo rate of 50 basis points, bringing the benchmark interest rate to 5.75%. At the same time, the overnight borrowing rate was raised from 1.5% to 5.0%. The decision was prompted by fast-growing concerns over an impending global slowdown and the destabilizing financial and external demand impacts of the ongoing euro zone debt crisis. Given the recent depreciation of the TRY vis-à-vis the US dollar (USD) — the TRY has lost 14% against the USD since early April — combined with persistent inflationary pressures, nascent fears of economic overheating, and external financing strains related to the widening current account gap, most market participants were surprised by the monetary policy decision.

Monthly headline inflation backtracked in both June and July, largely due to moderating food prices. However, in year-over-year terms, the rate of inflation has accelerated recently from its early-2011 pace, edging up to 6.3% y/y in July (from 6.2% in June), notably above the 2011H1 average of 5.1% as well as the central bank's year-end target of 5.5% (see chart). We anticipate that inflation will continue to pick up through the second half of 2011, with a year-end forecast of 7.2% y/y, as the depressed Turkish lira, low interest rates and still elevated commodity prices maintain upward pressure on prices. The pace of gains will likely moderate in 2012, coming down to around 6.0% by the end of the year with a gradual strengthening in the currency, generally increased stability and possible rate hikes.



Pricing Elektra Bonds

We are impressed by Elektra's business strategy, strong results, and low leverage. Nevertheless, unusual financial practices including limited disclosure and a large derivative position make us cautious. After weighing these two factors, and considering market yields on other Mexican retailers and microfinance companies, we adopt a neutral position on the bonds.

One month ago, the Mexican retailer and consumer finance company Grupo Elektra issued bonds in the global market. The company sells a select group of durable goods such as appliances, computers, and motorcycles to low and middle-income consumers through its network of nearly 1,000 stores throughout Mexico. Banco Azteca, which is often co-located with the retail stores, finances 62% of those purchases and also offers additional services to those clients. The strategy of combining financial services and retail operations makes sense, and so far the results are strong.

Strengths

We are impressed by Elektra's growth in the last couple of years despite the global financial crisis (see the Appendix graphs showing a variety of metrics for Elektra's financial performance vs. its competitors). For example, since Mexican retail sales fell 4% in 2009, we would have thought that sales of Elektra's durable goods would have dropped by more; instead, sales actually increased by 1% in that year. Moreover, Elektra told us they were able to achieve this growth by varying the mix of products sold but without increasing the use of consumer credit in that year. Elektra's retail growth was 9% in 2010.

In comparing historical data between Elektra and two major competitors, Coppel and Famsa, we also obtained favourable results. For example, consolidated revenue growth over the last 12 months for Elektra was 16%, shy of Coppel's 20% but far better than the 4% achieved by Famsa. On the bank side, the portfolio looks strong with a low past due to total loan ratio of 3% and a portfolio that grew 39% over the last twelve months. We found that over the last several years, net interest margin significantly exceeded that of Coppel, Famsa and Walmart.

Credit penetration is low in Mexico, and in our past analysis of Mexican microfinance companies, we found a growing and profitable business in lending to the poor (see "From US bond investors to Mexico's poorest," April 28, 2011). In this sense, Elektra's strategy of linking banking and the sale of durable goods makes sense and seems to give it a competitive advantage. It is more convenient for the consumer and provides some savings in the form of economies of scope to Group Elektra. It's banking subsidiary, Banco Azteca, not only offers loans, but also other financial services including money transfer to a socioeconomic segment that is underbanked. By also taking deposits, the bank receives a cheap source of financing for its consumer lending business. Of course Elektra is not the only retailer to offer financial services, but we like the fact that it is operating in a growing industry and is well positioned in that industry.

The industry is not without its risks, however, as the case of Chilean retailer Empresas La Polar recently demonstrated. This firm is currently involved in negotiations with creditors to restructure its debt. Back in June, it announced that it would need take additional loan loss provisions of \$891mn USD equivalent after it was discovered that executives had restructured consumer past-due loans without their clients' consent. La Polar had a high percentage of sales on credit, a high amount of debt per customer, and a high renegotiation rate, leading to average debt durations of over double those of major competitors. We were relieved to hear from Elektra management that their loan duration has not increased recently. Nevertheless, the La Polar case highlights the risks related to improper management of the consumer credit portfolio.

Weaknesses

Our concerns about the company stem from unusual financial practices that make the company difficult to analyze. We find the amount of disclosure of relevant financial information to be smaller than that of other Mexican corporates who have issued global bonds. Most financial results for Grupo Elektra are reported on a

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consolidated basis that combine the retail operation, the bank, the pension fund, and the insurance company—very different businesses who should ideally be analyzed separately. We were able to get some details about the banking operation from public reports filed with the regulators, but we were not able to separate out the other entities. Unlike its competitors, Elektra does not report data to ANTAD, the national association of realtors. Nor does it report commonly used metrics such as same store sales growth.

One item in particular that we would like more disclosure on is Elektra's large derivative position linked to the price of its own shares. In 2010, that derivative position led the firm to record a financial expense of 4.9bn pesos, which wiped out most of net income for the year. In contrast, in 2009 the Grupo Elektra recorded a 2.5bn peso gain on those same derivatives, a gain equivalent to two-thirds of operating income in that year. The company explained to us that it has entered into a derivative transaction with an unaffiliated financial institution based on the performance of its own shares. As long as Elektra continues to renew these contracts, which the company told us it intends to do, there will be no impact on company cash flow. Buying derivatives on your own shares is of course highly unusual, and Elektra provides little information on these transactions. We do not know the notional amount, the relevant strike prices, the expiration dates, the identity of the counterparty, or the motivations for either Elektra or its counterparty to engage in such a transaction. This is one example where less disclosure makes certain risks harder to evaluate.

Some investors may be troubled by the history of chairman Ricardo Salinas Pliego's previous business dealings. In 2005, the US SEC filed civil fraud charges against him in relation to a related party debt transaction that the SEC said Salinas did not properly disclose. The SEC accused Salinas of using an entity that he secretly co-owned to purchase, from a third party, the distressed debt of one of Salinas' subsidiaries at a steep discount. According to the SEC, Salinas was aware of negotiations that would provide a major cash infusion into his subsidiary; three months after the debt purchase, the subsidiary repaid its debt in full, netting Salinas profits of \$109 mn USD. A year and a half later, Salinas settled with the SEC by paying \$7.5mn in penalties and compensation but without admitting any wrongdoing. In a different dispute in the late 1990s, NBC accused TV Azteca, another Salinas company, of reneging on the terms of a cooperation agreement that gave NBC the right to purchase Azteca shares at a discount to the IPO price. In the event that Elektra has financial difficulties down the road, history suggests we should expect a lower recovery value in this case. (For those who follow Mexican corporates, some of these tactics are not entirely unfamiliar. See for example our recent article, "Bio Pappel: What's different now?" as well as "Will Vitro's bankruptcy affect other Mexican corporates?")

We weigh the strengths and weaknesses in the following way. As long as the operating part of the business is doing well, which is our base case scenario, Elektra's unusual financial practices seem less important. Nevertheless, consider what would happen in the event of a downturn. Poor transparency means that we would get fewer warning signs of impending problems. The financial derivatives held by Elektra could magnify the impact of any shock to the company's core business, and could lead to cash flow problems if its counterparty were to request margin or close the positions. If the shocks are bad enough to lead to a restructuring, we would expect negotiations with creditors to be contentious.

Relative Pricing

In trying to determine the fair price of Elektra bonds relative to its peers, we provide comparative data in Figure 1 on the following page. Major direct competitors are Famsa and Coppel, but only Famsa has global bonds. We include Comercis because it has USD bonds (recently restructured) even though its broad mix of retail products is different from Elektra's concentration in durable goods. We also include Credito Real and Financiera Independencia, two companies we have reviewed in the past that are engaged in a similar business to that of Banco Azteca—providing loans to low and middle-income Mexicans. We note that one should take the Ebitda and leverage figures with a grain of salt since they contemplate the consolidated figures of quite

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Figure 1. Comparative Data on Grupo Elektra Peers

	Elektra	Famsa	Coppel	Comerci	Creal	Findep
Consolidated Revenue	50,811	15,400	53,995	50,299	1,449	3,888
Annual growth	16%	4%	20%	3%	32%	16%
Total Loan Portfolio	31,605	11,122	4,439		5,068	6,742
Annual growth	39%	19%	79%		55%	25%
Net Interest Margin	17,643	-862	808		671	2,231
Past due/Total Loans	3%	13%	17%		2%	10%
Consolidated Ebitda	7,098	357	9,590	4,043	213	365
Annual growth	18%	-18%	39%	2%	-13%	42%
Leverage ratio	1.7	14.4	1.2	4.8	26.5	18.2
Bonds						
Maturity	8/6/2018	7/20/2015		6/30/2018	4/14/2015	3/30/2015
Yield	8.70%	9.30%		7.20%	8.70%	8.90%
Spread	718	866		575	818	842

Source: Mexican stock exchange and banking commission. Figure are in millions of MXN. Bond prices are from Bloomberg as of 8:30am on August 26, 2011.

Net interest margin is calculated after reserves. Past due amount does not include write offs. Consolidated Ebitda is operating income plus depreciation for both retail and financial segments. Leverage is calculated based on the sum of consolidated bank debt and securitized debt divided by consolidated Ebitda

different businesses: a retail operation and a bank. The leverage ratios used by us and by the company exclude customer deposits from company indebtedness, leading to further difficulties in analysis, especially in comparisons with other firms who are not financed by deposits.

We find that while spreads on Elektra's bonds are lower than those of many of these peers, some of that difference is justified by the fact that Elektra is a stronger company. For example, we think spreads on Famsa bonds are 150bp higher than those of Elektra because Elektra has significantly less leverage. In contrast, spreads on Comerci are 140bp lower than those of Elektra, perhaps because it does not finance consumer purchases. While spreads on the microfinance companies seem more attractive than those offered by Elektra, we think their businesses are more vulnerable to new competition. We find these microfinance companies to be more transparent and easier to analyze, but we think Elektra's linkage between retail and consumer finance, as well as a lower funding cost stemming from its banking license, give it a more sustainable competitive advantage.

