

Global Views

Weekly commentary on economic and financial market developments

October 28, 2011

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G20 Likely To Be Over-Shadowed By The Plain Old Economy

- Please see our full indicator, central bank, auction and event calendars on pp. A2-A8.

European markets will be focused upon event risk surrounding the G20 meeting in Cannes on November 3rd-4th. The agenda has been flagged as vague, which one might infer could be partly deliberate in light of the speed of developments in Europe. I would think that there will be a supportive statement coming out of the meetings, but little by way of material progress toward securing foreign capital injections into a potential EFSF-seeded vehicle which is the key manner in which a globally coordinated solution to Europe's troubles would start. China has made it clear, however, that they will patiently assess the scope and magnitude of potential guarantees, that it will require no currency risk being undertaken, and that other countries also participate before it makes a decision on investing in pressured European debt markets. The ECB is generally expected to stand pat at 1.5% in its November rate statement on Thursday, but the ensuing press conference will be the first for new President Mario Draghi after Jean Claude Trichet retires. The feeling that he may wish to make a statement in support of growth pressures facing Europe is reflected in a minority of calls for a cut of 25-50bps. Also key will be the Wednesday evening (ET) debate and vote in Portugal on its 2012 Budget. Data risk will have Eurozone CPI and the unemployment rate kicking it off on Monday along with German retail sales for September. The focus then shifts to UK Q3 GDP on Tuesday, before returning to Germany with jobs (Wednesday) and factory orders (Friday). Auctions will occur in Belgium, Spain, Germany, France, and the UK.

Canadian markets could be swayed by a pair of key gems that will book-end the week and that could reinforce a dovish tone by the Bank of Canada. August GDP is likely to be a soft print with consensus pegging a mild 0.2% m/m gain. A strong gain in the volume of manufacturing shipments and modest gains in both hours worked and retail sales volumes should help to lift Canadian real GDP in August with weaker price-adjusted wholesale shipments offsetting some of the strength. A decline in housing starts should also temper the monthly gain although all of the weakness was due to lower value-added multiples, suggesting the offset won't be very large. Of note is that we already know that hours worked fell in September, so avoiding a drop in GDP would require a significant gain in labour productivity during the month. Friday's October jobs report could well face downside risk owing to the fact that the prior month witnessed a super-sized gain of 61k, two-thirds of which came through a mythical gain in the education sector that had to do with ongoing problems Statistics Canada is having with seasonal adjustment factors over the summer period owing to shifts in the sector's contracts during recent years. The fact that this exaggerated the true picture of health in Canadian job markets means that the October print could face downsides due to a high starting base effect. Consensus is calling for a mild 10k gain, but the distorted base effect could pose the risk of a negative print. A three year auction lands in the middle of the releases on Wednesday.

US markets will be barraged by three key factors, each of which has the potential to swing the global tone in either direction. It starts with ISM manufacturing on Tuesday, and consensus is expecting a largely flat reading. The recent sharp gain in the Philly Fed diffusion index would ordinarily suggest strong upside potential to next week's ISM, but the relationship has broken down over the past two months such that we're left with a neutral bias on evenly divided two-tail risks. Wednesday's FOMC statement and the ensuing press conference led by Chairman Bernanke could express more optimism toward policy momentum in Europe while still retaining a focus upon downside risks to growth and inflation. QE3 odds are diminishing, in our opinion, given the reacceleration in growth and persistently high annual rates of inflation. The Fed would need more concrete evidence of sharply falling inflation rates and perhaps for the three FOMC dissenters to be replaced in the FOMC voting structure by January before contemplating a move toward material further easing. Jobs will complete the hat-trick with ADP on Wednesday (consensus 100k) and nonfarm payrolls on Friday (consensus 95k). Less influential ISM services and factory orders are on tap for Thursday.