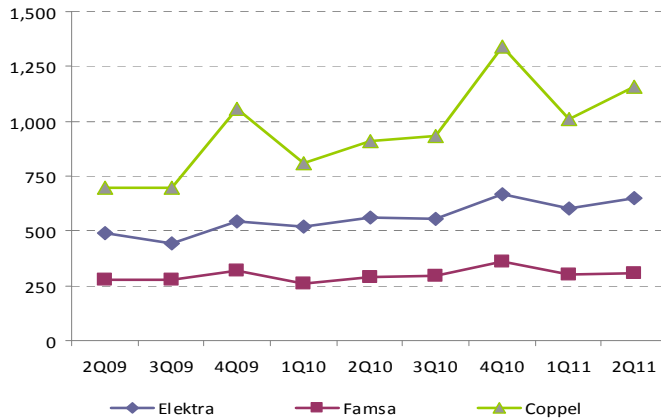
Overall, we maintain a neutral stance on the bonds. We like the firm's industry and positioning and do not expect bad news in the near-term. Investor concerns about global growth are obviously an issue but Elektra has already shown it can weather a global downturn. On the other hand, unusual financial practices leave us uneasy about recommending a long position.

This article was written jointly with Araceli Espinosa.

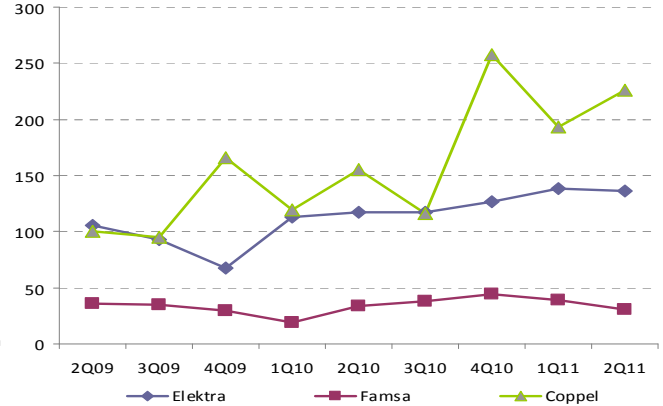
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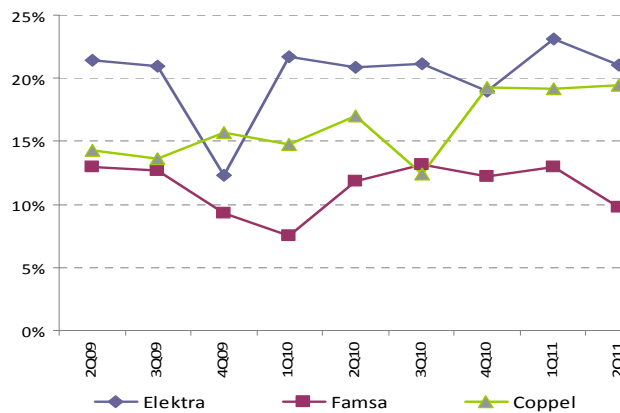
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Appendix 1. Retail Sales (quarterly USD mn)

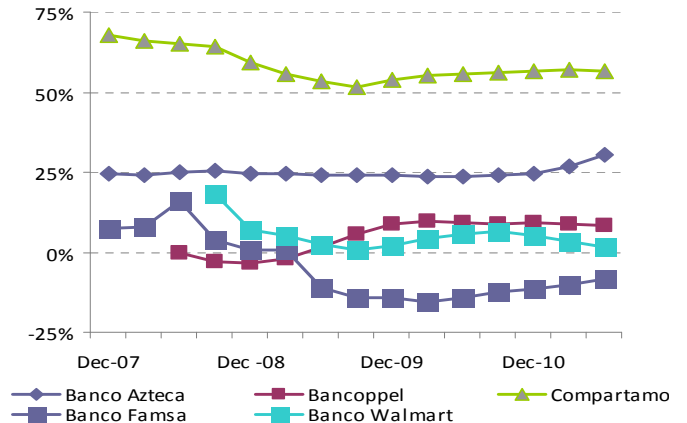
Source: SCM with stock exchange and banking commission data
Graph shows retail sales for Elektra and Coppel and consolidated sales for Famsa. Retail sales data for Elektra are our own estimates.

Appendix 2. Retail Ebitda (quarterly USD mn)

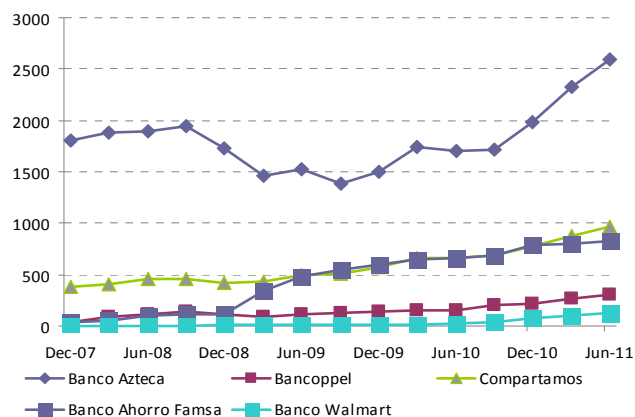
Source: SCM with stock exchange and banking commission data
Graph shows retail Ebitda for Elektra and Coppel and consolidated Ebitda for Famsa. Retail Ebitda for Elektra is our own estimate.

Appendix 3. Retail Ebitda Margin

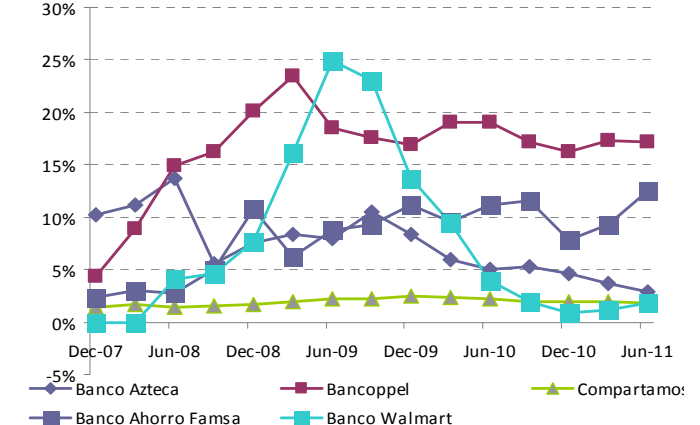
Source: SCM with stock exchange and banking commission data
Graph shows retail Ebitda margin for Elektra and Coppel and consolidated Ebitda margin for Famsa. Retail Ebitda margin for Elektra is our own estimate.

Appendix 4. Net Interest Margin (credit risk adjusted)

Source: SCM with banking commission data

Appendix 5. Performing Loan Portfolio

Source: SCM with banking commission data

Appendix 6. Delinquency Ratio

Source: SCM with banking commission data

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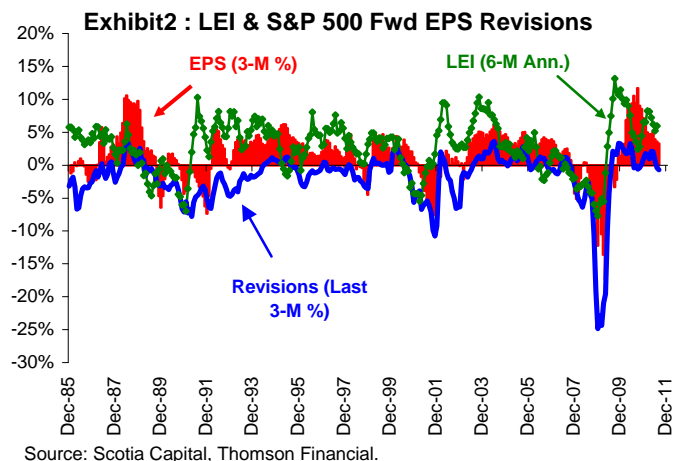
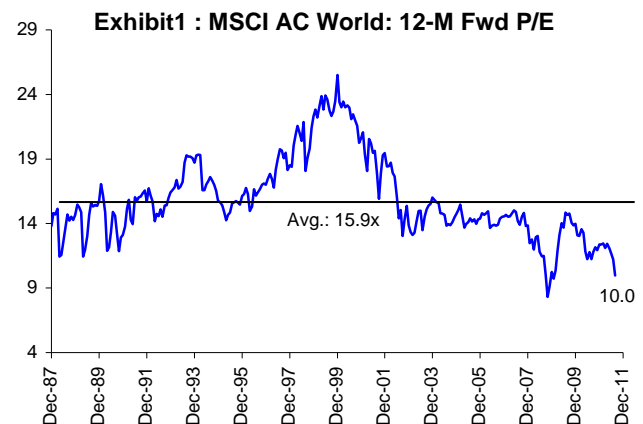
Global Valuation Monitor — August 2011 Update

The following is a summary of our *Global Valuation Monitor* (GVM) report. Full length version will be released in coming days. The objective of this report is to provide a snapshot on global valuations and expected earnings with Canada's relative situation in focus. Forward P/E multiples are based on next-12-month bottom-up earnings expectations (MSCI) and forward earnings refer to the August 2011-August 2012 period. Calendar earnings reflect the January 1-December 31 period. *Index closing prices are as at August 23, 2011.*

With equity selling intensifying to extreme levels in recent weeks, our semi-annual GVM update is timely. Forward P/Es have contracted sharply in recent months and global valuations are fast approaching trough levels witnessed in Q1-09. Paradoxically, valuations have been plummeting amidst sustained growth in earnings. Earnings revisions have however turned negative since May and recession prospects should trigger further cuts in earnings forecasts in coming months. By historical standards, P/E levels look cheap, and we expect a modest rebound in valuations when pessimistic sentiment stabilizes. Still, we do not expect sustained P/E expansion towards historical averages (circa 15x) until the effects of U.S./Euro deleveraging are digested.

Equity sentiment disappears, valuations plummet

- MSCI World forward P/E falls to 10x.**
 P/E multiples currently range from 8.4x (Europe) to 14.1x (Mexico) and the MSCI AC World index is trading at 10x forward earnings estimates. Investor anxiety has increased dramatically in recent months and valuations are slipping towards trough levels visited back in Q1-09. U.S. and Canadian forward P/Es stand at 10.8x and 12.3x, respectively. With the exception of India (12x), other EM indices are trading well under 9x forward earnings. In the last 6-months, P/Es have contracted in excess of 2x points on average with Canadian (-3.8x) and German (-3.5x) indices feeling the most pain. From a sector standpoint (MSCI AC World), Energy, Industrials, and Financials have suffered P/E contraction of circa 3% in the last 6-months with defensives' valuations resisting much better. Exhibit 1 offers an overview of global forward EPS (next 12 months) and P/E multiples. *Historical data on forward P/Es go back to 1987 for most major benchmarks.*
- Mid-single digit negative revisions so far.**
 Amidst the recent debt turmoil and lower 2012 world GDP growth expectations, earnings revisions have turned negative. In the last 3-months, calendar 2011 and 2012 earnings revisions hover between -1% in North America (U.S. and Canada) to -3%/-4% in both Europe and Asia. Negative revisions are likely to continue in coming months since bottom-up analysts still expect low double-digit earnings growth over the next 12-months.



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U.S. LEI & yield curve supportive for earnings. Although negative revisions are to be expected globally, leading indicators would have to plunge much lower to translate into a precipitous fall in actual U.S. earnings. The U.S. LEI (+0.5% MOM in August; +6% on a 6-M annualized basis) is not at alarming levels for S&P 500 earnings growth. In addition, the slope of the U.S. yield curve supports a 40%+ revisions ratio (percentage of positive revisions vs. total revisions). Revisions have been more modest in the U.S. and the S&P 500's revisions ratio is much higher than its global comps, which explains the S&P 500 outperformance (YTD and YOY). In our opinion, the spring/summer sell-off in global equities has more to do with evaporating sentiment (P/E contraction) than an actual hit to profitability.

Canada versus the World: Although the S&P/TSX's forward P/E has slipped 3.8x in the last 6-months, Canada is still trading at a premium to the MSCI World with its main 4 sectors (Financials, Energy, Materials, and Industrials) trading above their respective peer group. The TSX's higher earnings expectations, lower revisions, and a 40%+ revisions ratio have all combined to sustain premium valuations. We believe Canada's preferred "relative" status will continue in coming months as other regions suffer from fiscal woes, austerity, and the impact of tightening policies (EM).

Exhibit 3: Global Indices: Snapshot on Earnings & Valuations

	EPS Gr. (12-M Fwd.)	P/E	P/E Change (Last 6-M)	EPS Revisions (Last 3-M)		2011 YTD (%)
				2011E	2012E	
MSCI AC World	13.8%	10.0	-2.3	-2.4%	-2.2%	-10.2%
Developed (22 Countries)	13.8%	10.2	-2.4	-2.4%	-2.1%	-9.6%
Emerging (21 Countries)	15.0%	9.0	-1.8	-2.5%	-2.6%	-14.4%
North America						
S&P/TSX	18.4%	12.3	-3.8	-0.4%	-1.0%	-7.7%
S&P 500	14.6%	10.8	-2.4	-1.6%	-0.4%	-7.6%
Europe (21 Countries)	10.9%	8.4	-2.3	-3.5%	-3.6%	-11.9%
Germany	9.9%	7.7	-3.5	0.0%	-2.0%	-16.9%
France	10.4%	8.1	-2.7	-3.5%	-4.3%	-12.6%
U.K.	12.2%	8.6	-1.7	-1.4%	-0.9%	-8.2%
Switzerland	9.1%	10.8	-1.5	-8.3%	-8.2%	-4.9%
Spain	7.6%	7.7	-1.9	-6.8%	-7.2%	-10.2%
Russia	9.5%	4.6	-2.0	2.0%	0.1%	-11.3%
Asia-Pacific (13 Countries)	15.8%	10.7	-2.0	-3.1%	-3.7%	-12.3%
Japan	20.9%	11.6	-2.3	-3.9%	-4.4%	-12.8%
China	15.2%	8.7	-2.2	-0.5%	-1.1%	-14.7%
India	14.9%	12.5	-2.0	-3.5%	-4.0%	-22.8%
Australia	12.3%	10.4	-2.0	-4.3%	-3.5%	-10.3%
South Korea	15.1%	7.9	-1.8	-2.8%	-2.6%	-12.4%
Hong Kong	2.9%	13.2	-2.7	4.1%	-2.6%	-10.6%
Latin America (5 Countries)	11.1%	9.3	-1.9	-2.7%	-2.6%	-16.8%
Brazil	8.6%	8.0	-2.1	-0.7%	-1.3%	-19.6%
Mexico	21.8%	14.1	-0.7	-11.7%	-10.2%	-9.2%

Source: Scotia Capital, Thomson Financial

BoE: To QE Or Not To QE

- **The case for another round of QE in the UK is building week by week. Given the deterioration in business surveys it is increasingly likely that GDP growth will undershoot the Bank of England's forecast which will bear down on its medium term inflation projection. In turn the door to QE2 is likely to be pushed wide open — the only question is whether the MPC is prepared to pull the trigger when current inflation is running at double its target.**

Hold On!

We recently revised our forecast for the BoE policy rate. We do not expect the BoE to deliver the first interest rate hike until 2013. Sub-par GDP growth has meant that the output gap has probably widened rather than narrowed this year. Our forecast for GDP growth going forward implies that the degree of spare capacity will get no smaller over the coming year. Hence on the basis of the outlook for underlying domestically generated inflation (which the Bank has tended to focus on of late) the case for interest rate hikes is weak. If tightening in policy was required to slow the economy to take the heat out of domestically generated inflation, then fiscal policy that is already in the pipeline is likely to prove more than sufficient.

By contrast, the case for another round of quantitative easing from the Bank of England is building fast. Although the BoE recently revised down its outlook for GDP growth, we believe it remains too optimistic. In particular the BoE expects the economy to expand by a bumper 1% q/q during Q3. While there is likely to be a technical bounce in growth as activity normalised following the royal wedding, we believe that growth could be less than half that pace.

Early indications from eurozone survey indicators do not look good. The recent financial market turmoil has clearly had an impact on business sentiment. In turn this points to disappointing growth in Q3.

Another downward revision to the Bank's growth outlook would bear down further on the Bank's medium term inflation projection. The latter is already a margin below the 2% target (1.7-1.8% y/y) — which has typically been the trigger for monetary policy loosening. The door is already ajar to another round of QE — further downward revisions to the Bank's projections would push the door wide open.

High Five!

The main sticking point is the current elevated level of inflation. Within the next two months we expect headline inflation to have risen above 5% y/y. With inflation more than double the Bank's target, it is going to be hard to convince the public that QE is required to prevent an inflation target undershoot.

However, headline inflation is being influenced by VAT, energy prices and food prices — none of which the Bank has any control over. Inflation will drop like a stone from the turn of the year as these one-off increases drop out of the % y/y calculation. Hence another round of QE as soon as the November MPC is possible, but it will be awkward to deliver. By February 2012 (the next time the Bank's economic projections will be updated) inflation should have fallen somewhat, making it easier to deliver QE at that point. February is an awfully long way away and monetary policy is at its best when it is pre-emptive. Hence it would be wrong to rule out QE as soon as November.

Revision Notes

A more subtle sticking point is the upcoming revisions to the UK National Accounts data, scheduled for 5 October. This year's Blue Book will involve substantial changes to the methodology applied to the GDP calculations. One of these involves changing the deflator applied to the GDP data from an RPI based deflator to a CPI based deflator. In isolation this is likely to push real GDP higher. In very simple terms, real GDP is calculated by subtracting a gauge of inflation from nominal GDP. If the measure of inflation is lower (which will be the case because CPI inflation tends to be lower than RPI inflation) then the level of real GDP will be

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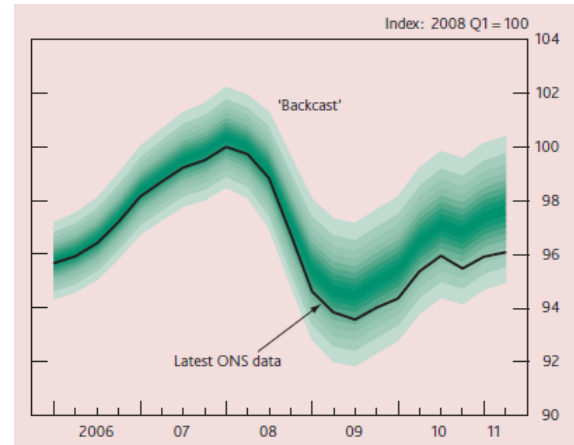
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pushed higher. This is not the only change taking place, so it is not guaranteed that this will happen. Nonetheless, the BoE's latest projections clearly suggest how the Bank expects the revisions to evolve.

Chart 1 shows the latest GDP data (represented by the black line) against where the BoE thinks that GDP probably was (represented by the darkest part of the green fan chart). In its own words, the Bank thinks there is a 60% chance that the level of GDP will be revised up by more than 1%.

In the context of monetary policy, what all this means is the ONS will rewrite history on the 5 October. GDP growth over the last year or two may well be revised up to show a more respectable pace of GDP growth than was previously thought to be the case. In turn the implied output gap would be narrower. It would also help to reconcile the gap between impressive employment growth but sub-par GDP growth.

Chart 1: BoE GDP 'Back Cast'



Source: Bank of England

Would this prevent another round of QE? We doubt it, but it would probably make the case for QE2 less urgent.

In particular, the Bank has already factored in this upward revision to GDP growth into its projections, so it wouldn't come as a surprise to the Bank. Even taking on board the upward revisions implied by its back-cast, it still expects inflation to be below target after two years. Furthermore, upward revision or not, the Bank has still set itself up for a fall by projecting near 1% q/q growth during Q3.

Let the market do the work

The Bank may even employ the services of the Maradona theory — something the BoE made skilful use of earlier in the year. Governor King's Maradona theory (named after the Argentine footballer) describes how a central bank can achieve tightening (loosening) in monetary policy by letting the market price this in, sparing the central bank the bother of adjusting policy. During H1 the market priced in 75bp of interest rate hikes, helping to support the GBP exchange rate and government bond yields. All of this represented tightening in policy conditions, without the BoE having to raise Bank Rate — something that would now be considered a grave mistake.

Many of the benefits of QE have typically been accrued ahead of the initial announcement of asset purchases. Hence there is a chance that the Bank continues to entertain the possibility of QE, encouraging the market to hold down government bond yields and the GBP and support prices of risk assets. This should also boost future inflation expectations and lower future expected real interest rates. All of this loosening could be achieved without having to buy a single government bond.

Conclusion

Overall, our view is that the chance of another round of BoE QE is approaching 50%. At the very least we expect speculation to continue and the market to price in QE2. Upward revisions to GDP in early October may temper some of the urgency to deliver further policy easing. However, if the ONS does not revise up GDP growth in a meaningful way in early October and Q3 GDP grows by $\frac{1}{2}\%$ q/q or less (released 1 November) then there is a chance that QE2 could begin as early as November.

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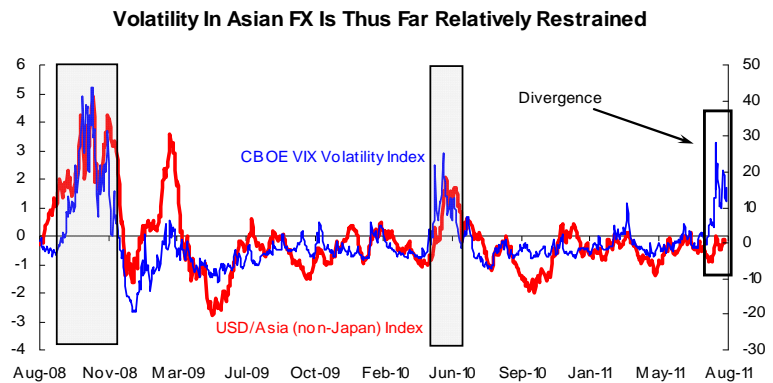
Asian FX As A Safe Haven (We Highly Doubt It)

- Despite continued elevated market volatility, Asian FX performance has been less bad than expected in recent weeks; does this mean Asian FX now represents a safe haven?
- We don't think so, and believe that should intensive global financial market volatility persist, short term weakness will eventually set in.