Not to be outdone, **Asian** markets may also influence the global tone principally through the state and private sector versions of purchasing managers' indices covering the manufacturing sector. After the upside surprise to the earlier flash version of the private sector PMI that is based upon a partial sample of responses, there could be upside surprises being delivered next week that would ease market concerns about a slowing Chinese economy at least in the short-term. The RBA meets on Monday and is expected to err on the treat side of trick with a 25bps Halloween rate cut.

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Europe's Proposals Are An Encouraging Start

- **But we're skeptical that a relief rally in the risk trade will be sustained.**

The risk trade ripped higher this week in response to the move toward settling key facets of a comprehensive EU response to its sovereign debt crisis. We discuss what we think we know by way of the limited details available at this early juncture, our impressions on the various aspects of the deal, and our bias on the possible direction of market risks going forward.

Clearly the rescue plan, still in draft form, was not perfect. There was considerable detail lacking and a number of potential pitfalls. However, when you consider the counterfactual of what we might have been looking at had the leaders not hammered out a deal, then this is clearly the preferable avenue to have taken. For recent EU agreements, once the euphoria died down, renewed and more intense jitters emerged. So we wouldn't rule out a setback at some point. Indeed, the very weak growth we forecast for Europe through 2012 will complicate and slow fiscal repair. While hopefully sustaining some forward momentum, the rescue plan cannot mask the difficult and prolonged period of adjustment ahead.

1. Greek Debt Write-Down

A 50% write-down of Greek debt through a bond swap to be completed by January is being proposed. The target is to drop Greece's debt-to-gdp ratio from about 160% in 2012 to 120% by 2020. Whether that's enough is open to debate, since Greek revenue growth prospects to finance a debt-to-gdp load in about ten years that will be at least comparable to Italy's ratio today are scant. This could keep markets wondering whether 50% was big enough, particularly in light of IMF pressure for a higher figure of 65%. This could be one reason why a rally in Greek bonds still leaves Greek 10s at a punitive 23% while 2 year funding remains at 77%, down less than three percentage points. An additional factor is that the secondary market was left untouched in EFSF guarantee proposals.

A key risk here concerns whether or not banks will truly go along with the proposed write-down as they have not yet opted in to a forthcoming bond swap proposal for which we don't even know the terms as yet. The fact that the IIF reached agreement in negotiations with German Chancellor Angela Merkel and French President Nicolas Sarkozy potentially means nothing until a high enough expression of interest by bondholders has been achieved. Clearly this raises a cheater's dilemma that could well make individual banks highly reticent to opt-in to the bond swap.

A further key sensitivity here is how will the CDS market view the 'voluntary' aspect of the deal? It's pretty clear that Merkel and Sarkozy threatened full speed ahead toward involuntary write-downs and much larger losses should the banking community not cooperate in achieving the 50% mark-down. Thus, because they 'agreed' doesn't mean that bankers weren't staring down the barrel of a finely crafted Benelli. If there is a whiff of this having been an involuntary agreement by bankers being coerced through state powers, then this could trigger a credit event and CDS coverage to the detriment of underwriting institutions. One could reasonably ask why banks would agree to such a 'voluntary' write-down if they didn't think they'd get insurance coverage. This in turn is one of the ways in which contagion risk could be faced. It may also be what makes the estimate for bank capital requirements (see below) low-balled in nature, since a credit event that sparks contagion would only lift the estimates of required capital further and thus make it more difficult to achieve a 9% tier one capital ratio by next June.

Yet another sensitivity lies in how rating agencies will react. If S&P sticks to its guidance from earlier this summer, then it will stamp Greek debt in default by virtue of this deal having altered the original indenture terms for the worse. That would not only shut Greece out of capital markets for years, it could also motivate rating agencies to take a more aggressive stance toward other heavily indebted nations given the European precedent that has now been set toward imposing losses on the holders of debts owed by profligate sovereigns. Call it what you will, but this is the first European default (excluding Russia) since the 1940s.