Though price action in Asian non-Japan FX has certainly been fairly unconstructive since global equities began to tumble in late July, matters have been far better than potentially could have been the case. If we compare the current situation to past periods of extreme volatility in the summer of 2010 and late 2008/early 2009, we see that spikes in negative equity market volatility coincided with significant Asian FX weakness. In our chart, which plots the CBOE equity volatility (VIX) Index and our trade-weighted USD/Asian FX index relative to their respective three-month moving averages, we can see a distinct correlation between our FX index and spikes in financial market volatility. This is obvious in the first two shaded time periods, but not during the third more recent time period (which we indicate with a "Divergence" box).

Based on the rapidity and degree to which the VIX has spiked, it appears that we should have far surpassed the threshold for which Asian FX can remain generally stable against the USD. What is the story here? Why have we not seen a significant and sustained depreciation in Asian FX (outside of KRW and an atrocious INR)? Certainly one can speak of "flights to quality" to some degree, as Asia's fundamentals continue to look better than the developed world.

However, this is an argument that we do not subscribe to as a number of Asian currencies are subject to a high degree of volatility on portfolio outflows which inevitably occur during these periods. Such outflows are well evident in the data for Korea, Thailand, and India to name a few. On that note, India and Korea are the worst performing currencies in Asia since July 27th, with KRW down around 3% and INR both down well over 4%.



Source: Scotia FX Strategy, Bloomberg

What is more likely the case is that the current market volatility has perhaps not been persistent or extended enough in duration to see a sustained move higher in the USD vs. Asia. This argument appears to have merit if we look to previous periods of extreme market volatility for guidance (spring/summer 2010, late 2008/early 2009). We believe that it has actually not been any kind of "safe haven" bid (save for the case of SGD perhaps) that is responsible for relative Asian FX stability. Rather, it has primarily been the efforts of Asian central banks to smooth market volatility, combined with the degree to which Asian FX reverts to the long term "sell-USD" trend the moment volatility eases. The latter point has been aided by the August 10th Federal Reserve policy decision, which reiterated the fundamental drag exerted on the greenback by ultra-loose monetary policy due to the weak growth and employment outlook. The downgrade of the US credit rating by S&P, whether one agrees with it or not, was another key source of fundamental weakness vis-à-vis Asia.

However, our point regarding the efforts of central banks is important in justifying our argument that the near term appearance of relative stability in Asian FX (on average) is misleading. If the support measures undertaken by regional banks are a key feature in the ability of Asian FX to hang in vs. the greenback relative to last summer or late 2008/early 2009, why are the central banks seemingly more ardent relative to previous periods marked off in the chart? We would posit that it is not the case that the absolute degree of volatility, as

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measured by the VIX, is the sole deciding factor, but also the duration of the period of market strain. The difference is that last summer's financial volatility persisted for more than just a week or two. The longer such volatility persists, the higher the risk that it impacts the already strained growth outlook. Indeed, regional policymakers have repeatedly pointed to the European situation as a risk to their own outlooks. Should Asian central banks perceive that extended financial market volatility risks presenting a serious drag on growth, they may once again decide to step back from the market and accommodate some degree of weakness in their currencies as a buffer. A quick look at past periods of similar spikes in risk asset volatility suggests that should the current period persist for a bit more than a month, essentially to around September 5th, we may begin to see Asian FX weakness come into play. We note that this would not constitute a game-changer, so far as our structurally bullish Asian FX view versus the USD is concerned, but we would certainly be forced to acknowledge that less central bank hawkishness via FX could imply less monetary tightening going forward and weigh on currency performance. We are in wait-and-see mode for the time being.

One final note (this comment was written before Fed Chairman Bernanke's Jackson Hole speech); this week brings the crucial speech by Federal Reserve Chairman Ben Bernanke. There is a high degree of speculation surrounding the potential that further monetary (and quantitative) easing could be entertained by the Chairman during his comments. Persistent volatility in financial markets would also prove a negative for the US economic outlook of course, and thus raise the likelihood of further monetary easing, though we still believe a rather high hurdle exists for additional quantitative easing. Nevertheless, if the market feels that the probability of further QE is increasing, USD weakening pressure vs. Asia may come to dominate. This outcome is more likely only if volatility remains high, yet not catastrophically so. Much in the next two weeks hinges on the Fed Chief's rhetoric, and there even exists the potential that he disappoints an already jittery market by playing down the potential for further easing. This would provide an unfortunate volatility-enhancing outcome for Asian FX to be sure.

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Key Data Preview

CANADA

We will finally obtain **June/Q2 GDP** (Wednesday) results in Canada next week which we are expecting to be quite ugly. On the monthly front, based on the information that we have, June real GDP should rise by 0.1% m/m although the risk is definitely tilted to a weaker print. On the upside, price-adjusted retail sales surged by 1.6% in June, supported by increased auto demand, while home construction also registered solid gains, with single-family homes accounting for all of the increase in housing starts during the month. Offsetting this strength, however, is a decline in price-adjusted wholesale sales, a retrenchment in aggregate hours worked, a further contraction in real manufacturing shipments and a widening in the real trade deficit, suggesting that, even if the headline print comes in positive, the gains will likely be very narrowly based. Should our June forecast come to fruition, real GDP could turn negative in Q2, signaling that the Canadian economy contracted during the quarter, the first quarterly contraction since Q2 2009. While the mid-March Japanese trifecta — earthquake, tsunami and nuclear shutdown — likely accounts for some of this weakness, as auto production was shut down around the world after supply chains were crippled, the Canadian economy was already showing signs of weakness. Business inventories contributed 2.6 percentage points of the 3.9% q/q annualized increase in real GDP in Q1 as consumption, trade and government spending all deteriorated during the quarter. While we will likely witness a rebound in growth in Q3 as auto production comes back on line, the rebound may be tempered by ongoing underlying weakness in the Canadian, U.S. and European economies as well as continued volatility in the financial markets.

UNITED STATES

With Fed Chairman Bernanke's speech at Jackson Hole out of the way, economic data will likely return to the limelight next week. While several reports will be released, three in particular — personal income and spending (July), ISM manufacturing index (August) and nonfarm payrolls (August) — will likely take centre stage.

Personal spending (Monday) could witness a decent print should consumer spending follow retail sales higher, providing a much needed boost to equity markets after the disappointing data reports of late. And, growth will likely span all three major components — durable, non-durable and services — signaling that consumers were able to broaden their purchases during the month. Add in June's negative print (assuming no revisions), which will provide an added boost from the base effect and we are looking at a gain of roughly 0.4% m/m for personal spending in July. Having said that, the price-adjusted results may not be as optimistic after real retail sales came in unchanged in July, according to the St. Louis Fed, suggesting that consumer spending will be off to a weak start in Q3, putting downward pressure on Q3 real GDP. On the **personal income** front, a pop in average hourly earnings and aggregate hours will likely lift overall nominal incomes although growth will likely slow in the months ahead as businesses keep a lid on wages. While this report should provide markets with a more optimistic view of the economy, bear in mind that this report is for July, one month before the recent global market rout, suggesting that gains could be tempered in August.

The closely watched **ISM manufacturing report** (Thursday) is set to dip below 50 in August for the first time since July 2009, following in the footsteps of every major regional Fed manufacturing report in August. Given that this survey is completed within the first two weeks of every month, it will be hard to decipher whether the deterioration in the index is a knee-jerk reaction to the almost 12% decline in equities that occurred in the first two weeks of August, or whether it is a reflection of weakening manufacturing activity. The answer is that it will likely reflect both situations. While auto production seems to be back up and running following the Japanese disasters, the regional Fed surveys still remain quite weak, suggesting that manufacturing activity could be slowing in other areas. In addition, even if the majority of the deterioration in August is a reflection of the global market sell-off, the hit to business confidence will likely weigh on manufacturing activity going forward, suggesting further weak prints in the months ahead.

The **US nonfarm payrolls report** will be the most anticipated release of the week and analyst expectations are extremely wide-ranging of between -30k and 153k, with the median sitting at 95k, and our estimate slightly below that at 80k. Indeed, it is hard to see how the nonfarm payrolls report could register a print of any significance with all of the Fed regional manufacturing surveys witnessing a deterioration in their employment indices — with the Philly Fed even showing a contraction in employment in August — with initial jobless claims still remaining above 400k, and with the reduction in business and consumer confidence from the recent financial market downdraft likely leading many businesses to reassess their current hiring plans. There is even a risk of a tick up in the unemployment rate to 9.2%.

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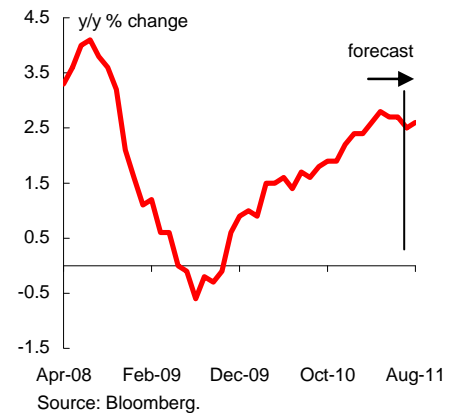
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EUROPE

The flash estimate for euro zone headline inflation in August will be released on August 31st. With the summer discounting period now over, we estimate that consumer prices increased by 0.2% m/m, only partially offsetting the 0.6% m/m drop in prices in July. Accordingly, the annual inflation rate will climb to 2.6% y/y from 2.5% the month before. We expect euro zone inflation to close the year at 2.5%, before starting to ease towards the European Central Bank's (ECB) target of "below, but close to, 2%" in 2012. Due to an uncertain economic outlook combined with prospects for an easing in inflationary pressures, we expect the ECB to maintain the current monetary policy stance, keeping the main refinancing rate unchanged at 1.5% through 2012.

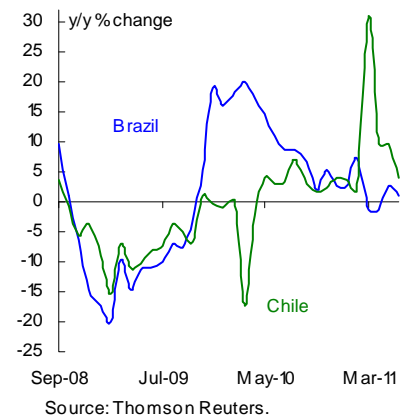
Euro Zone Headline Inflation



LATIN AMERICA

Brazilian industrial production (IP) for July will be released on August 31st. Both the global economic slowdown and local authorities' measures to cool down the Brazilian economy seem to be having some effect, as IP growth has slowed in recent months. In June, IP increased by 0.9% y/y, but decreased by 1.6% m/m against May, signaling a more moderate pattern of expansion, which we expect to be maintained for rest of the year. In the first half of 2011, the more dynamic sectors were the production of capital goods for construction and transportation and the automotive sector. We expect IP to increase by 3.5% y/y through 2011. In Chile, IP data for July will be released on August 30th. Mainly due to a lower base in June 2010 (caused by the natural disaster), IP increased by 4.0% y/y this June, but recorded a second consecutive monthly decrease, which also signals a moderation in economic performance going forward. We expect Chilean IP to grow by 8.0% y/y in 2011.

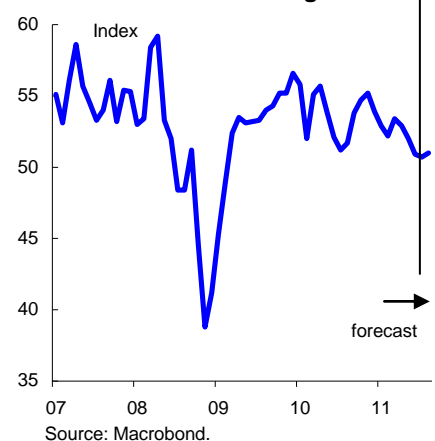
Industrial Production in Brazil and Chile



ASIA

China's manufacturing purchasing managers index (PMI) is expected to rebound in July to the 51.0 level, from the current 50.7. Last week an increase in the flash estimate was already observed, consistent with the view that the outlook for manufacturing, while still affected by temporary factors, is on the mend. Industrial activity within China has remained on solid footing, registering rates of growth within the 13-15% y/y range. With the rate of advance in exports at a firm 20% y/y at the last reading, we remain of the opinion that the outlook for the manufacturing sector in China remains tilted towards expansion.

China's Manufacturing PMI



Key Indicators for the week of August 29 - September 2

North America								
Country	Date	Time	Event	Period	BNS	Consensus	Latest	
US	08/29	08:30	Personal Income (MoM)	JUL	0.4	0.4	0.1	
US	08/29	08:30	Personal Spending (MoM)	JUL	0.4	0.5	-0.2	
US	08/29	08:30	PCE Deflator (YoY)	JUL	--	2.7	2.6	
US	08/29	08:30	PCE Core (MoM)	JUL	--	0.2	0.1	
US	08/29	08:30	PCE Core (YoY)	JUL	--	1.4	1.3	
US	08/29	10:00	Pending Home Sales (MoM)	JUL	-0.1	-0.9	2.4	
US	08/29	10:30	Dallas Fed Manf. Activity	AUG	-7.0	-8.0	-2.0	
CA	08/30	08:30	Current Account (CAD billions) (BOP)	2Q	--	-13.9	-8.9	
CA	08/30	08:30	Industrial Product Price (MoM)	JUL	-0.3	-0.2	-0.3	
CA	08/30	08:30	Raw Materials Price Index (MoM)	JUL	0.5	-0.1	-2.2	
US	08/30	09:00	S&P/CS 20 City (MoM) SA	JUN	0.0	0.0	-0.1	
US	08/30	09:00	S&P/CS Composite-20 (YoY)	JUN	--	-4.6	-4.5	
US	08/30	10:00	Consumer Confidence	AUG	52.5	52.0	59.5	
US	08/30	14:00	Minutes of FOMC Meeting					
MX	08/30	15:30	Budget Balance (Year to date)	JUL	--	--	-125.4	
US	08/31	07:00	MBA Mortgage Applications (WoW)	26-Aug	--	--	-2.4	
US	08/31	07:30	Challenger Job Cuts (YoY)	AUG	--	--	59.4	
US	08/31	08:15	ADP Employment Change (000s)	AUG	90.0	100.0	114.0	
CA	08/31	08:30	Gross Domestic Product (MoM)	JUN	0.1	0.1	-0.3	
CA	08/31	08:30	Quarterly GDP Annualized (QoQ)	2Q	-0.1	0.0	3.9	
CA	08/31	09:00	Teranet/National Bank HPI (MoM)	JUN	--	--	1.3	
US	08/31	09:45	Chicago Purchasing Manager	AUG	--	53.5	58.8	
MX	08/31	10:00	Central Bank Announces International Reserves for Prev. Week					
US	08/31	10:00	Factory Orders (MoM)	JUL	1.3	1.8	-0.8	
US	08/31	10:00	NAPM-Milwaukee	AUG	--	--	57.6	
US	09/01	08:30	Nonfarm Productivity (QoQ)	2Q F	--	-0.5	-0.3	
US	09/01	08:30	Unit Labor Costs (QoQ)	2Q F	--	2.3	2.2	
US	09/01	08:30	Initial Jobless Claims (000s)	26-Aug	405	408	417	
US	09/01	08:30	Continuing Claims (000s)	20-Aug	3700	3680	3641	
MX	09/01	10:00	Central Bank Economists Survey					
US	09/01	10:00	Construction Spending (MoM)	JUL	--	0.2	0.2	
MX	09/01	10:00	Remittances (USD)	JUL	--	--	2021.9	
US	09/01	10:00	ISM Manufacturing	AUG	48.0	48.0	50.9	
US	09/01	10:00	ISM Prices Paid	AUG	--	55.0	59.0	
US	09/01	17:00	Total Vehicle Sales (millions)	AUG	12.0	12.1	12.2	
US	09/01	17:00	Domestic Vehicle Sales (millions)	AUG	--	9.5	9.6	
US	09/01		ICSC Chain Store Sales (YoY)	AUG	--	--	4.6	
US	09/02	08:30	Change in Nonfarm Payrolls (000s)	AUG	80.0	80.0	117.0	
US	09/02	08:30	Change in Private Payrolls (000s)	AUG	--	110.0	154.0	
US	09/02	08:30	Change in Manufact. Payrolls (000s)	AUG	--	0.0	24.0	
US	09/02	08:30	Unemployment Rate (%)	AUG	9.2	9.1	9.1	
US	09/02	08:30	Avg Hourly Earning (MoM) All Emp	AUG	0.2	0.2	0.4	
US	09/02	08:30	Avg Weekly Hours All Employees	AUG	34.0	34.3	34.3	
US	09/02	08:30	Chg in Household Survey Empty	AUG		--	-38.0	

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

Key Indicators for the week of August 29 - September 2

Europe								
Country	Date	Time	Event	Period	BNS	Consensus	Latest	
UK	AUG 25-31		Nat'wide House prices sa (MoM)	AUG	0.0	0.0	0.2	
UK	AUG 25-31		Nat'wide House prices nsa (YoY)	AUG	0.4	0.4	-0.4	
GE	08/29	03:00	CPI - Saxony (MoM)	AUG	--	--	0.4	
SP	08/29	03:00	Adjusted Real Retail Sales (YoY)	JUL	--	-6.0	-7.0	
SP	08/29	03:00	Retail Sales (Real) (YoY)	JUL	--	--	-7.4	
SW	08/29	03:30	Retail Sales s.a. (MoM)	JUL	--	0.1	3.2	
GE	08/29	04:00	CPI - Brandenburg (MoM)	AUG	--	--	0.5	
GE	08/29	04:00	CPI - Hesse (MoM)	AUG	--	--	0.5	
IT	08/29	04:00	Consumer Confidence Ind. sa	AUG	--	101.8	103.7	
GE	08/29	06:00	CPI - Bavaria (MoM)	AUG	--	--	0.5	
GE	08/29	06:00	CPI - Bavaria (YoY)	AUG	--	--	2.3	
UK	08/29	19:01	Lloyds Business Barometer	AUG	--	--	19.0	
GE	08/29		Consumer Price Index (MoM)	AUG P	--	-0.1	0.4	
GE	08/29		Consumer Price Index (YoY)	AUG P	--	2.3	2.4	
GE	08/29		CPI - Baden Wuerttemberg (MoM)	AUG	--	--	0.5	
GE	08/29		CPI - EU Harmonised (MoM)	AUG P	0.0	0.0	0.5	
GE	08/29		CPI - North Rhine-West. (MoM)	AUG	--	--	0.4	
GE	08/29	00:00	Retail Sales (MoM)	JUL	--	-1.5	4.5	
GE	08/29	00:00	Retail Sales (YoY)	JUL	--	-0.8	-1.0	
SP	08/30	03:00	CPI (EU Harmonised) (YoY)	AUG P	3.0	2.8	3.0	
SP	08/30	03:00	Consumer Price Index (YoY)	AUG P	--	2.8	3.1	
IT	08/30	04:00	Retail Sales s.a. (MoM)	JUN	--	0.1	-0.1	
UK	08/30	04:30	Net Consumer Credit (GBP billions)	JUL	0.0	0.4	0.4	
UK	08/30	04:30	Net Lending Sec. on Dwellings (GBP billions)	JUL	0.5	0.8	-0.1	
UK	08/30	04:30	Mortgage Approvals (000s)	JUL	49.0	49.0	48.4	
EC	08/30	05:00	Business Climate Indicator	AUG	--	0.1	0.5	
EC	08/30	05:00	Euro-Zone Consumer Confidence	AUG F	-16.6	-16.6	-16.6	
EC	08/30	05:00	Euro-Zone Economic Confidence	AUG	100.5	100.2	103.2	
EC	08/30	05:00	Euro-Zone Indust. Confidence	AUG	0.0	-2.0	1.1	
EC	08/30	05:00	Euro-zone Services Confidence	AUG	--	6.0	7.9	
IT	08/30	05:00	Business Confidence	AUG	--	97.1	98.5	
UK	08/30	19:01	GfK Consumer Confidence Survey	AUG	-28.0	-33.0	-30.0	
GE	08/31	03:55	Unemployment Change (000's)	AUG	-5.0	-10.0	-11.0	
GE	08/31	03:55	Unemployment Rate (%) (s.a)	AUG	7.0	7.0	7.0	
IT	08/31	04:00	Unemployment Rate (%) (s.a.)	JUL P	--	8.0	8.0	
EC	08/31	05:00	Euro-Zone CPI Estimate (YoY)	AUG	2.6	2.5	2.5	
EC	08/31	05:00	Euro-Zone Unemployment Rate (%)	JUL	9.9	9.9	9.9	
IT	08/31	05:00	CPI (NIC incl. tobacco) (MoM)	AUG P	--	0.2	0.3	
IT	08/31	05:00	CPI (NIC incl. tobacco) (YoY)	AUG P	--	2.7	2.7	
IT	08/31	05:00	CPI - EU Harmonized (MoM)	AUG P	0.2	0.2	-1.7	
IT	08/31	05:00	CPI - EU Harmonized (YoY)	AUG P	2.1	2.1	2.1	
SP	08/31		Spain Budget Balance (EUR billions) YtD	JUL	--	--	-24132	
FR	09/01	01:30	Mainland Unemp. Change (000s)	2Q	--	--	-7.0	
FR	09/01	01:30	ILO Unemployment Rate (%)	2Q	--	9.7	9.7	
GE	09/01	02:00	GDP nsa (YoY)	2Q F	2.8	2.8	2.8	
GE	09/01	02:00	Domestic Demand (QoQ)	2Q	--	--	1.1	
GE	09/01	02:00	Exports (QoQ)	2Q	1.2	1.6	2.3	
GE	09/01	02:00	Capital Investment (QoQ)	2Q	--	0.8	5.0	
GE	09/01	02:00	Government Spending (QoQ)	2Q	-0.1	-0.1	1.3	
GE	09/01	02:00	Construction Investment (QoQ)	2Q	--	-1.4	6.2	
GE	09/01	02:00	Imports (QoQ)	2Q	1.5	2.3	1.5	
GE	09/01	02:00	Private Consumption (QoQ)	2Q	0.1	-0.2	0.4	
GE	09/01	02:00	GDP s.a. (QoQ)	2Q F	0.1	0.1	0.1	
SP	09/01	03:15	Spain August Manufacturing PMI					
IT	09/01	03:45	PMI Manufacturing	AUG	--	49.0	50.1	
FR	09/01	03:50	PMI Manufacturing	AUG F	--	49.3	49.3	
GE	09/01	03:55	PMI Manufacturing	AUG F	--	52.0	52.0	
IT	09/01	04:00	Hourly Wages (MoM)	JUL	--	--	0.1	
EC	09/01	04:00	PMI Manufacturing	AUG F	49.5	49.7	49.7	
UK	09/01	04:30	PMI Manufacturing	AUG	49.0	49.0	49.1	
IT	09/01	13:00	Budget Balance (EUR billions)	AUG	--	--	4.0	
IT	09/01	13:00	Budget Balance (EUR billions) (Year to date)	AUG	--	--	-39.6	
UK	SEP 01-08		Halifax House Prices sa (MoM)	AUG	--	--	0.3	
UK	SEP 01-08		Halifax House Price (YoY) 3Mths/Year	AUG	--	--	-2.6	
SP	09/02	03:00	Unemployment MoM Net ('000s)	AUG	--	75.0	-42.1	
UK	09/02	04:30	PMI Construction	AUG	--	53.2	53.5	
EC	09/02	05:00	Euro-Zone PPI (MoM)	JUL	--	0.5	0.0	
EC	09/02	05:00	Euro-Zone PPI (YoY)	JUL	--	6.1	5.9	