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2. Bank Recapitalization

An estimated €106 billion in additional capital will be required for banks. While there are few to no details available on key issues like the definition of capital, the aim here is to bring the tier one capital ratio up to 9% by June 30th 2012 for large banks. The European Banking authority has translated this into €106 billion in new tier one capital for 70 large banks in 13 countries. Of this amount, €9 billion will be focused upon the peripheral markets. By country, the figures amount to €30 billion for Greece, €26 billion for Spain, €15 billion in Italy, €8.8 billion in France, €7.8 billion in Portugal, and €5.2 billion in Germany. The higher capital requirements will be met either through issuance — which has been downplayed by several banks — or by hoarding earnings and selling assets. Of course this is otherwise known as deleveraging through shrinking balance sheets and/or lessened risk appetite and will mean a lessened ability to lend, with negative feedback loop effects on growth. It is this negative feedback effect of further deleveraging upon growth and sovereign finances that leads to concern about the outlook. Plans for meeting higher capital requirements are due by the end of the year.

3. Bank Bond Guarantees

It seems that a sweetener provided to banks takes the form of €30 billion guarantees of bank bond issuance both in terms of medium- and long-term debt. The details are very sketchy here.

4. EFSF Leveraging

The EFSF will be leveraged to a reported figure of about €1 trillion. This will be done by using the estimated and untapped €250 billion of the €440 billion fund to provide a first loss guarantee which, while not mentioned, would imply a 25% loss guarantee. This may be done in one or a combination of two ways. One is for the EFSF to indirectly fund first loss guarantees on newly issued bonds of distressed sovereigns should a default occur. This raises four issues: while useful in the event of default, it doesn't prevent further pressures upon yields in the absence of outright default; a 25% guarantee may not be large enough given the history of losses on default; a €1 trillion leveraged EFSF may also not be large enough; and the secondary market is left to its own devices. The other possible proposal is to create a new investment vehicle seeded by an EFSF injection that is hoped to entice capital from others including China. Whether China bites or not is uncertain, as EFSF head Klaus Regling jetted off to China on Friday and French President Nicolas Sarkozy spoke with Chinese President Hu Jintao on Thursday. If China does, then the risk-on bias may have legs to it. China is no altruistic investor, however, and will extract major concessions perhaps through costly EFSF guarantees that will ironically lessen the remaining untapped size of the EFSF to put toward the first proposal, or that will lower the first loss guarantee percentage and this may be one reason that hasn't been disclosed as yet.

Now, even a repeat remedial economics student understands that leverage is not without its risks. The EU is compounding leverage upon leverage here, just as the US did with its housing market in the waning days of its boom, and we know how that worked out.

5. Continued ECB Bond Buying

ECB President Mario Draghi appears to have signalled a desire to continue the ECB's controversial bond buying program which is positive at least in the short-term.

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6. Europe's Bleak Growth Outlook

Perhaps the most common criticism of the European rescue plan is the failure to support growth. We expect those concerns about growth to intensify over the coming months. In particular, business surveys have plunged in recent months. Both the composite PMI and Eurozone economic sentiment indicators point to stagnant GDP growth...at best (charts 1-2).

Furthermore, a lot of damage has already been done. Our LILI model (Leading Indicator for Leading Indicators) has typically been a reliable guide to upcoming survey data such as the PMI surveys. It correctly highlighted the plunge in this survey over the last two months and suggests there is more downside to come (chart 3). This reflects the widening in bond spreads, flattening in the yield curve and weakening in equity markets. Admittedly if the relief rally and narrowing in spreads that has followed this latest announcement continues, then the model is likely to point to a recovery in business sentiment. However, this is analogous to performing a 180 degree turn in an oil tanker — it takes a considerable amount of time.

It is something of an oxymoron to expect a plan that involves fiscal tightening to simultaneously support GDP growth. Additional front-loading of austerity measures, particularly in Italy, will bear down on GDP growth. Austerity measures are also likely in France following the election. The point is, we have stepped away from the precipice. However, that does not mean that the worst is in the past. The best-case scenario is that the Eurozone rescue package restores business confidence and alleviates logjams in the financial markets. In turn, this will mean the contraction in output is shallow and short-lived. However, there remains a non-negligible risk that the initial euphoria proves short-lived which exacerbates the downside risks to the economy.