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

Key Indicators for the week of August 29 - September 2

Asia Pacific								
Country	Date	Time	Event	Period	BNS	Consensus	Latest	
CH	26-29 AUG		Leading Index	JUL	--	--	101.8	
AU	08/28	21:00	HIA New Home Sales (MoM)	JUL	--	--	-8.7	
SK	08/29	17:00	Business Survey- Manufacturing	SEP	--	--	91.0	
SK	08/29	17:00	Business Survey- Non-Manufacturing	SEP	--	--	83.0	
JN	08/29	19:30	Overall Hhold Spending (YoY)	JUL	--	-2.9	-4.2	
JN	08/29	19:30	Jobless Rate (%)	JUL	--	4.6	4.6	
JN	08/29	19:50	Retail Trade (MoM) SA	JUL	--	0.5	2.9	
JN	08/29	19:50	Large Retailers' Sales (YoY)	JUL	--	0.5	-0.5	
JN	29-30 AUG		Small Business Confidence	AUG	--	--	47.1	
IN	08/30	01:30	Qtrly GDP (YoY)	2Q	7.5	7.6	7.8	
SK	08/30	19:00	Industrial Production (MoM)	JUL	--	0.5	0.7	
JN	08/30	19:50	Industrial Production (MoM)	JUL P	--	1.4	3.8	
NZ	08/30	21:00	NBNZ Activity Outlook	AUG	--	--	43.7	
NZ	08/30	21:00	NBNZ Business Confidence	AUG	--	--	47.6	
JN	08/30	21:30	Labor Cash Earnings (YoY)	JUL	--	-0.5	-0.7	
PH	08/30	22:00	GDP sa (QoQ)	2Q	--	1.2	1.9	
JN	08/31	00:00	Vehicle Production (YoY)	JUL	--	--	-13.9	
JN	08/31	01:00	Construction Orders (YoY)	JUL	--	--	6.0	
JN	08/31	01:00	Annualized Housing Starts (millions)	JUL	--	0.8	0.8	
TH	08/31	03:30	Total Exports (YoY)	JUL	19.6	--	16.4	
TH	08/31	03:30	Total Imports (YoY)	JUL	16.8	--	23.5	
TH	08/31	03:30	Total Trade Balance (USD millions)	JUL	-500	--	1886	
TH	08/31	03:30	Current Account Balance (USD millions)	JUL	--	--	2499	
NZ	08/31	18:45	Terms of Trade Index (QoQ)	2Q	--	--	0.9	
CH	08/31	21:00	PMI Manufacturing	AUG	51	51.0	50.7	
SK	08/31	21:00	Ext Trade - Export (YoY)	AUG	--	23.3	25.2	
SK	08/31	21:00	Ext Trade - Imports (YoY)	AUG	--	25.9	25.0	
SK	08/31	21:00	Ext Trade - Balance in (USD millions)	AUG	--	1685	6316	
AU	08/31	21:30	Private Capital Expenditure (QoQ)	2Q	--	4.0	3.4	
AU	08/31	21:30	Retail Sales s.a. (MoM)	JUL	--	0.3	-0.1	
CH	08/31	22:30	HSBC Manufacturing PMI	AUG	--	--	49.3	
JN	09/01	01:00	Vehicle Sales (YoY)	AUG	--	--	-27.6	
IN	09/01	01:30	Exports (YoY)	JUL	--	--	46.5	
IN	09/01	01:30	Imports (YoY)	JUL	--	--	42.5	
TH	09/01	03:00	Consumer Price Index (YoY)	AUG	--	4.0	4.1	
TH	09/01	03:00	Consumer Price Index NSA (MoM)	AUG	--	--	0.2	
TH	09/01	03:00	Core CPI (YoY)	AUG	--	2.7	2.6	
JN	09/01	19:50	Capital Spending (YoY)	2Q	--	1.0	3.3	
CH	09/02	21:00	China Non-manufacturing PMI	AUG	--	--	59.6	

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

Key Indicators for the week of August 29 - September 2

Latin America								
Country	Date	Time	Event	Period	BNS	Consensus	Latest	
BZ	08/29	07:30	Central Bank Weekly Economists Survey					
PE	08/29		GDP YoY	2Q	--	6.6	8.8	
BZ	08/30	07:00	FGV Inflation IGP-M (MoM)	AUG	--	0.4	-0.1	
BZ	08/30	07:00	FGV Inflation IGP-M (YoY)	AUG	--	8.0	8.4	
CL	08/30	08:00	Industrial Production (YoY)	JUL	--	3.5	4.0	
CL	08/30	08:00	Industrial Sales (YoY)	JUL	--	3.5	2.6	
CL	08/30	08:00	Retail Sales (YoY)	JUL	--	9.0	12.5	
BZ	08/31	08:00	Industrial Production sa (MoM)	JUL	--	0.6	-1.6	
BZ	08/31	08:00	Industrial Production (YoY)	JUL	--	1.1	0.9	
CL	08/31	08:00	Unemployment Rate (%)	JUL	--	7.3	7.2	
CO	08/31	12:00	Urban Unemployment Rate (%)	JUL	--	11.8	11.8	
BZ	08/31		SELIC Target - Central Bank		12.50	12.50	12.50	
BZ	09/01	07:00	FGV CPI IPC-S (WoW)	26-Aug	--	--	0.3	
BZ	09/01	09:00	PMI Manufacturing	AUG	--	--	47.8	
PE	09/01		Consumer Price Index (MoM)	AUG	--	--	0.8	
PE	09/01		Consumer Price Index (YoY)	AUG	--	--	3.4	
BZ	09/02	04:00	FIPE CPI - Monthly (MoM)	AUG	--	0.5	0.3	
CL	09/02	07:30	Central Bank Meeting Minutes					
BZ	09/02	08:00	GDP (IBGE) (QoQ)	2Q	--	0.7	1.3	
BZ	09/02	08:00	GDP (IBGE) (YoY)	2Q	--	3.3	4.2	
CO	09/02		Monetary Policy Meeting Minutes					

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

Global Auctions for the week of August 29 - September 2

North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	08/29	11:00	U.S. Fed to Purchase USD2.75-3.5 Bln Notes/Bonds
US	08/29	11:30	U.S. to Sell 3-Month Bills
US	08/29	11:30	U.S. to Sell 6-Month Bills
CA	08/30	10:30	Canada to Sell CAD6.45 Bln 98-Day Bills
CA	08/30	10:30	Canada to Sell CAD2.4 Bln 182-Day Bills
CA	08/30	10:30	Canada to Sell CAD2.4 Bln 364-Day Bills
US	08/30	11:30	U.S. to Sell 4-Week Bills
CA	08/31	12:00	Canada to Sell 30-Year Real Return Bonds
US	09/01	11:00	U.S. Fed to Purchase USD2.5-3 Bln Notes/Bonds

Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
DE	08/29	04:15	Denmark to Buy Back Bonds
IT	08/29	05:00	Italy Cancels Bond Auction
GE	08/29	05:15	Germany to Sell EU3 Bln 12-Mth Bills
FR	08/29	09:00	France to Sell Bills
DE	08/30	03:30	Denmark to sell Bills
IT	08/30	05:00	Italy to Sell 4.25% 2014 Bonds
IT	08/30	05:00	Italy to Sell 5% 2022 Bonds
IT	08/30	05:00	Italy to Sell Floating 2018 Bonds
SZ	08/30	05:30	Switzerland to Sell 3-Month Bills
BE	08/30	05:30	Belgium to Sell Bills
SW	08/31	05:10	Sweden to Sell Bills
SP	09/01	04:30	Spain to Sell 4.25% 2016 Bonds
FR	09/01	05:00	France to Sell Bonds
SW	09/01	05:10	Sweden to Sell I/L Bonds
UK	09/01	05:30	U.K. to Sell GBP3 Bln 3.75% 2021 Bonds
UK	09/02	06:10	U.K. to Sell Bills

Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
CH	08/28	23:00	China Muni to Sell CNY24 Bln 5-Year Bonds
JN	08/29	23:45	Japan to Sell 2-Year Bond
JN	08/30	23:35	Japan to Sell 3-Month Bills
JN	08/31	23:45	Japan to Sell 10-Year Bond

Source: Bloomberg, Scotia Economics.

Events for the week of August 29 - September 2

North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	08/29	02:50	Fed's Rosengren Speaks on Bank Regulation in Stockholm
US	08/30	08:00	Fed's Evans Speaks to CNBC
US	08/30	12:15	Fed's Kocherlakota Speaks on Economy in Bismarck, North Dakota
US	08/30	14:00	Fed Releases Minutes from Aug. 9 FOMC Meeting
US	08/31	12:30	Fed's Lockhart Speaks on Economy in Lafayette, Louisiana
US	09/01	12:00	Fed's Duke Speaks on Housing at Fed Conference in Washington

Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
EC	08/29	09:00	Trichet, Juncker, Rehn at EU Parliament on Debt Crisis
EC	08/29	09:30	ECB Calls for Bids in 7-Day Main Refinancing Tender
EC	08/29	09:30	ECB Announces Bond Purchases
GE	08/29	11:00	Merkel Attends State Election Campaign Events in Mecklenburg
GE	08/29		German Christian Democratic, Social Union Boards Meet
GE	08/29		Consumer Price Index (YoY)
SP	08/30	04:00	Spanish Parliament to Debate Constitutional Budget Amendment
EC	08/30	05:15	ECB Announces Allotment in 7-Day Main Refinancing Tender
EC	08/30	07:00	ECB Announces Allotment in 7-Day Term Deposits
EC	08/30	09:30	ECB Calls for Bids in 3-Month Tender
GE	08/30		Merkel Travels to Slovenia for Euro Talks with Premier Pahor
PO	08/31	03:00	Portugal Telecom Reports Second-Quarter Earnings
GE	08/31	03:30	Merkel's Cabinet Decides on More Aid For Greece, EFSF Changes
GE	08/31	03:55	Germany Publishes August Unemployment Figures
EC	08/31	05:15	ECB Announces Allotment in 3-Month Tender
IT	08/31	06:00	ABI Chairman Mussari Attends Conference in Rome
UK	08/31	19:01	Public Accounts Committee Report on PFI
PO	08/31		Mota-Engil Reports First-Half Earnings
NO	08/31		South African President Zuma Visits Norway
EC	09/01	03:30	ECB's Stark Speaks in Alpbach, Austria
EC	09/01	04:00	ECB's Trichet Speaks in Paris
AS	09/01	08:15	ECB's Nowotny Speaks in Alpbach, Austria
UK	09/01		Sarkozy, Cameron Host Libya Meeting in Paris
IT	SEP 01-04		Tremonti, Sacconi, Bertone to Attend Catholic Meeting in Rome
SP	09/02	04:00	Spanish Parliament to Vote on Constitutional Budget Amendment
GE	09/02	11:00	Merkel Attends State Election Campaign Events in Mecklenburg
EC	SEP 02-03		EU Foreign Ministers Meet in Sopot, Poland

Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
IN	08/29		RBI Governor Subbarao speaking at an event in New Delhi
NZ	08/30	17:20	Finance Minister Speaks at InfiNZ Conference

Latin America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
BZ	08/31		SELIC Target - Central Bank Rate
CL	09/02	07:30	Central Bank Meeting Minutes
CO	09/02		Monetary Policy Meeting Minutes

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	September 7, 2011	1.00	--
Federal Reserve – Federal Funds Target Rate	0.25	September 20, 2011	0.25	--
Banco de México – Overnight Rate	4.50	October 14, 2011	4.50	--

Fed Chairman Bernanke didn't provide any new signs for the markets this morning in his opening remarks for the 35th annual Kansas City Fed Economic Symposium, deciding to repeat much of the recent FOMC statement rather than signal any new policy measures. But, what he did do was open up the gates for future market volatility as he noted that the FOMC will consider additional monetary stimulus and "other pertinent issues" at the next FOMC meeting in September (Sept. 20 & 21) which has now been scheduled for 2 days rather than the normal one day meeting. Scotia Economics changed its forecast this week for several major central banks, now expecting the Fed to hold rates steady until 13Q3, with the Bank of Canada to remain on the sidelines until 12Q3.

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	1.50	September 8, 2011	1.50	--
Bank of England – Bank Rate	0.50	September 8, 2011	0.50	0.50
Swiss National Bank – Libor Target Rate	0.00	September 15, 2011	0.00	--
Central Bank of Russia – Refinancing Rate	8.25	September 1, 2011	8.25	8.25
Hungarian National Bank – Base Rate	6.00	September 20, 2011	6.00	--
Central Bank of the Republic of Turkey – 1 Week Repo Rate	5.75	September 20, 2011	5.75	--

We expect the Russian central bank to remain on hold next week, keeping the benchmark refinancing rate at 8.25%. In the statement from the August 4th meeting, monetary authorities asserted that inflationary pressures, namely food prices, had cooled and were likely to further ease with the expected favourable harvest. Indeed, according to weekly CPI data from the Federal State Statistics Service, consumer prices have come down another 0.1% so far in August. Downside risks related to global economic uncertainty will also factor in to the decision.

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	September 7, 2011	0.10	--
Reserve Bank of Australia – Cash Target Rate	4.75	September 6, 2011	4.75	4.75
Reserve Bank of New Zealand – Cash Rate	2.50	September 14, 2011	2.50	2.50
People's Bank of China – Lending Rate	6.56	TBA	--	--
Reserve Bank of India – Repo Rate	8.00	TBA	8.00	--
Hong Kong Monetary Authority – Base Rate	0.50	TBA	0.50	--
Central Bank of China Taiwan – Discount Rate	1.88	September 30, 2011	--	--
Bank Negara Malaysia – Overnight Policy Rate	3.00	September 8, 2011	3.00	--
Bank of Korea – Bank Rate	3.25	September 7, 2011	3.25	--
Bank of Thailand – Repo Rate	3.50	October 19, 2011	3.25	--
Bank Indonesia – Reference Interest Rate	6.75	September 8, 2011	6.75	--
Central Bank of the Philippines – Overnight Policy Rate	4.50	September 8, 2011	4.50	--

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	12.50	August 31, 2011	12.50	12.50
Banco Central de Chile – Overnight Rate	5.25	September 15, 2011	5.25	--
Banco de la República de Colombia – Lending Rate	4.50	September 30, 2011	4.50	--
Banco Central de Reserva del Perú – Reference Rate	4.25	September 8, 2011	4.25	--

Given the ongoing turbulence in financial markets and slowing economic activity in Brazil due to the global deceleration, combined with earlier tightening measures implemented by local authorities to avoid an economic overheating, we expect the Central Bank of Brazil to maintain its monetary policy rate unchanged at 12.50% at next week's meeting.

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	September 22, 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	5.1	4.0	4.3				
Canada	2.1	3.2	2.6	2.4	2.1	1.8	2.9	2.1
United States	1.7	3.0	1.8	2.5	2.6	1.6	2.8	2.0
Mexico	1.7	5.4	3.9	3.5	4.9	4.4	3.6	3.8
United Kingdom	1.7	1.4	1.2	1.5	1.9	3.7	4.4	2.1
Euro zone	1.1	1.7	1.7	1.5	2.0	2.2	2.5	2.1
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	5.0	5.3	3.1	3.5	3.7	3.3
Brazil	3.3	7.5	4.0	4.5	6.7	5.9	6.5	5.5
Chile	3.6	5.8	6.5	5.5	3.5	1.4	4.0	3.5
Peru	5.2	8.8	6.0	5.8	2.5	2.1	4.0	3.7

Central Bank Rates (% end of period)

11Q1 11Q2

Bank of Canada	1.00	1.00
Federal Reserve	0.25	0.25
European Central Bank	1.00	1.25
Bank of England	0.50	0.50
Swiss National Bank	0.25	0.25
Bank of Japan	0.10	0.10
Reserve Bank of Australia	4.75	4.75

Scotia Economics has revised some central bank calls. We now expect the Bank of Canada to remain on hold until 12Q3, the Fed until 13Q3, and both the Bank of England and the ECB until 13Q1. Our more comprehensive forecast changes will be released in the September 1st Global Forecast Update.

Exchange Rates (end of period)

Canadian Dollar (USDCAD)	0.97	0.96	0.96	0.96	0.95	0.95	0.94	0.94
Canadian Dollar (CADUSD)	1.03	1.04	1.04	1.04	1.05	1.05	1.06	1.06
Euro (EURUSD)	1.42	1.45	1.45	1.50	1.48	1.46	1.43	1.40
Sterling (GBPUSD)	1.60	1.61	1.61	1.63	1.65	1.67	1.69	1.70
Yen (USDJPY)	83	81	79	80	82	83	84	85
Australian Dollar (AUDUSD)	1.03	1.07	1.08	1.09	1.09	1.10	1.10	1.11
Chinese Yuan (USDCNY)	6.5	6.5	6.4	6.3	6.2	6.1	6.0	5.9
Mexican Peso (USDMXN)	11.9	11.7	12.0	12.0	12.1	12.1	12.2	12.4
Brazilian Real (USDBRL)	1.63	1.56	1.57	1.60	1.61	1.62	1.64	1.65

Commodities (annual average)

2000-09 2010 2011f 2012f

WTI Oil (US\$/bbl)	51	79	97	100
Brent Oil (US\$/bbl)	50	80	111	114
Nymex Natural Gas (US\$/mmbtu)	5.95	4.40	4.40	4.75
Copper (US\$/lb)	1.78	3.42	4.35	4.30
Zinc (US\$/lb)	0.73	0.98	1.05	1.06
Nickel (US\$/lb)	7.11	9.89	11.25	9.35
Gold, London PM Fix (US\$/oz)	522	1,225	1,540	1,650
Pulp (US\$/tonne)	668	960	984	1,045
Newsprint (US\$/tonne)	572	607	650	715
Lumber (US\$/mfbm)	275	254	265	270