None of this heads off the momentum toward a possible European recession or very, very weak growth for the remainder of this year and throughout the next at a minimum. How bad growth develops is of course one of the bigger sensitivities given the feedback effects on bank capital requirements, earnings at nonfinancial firms, and sovereign finances.

Chart 1: Composite PMI vs GDP % q/q

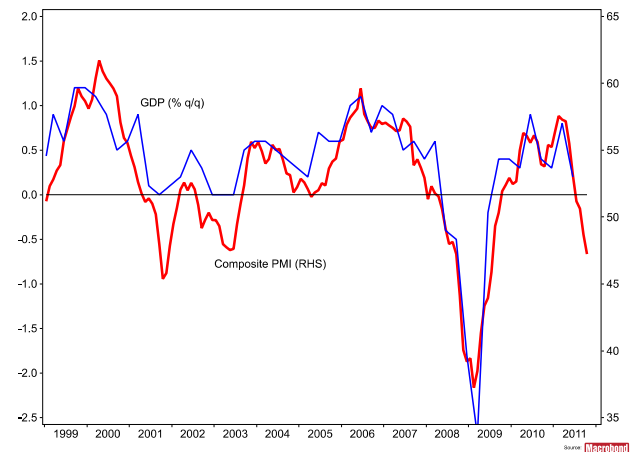


Chart 2: Economic Sentiment vs GDP % y/y

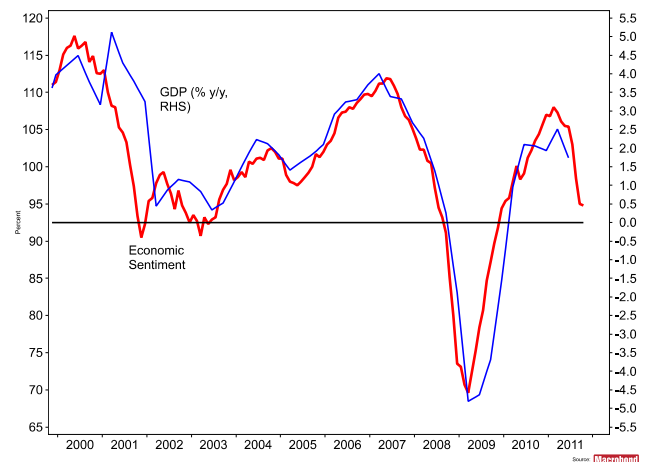
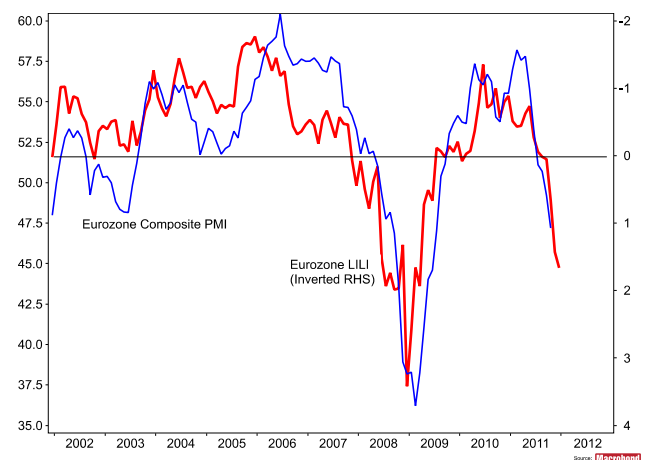


Chart 3: Eurozone Composite PMI vs LILI Model



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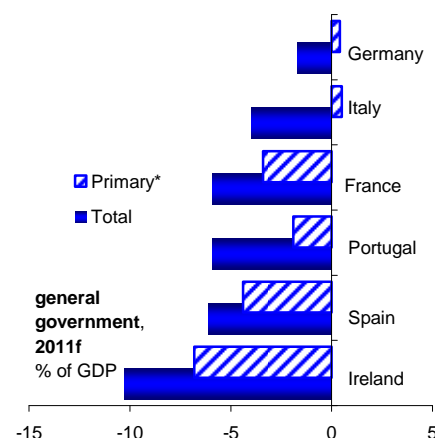
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Europe's Fiscal Challenges — Still Steep