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	10Q4	11Q1	Latest	United States	2010	10Q4	11Q1	Latest
Real GDP (annual rates)	3.2	3.1	3.9		Real GDP (annual rates)	3.0	2.3	0.4	1.0 (Q2-S)
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	7.4	-18.7 (Jun)	Merch. Trade Bal. (US\$B, ar)	-646	-637	-730	-811 (Jun)
Industrial Production	4.6	6.0	5.3	8.0 (May)	Industrial Production	5.3	6.2	5.3	3.9 (Jul)
Housing Starts (000s)	192	179	178	205 (Jul)	Housing Starts (millions)	0.58	0.54	0.58	0.60 (Jul)
Employment	1.4	1.7	1.9	1.5 (Jul)	Employment	-0.8	0.5	0.9	1.0 (Jul)
Unemployment Rate (%)	8.0	7.7	7.8	7.2 (Jul)	Unemployment Rate (%)	9.6	9.6	8.9	9.1 (Jul)
Retail Sales	5.5	5.3	2.5	4.6 (Jun)	Retail Sales	6.8	8.1	8.6	8.9 (Jul)
Auto Sales (000s)	1560	1553	1573	726 (Jun)	Auto Sales (millions)	11.6	12.3	13.0	12.2 (Jul)
CPI	1.8	2.3	2.6	2.7 (Jul)	CPI	1.6	1.3	2.1	3.6 (Jul)
IPPI	1.0	2.6	4.0	-5.2 (Jun)	PPI	4.2	3.8	4.9	7.2 (Jul)
Pre-tax Corp. Profits	21.2	19.1	13.4		Pre-tax Corp. Profits	25.0	1.1	2.8	
Mexico					Brazil				
Real GDP	5.4	4.4	4.6		Real GDP	6.7	4.2	3.8	
Current Acc. Bal. (US\$B, ar)	-5.7	-13.8	-4.2		Current Acc. Bal. (US\$B, ar)	-47.4	-48.0	-58.3	
Merch. Trade Bal. (US\$B, ar)	-3.0	-4.2	7.6	-14.1 (Jul)	Merch. Trade Bal. (US\$B, ar)	20.2	29.9	12.6	37.6 (Jul)
Industrial Production	6.0	4.8	5.2	3.7 (Jun)	Industrial Production	10.5	3.6	2.5	0.7 (Jun)
CPI	4.2	4.2	3.5	3.5 (Jul)	CPI	5.1	6.1	6.8	6.8 (Jul)
Chile					Italy				
Real GDP	5.2	5.8	10.0		Real GDP	1.2	1.5	1.0	
Current Acc. Bal. (US\$B, ar)	3.1	4.9	0.7		Current Acc. Bal. (US\$B, ar)	-0.07	-0.07	-0.12	-0.07 (Jun)
Merch. Trade Bal. (US\$B, ar)	11.6	17.7	16.5	14.6 (Jul)	Merch. Trade Bal. (US\$B, ar)	-39.1	-46.3	-77.2	-31.6 (Jun)
Industrial Production	0.5	2.7	11.7	4.0 (Jun)	Industrial Production	6.5	5.3	2.3	0.3 (Jun)
CPI	1.4	2.5	2.9	2.9 (Jul)	CPI	1.6	1.8	2.3	2.7 (Jul)
Germany					France				
Real GDP	3.6	3.8	4.6		Real GDP	1.4	1.4	2.1	
Current Acc. Bal. (US\$B, ar)	187.6	251.7	194.8	205.8 (Jun)	Current Acc. Bal. (US\$B, ar)	-44.5	-86.6	-59.7	-97.3 (Jun)
Merch. Trade Bal. (US\$B, ar)	201.5	219.8	209.3	198.4 (Jun)	Merch. Trade Bal. (US\$B, ar)	-39.5	-39.7	-54.5	-46.7 (Jun)
Industrial Production	10.1	11.7	12.8	6.6 (Jun)	Industrial Production	5.1	4.7	4.8	2.3 (Jun)
Unemployment Rate (%)	7.7	7.4	7.3	7.0 (Jul)	Unemployment Rate (%)	9.8	9.7	9.7	9.7 (Jun)
CPI	1.1	1.5	2.1	2.4 (Jul)	CPI	1.5	1.6	1.8	1.9 (Jul)
Euro Zone					United Kingdom				
Real GDP	1.7	1.9	2.4		Real GDP	1.4	1.5	1.6	
Current Acc. Bal. (US\$B, ar)	-77	-41	-169	-57 (Jun)	Current Acc. Bal. (US\$B, ar)	-71.6	-72.2	-74.0	
Merch. Trade Bal. (US\$B, ar)	32.0	53.2	-68.5	16.0 (Jun)	Merch. Trade Bal. (US\$B, ar)	-153.0	-171.9	-142.4	-172.6 (Jun)
Industrial Production	7.4	8.1	6.5	3.2 (Jun)	Industrial Production	2.1	3.3	2.0	-0.3 (Jun)
Unemployment Rate (%)	10.1	10.0	9.9	9.9 (Jun)	Unemployment Rate (%)	7.9	7.9	7.7	7.9 (May)
CPI	1.6	2.0	2.5	2.5 (Jul)	CPI	3.3	3.4	4.1	4.5 (Jul)
Japan					Australia				
Real GDP	4.0	2.5	-0.7		Real GDP	2.7	2.7	1.0	
Current Acc. Bal. (US\$B, ar)	195.9	176.8	193.9	78.5 (Jun)	Current Acc. Bal. (US\$B, ar)	-31.8	-37.4	-37.9	
Merch. Trade Bal. (US\$B, ar)	74.8	60.7	32.0	-19.7 (Jul)	Merch. Trade Bal. (US\$B, ar)	19.3	26.1	21.9	39.6 (Jun)
Industrial Production	16.6	6.8	-2.5	-1.8 (Jun)	Industrial Production	4.3	0.0	-5.4	
Unemployment Rate (%)	5.1	5.0	4.7	4.6 (Jun)	Unemployment Rate (%)	5.2	5.2	5.0	5.1 (Jul)
CPI	-0.7	-0.3	-0.5	0.2 (Jul)	CPI	2.8	2.7	3.3	
China					South Korea				
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	35.9 (Jun)
Merch. Trade Bal. (US\$B, ar)	181.5	246.8	-7.4	377.8 (Jul)	Merch. Trade Bal. (US\$B, ar)	41.2	52.1	29.3	75.8 (Jul)
Industrial Production	13.5	13.5	14.8	14.0 (Jul)	Industrial Production	16.6	9.9	11.2	6.1 (Jun)
CPI	4.6	4.6	5.4	6.5 (Jul)	CPI	3.0	3.6	4.5	4.7 (Jul)

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

Source: Bloomberg, Scotia Economics.

Interest Rates (% , end of period)

Canada	11Q1	11Q2	Aug/19	Aug/26*	United States	11Q1	11Q2	Aug/19	Aug/26*
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	0.95	0.90	0.86	0.83	3-mo. T-bill	0.09	0.01	0.00	-0.01
10-yr Gov't Bond	3.35	3.11	2.30	2.41	10-yr Gov't Bond	3.47	3.16	2.06	2.20
30-yr Gov't Bond	3.76	3.55	2.96	3.01	30-yr Gov't Bond	4.51	4.37	3.39	3.55
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US\$B)	60.4	62.3	62.3	(Jun)	FX Reserves (US\$B)	128.3	136.6	136.6	(Jun)
Germany					France				
3-mo. Interbank	1.26	1.51	1.50	1.50	3-mo. T-bill	0.80	1.18	0.68	0.56
10-yr Gov't Bond	3.35	3.03	2.11	2.15	10-yr Gov't Bond	3.71	3.41	2.76	2.82
FX Reserves (US\$B)	64.8	66.0	66.0	(Jun)	FX Reserves (US\$B)	61.0	60.3	60.3	(Jun)
Euro-Zone					United Kingdom				
Refinancing Rate	1.00	1.25	1.50	1.50	Repo Rate	0.50	0.50	0.50	0.50
Overnight Rate	0.90	1.72	0.88	0.89	3-mo. T-bill	4.85	4.85	4.85	4.85
FX Reserves (US\$B)	319.9	317.2	317.2	(Jun)	10-yr Gov't Bond	3.69	3.38	2.39	2.49
Japan					FX Reserves (US\$B)	75.3	79.7	79.7	(Jun)
Discount Rate	0.30	0.30	0.30	0.30	Australia				
3-mo. Libor	0.14	0.13	0.13	0.13	Cash Rate	4.75	4.75	4.75	4.75
10-yr Gov't Bond	1.26	1.14	0.99	1.04	10-yr Gov't Bond	5.49	5.21	4.23	4.40
FX Reserves (US\$B)	1080.6	1100.8	1100.8	(Jun)	FX Reserves (US\$B)	33.3	40.3	40.3	(Jun)

Exchange Rates (end of period)

USDCAD	0.97	0.96	0.99	0.99	¥/US\$	83.13	80.56	76.55	76.66
CADUSD	1.03	1.04	1.01	1.01	US\$/Australian\$	103.29	107.22	104.06	105.70
GBPUSD	1.603	1.605	1.647	1.628	Chinese Yuan/US\$	6.55	6.46	6.39	6.39
EURUSD	1.416	1.450	1.440	1.442	South Korean Won/US\$	1097	1068	1088	1082
JPYEUR	0.85	0.86	0.91	0.90	Mexican Peso/US\$	11.905	11.714	12.298	12.521
USDCHF	0.92	0.84	0.79	0.81	Brazilian Real/US\$	1.632	1.563	1.600	1.609

Equity Markets (index, end of period)

United States (DJIA)	12320	12414	10818	11199	U.K. (FT100)	5909	5946	5041	5149
United States (S&P500)	1326	1321	1124	1167	Germany (Dax)	7041	7376	5480	5562
Canada (S&P/TSX)	14116	13301	12007	12248	France (CAC40)	3989	3982	3017	3096
Mexico (Bolsa)	37441	36558	33137	33928	Japan (Nikkei)	9755	9816	8719	8798
Brazil (Bovespa)	68587	62404	52448	53166	Hong Kong (Hang Seng)	23528	22398	19400	19583
Italy (BCI)	1120	1039	814	812	South Korea (Composite)	2107	2101	1745	1779

Commodity Prices (end of period)

Pulp (US\$/tonne)	990	1035	1020	1020	Copper (US\$/lb)	4.26	4.22	3.98	4.12
Newsprint (US\$/tonne)	640	640	640	640	Zinc (US\$/lb)	1.05	1.05	0.98	1.00
Lumber (US\$/mfbm)	290	237	225	230	Gold (US\$/oz)	1439.00	1505.50	1848.00	1788.00
WTI Oil (US\$/bbl)	106.72	95.42	82.26	85.27	Silver (US\$/oz)	37.87	35.02	41.98	41.06
Natural Gas (US\$/mmbtu)	4.39	4.37	3.94	3.95	CRB (index)	359.43	338.05	329.47	333.13

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

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