Sharply diminished real and nominal GDP growth over the next year will constrict the region's fiscal repair capacity. For the four peripheral euro zone economies excluding Greece, output gains are expected to average in the 0.5% range in 2011, followed by no growth in 2012. Tax base expansion will be largely stalled and efforts to leverage tax revenues higher, relative to underlying income, will be dampened. The use of either nominal GDP or government revenues in the denominator of key fiscal ratios adds to the constraints on reported progress in fiscal repair. The steep hikes in taxes and fees already adopted diminish the effectiveness of further increases to boost revenues, leaving revenue reforms, including efforts to curtail tax evasion, as one of the few near-term sources of higher receipts.

With domestic demand already eroded, intensifying near-term program spending restraint appears similarly self-defeating, unless rooted in longer-term economic and fiscal reform. Chart 4 indicates the peripheral governments' considerable red ink resulting from interest charges, undermining the reduction in their overall budget deficits despite progress on their primary deficits relative to GDP since 2009. For the four peripheral economies, their debt service burden is expected to eat into any net revenue gains as their net debt shifts higher through 2012.

Chart 4: Total and Primary* Budget Balances



* Excludes net interest payments.

Source: IMF, September 2011.

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Canadian Office Market Fundamentals Still Solid

- **Low vacancy rates and only moderate new supply suggest Canadian office markets are well positioned to weather any potential slowing in leasing demand in the months ahead.**

The resiliency of Canadian property markets is not limited to residential housing, as office market activity also remains quite buoyant. Based on data from Cushman & Wakefield, the national central office vacancy rate fell to just 5.8% in the third quarter of 2011, down from 6.4% in Q2 and a cycle peak of 7.5% in mid-2010 (chart 1). Rental rates, meanwhile, are firming.

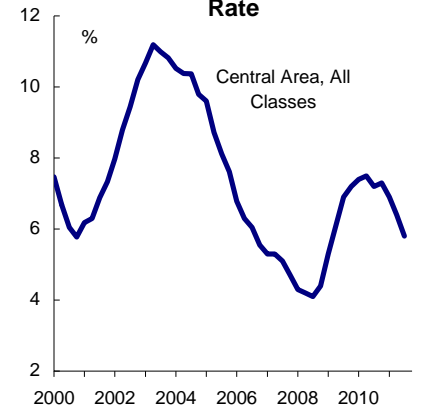
Office market conditions have tightened in most major centres over the past year, but Calgary has witnessed the most dramatic turnaround. Record leasing demand fuelled by a resurgent resource sector lowered the city's central vacancy rate to 6.4% last quarter, from 9.1% in Q2 and an average of 12% in 2010. Meanwhile, a construction-led boom in St. John's has pushed its vacancy rate to just 1.8%, the lowest in the country.

Rising leasing demand mirrors strong growth in office-based hiring, most notably in professional, scientific & technical services positions. This broad industry group, which includes lawyers, accountants, engineers, consultants and software developers, accounts for roughly one in five new hires over the course of the employment recovery of the past two years, more than double its share of overall payrolls. Demand continues to favour high-quality downtown space over suburban markets, though there are some encouraging signs that the latter segment is beginning to turn around as well.

Limited new supply has also contributed to the tightening in overall availability this year. A boom in office construction added almost 10 million square feet of new central inventory between 2009 and 2010, most of which has been absorbed. However, with developers initiating far fewer new projects in the aftermath of the 2008 financial crisis, and given the long lags from start to completion, the first three quarters of 2011 saw only 650,000 square feet of additional space (chart 2). There are select developments underway in most major markets which will add more space in the coming quarters, but few major projects.

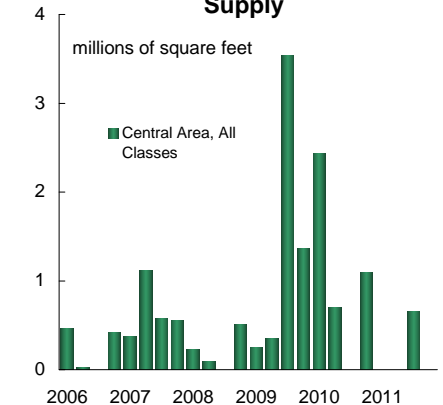
There is a risk over the next few quarters that businesses may scale back their expansion plans given a more uncertain global economic environment, tempering leasing demand. This caution is also reflected among developers, who continue to require sizeable pre-lease commitments prior to breaking ground on new projects. Overall, however, low vacancy rates and only moderate new supply provide considerable insulation. Central office vacancy rates in all major markets in Canada are currently below their long-term averages. Indeed, if leasing demand continues to hold up better than expected, new construction announcements may be in the wings.

Chart 1 - National Office Vacancy Rate



Source: Cushman & Wakefield, Scotia Economics

Chart 2 - National New Office Supply



Source: Cushman & Wakefield, Scotia Economics

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High-Net-Worth Americans Remain Luxury Enthusiasts

- While still an outperformer, the luxury sector has not been immune to recent uncertainty.

The U.S. luxury sector tends to outperform during expansionary periods, and underperform during downturns, as highlighted by equity market performance metrics (chart 1). While it has held up relatively well this year, the stepped-up economic and political uncertainty has not left the segment unscathed.

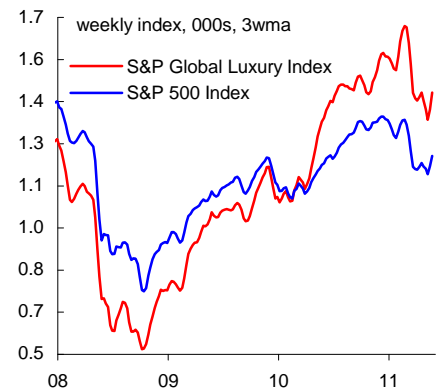
The top 10% of U.S. wage earners account for roughly half of national income, and the top 1% for a sizeable — and increasing — slice of just under 21% (chart 2). With such a heavy concentration of purchasing power in the highest income brackets, the top 20% of wage earners are estimated to represent over half of total consumer spending in the United States, and the top 5% a staggering third of overall purchases. The number of Americans with net worth of at least US\$1 million increased by 600,000 (8%) to 8.4 million in 2010, the Spectrem Group reports. And while it has yet to return to its 2007 peak of 9.2 million, it is a positive development for the luxury sector.

While decision-making in the low- and middle-income households tends to be primarily influenced by job security, affluent buyers are more affected by the ‘wealth effect.’ Their net worth is more vulnerable to fluctuations in asset prices. Recent surveys indicate that even households with at least US\$500,000 in investable assets are growing more concerned about the uncertain economic and political prospects, partly due to the extreme volatility witnessed in financial markets since July.

Recent data on the luxury sector have been mixed. This can be partly attributed to the various definitions of ‘affluence’ — income versus net worth, and thresholds that vary from US\$100,000 to a million — whose importance becomes more pronounced at turning points. More stratified surveys are better able to capture these nuances. Since the onset of the recent soft patch, the sentiment of high-net-worth consumers has remained more resilient than that of the high earners. The former, according to the Luxury Institute, continue to indulge in luxury travel, technology and vehicles (chart 3). For example, global sales at Mercedes and BMW, the leading luxury automakers, are up 12% year-to-date, more than double the industry gain. While the affluent may be more shielded, they are not impervious to the headwinds. They are reconsidering purchases of jewelry, antiques and apparel, with luxury department same-store sales moderating since mid-summer. The housing market remains a sore spot. Sales of new homes priced at US\$750,000 and higher continue to move sideways along the floor. Resale activity in the ‘over a million’ category has fared somewhat better.

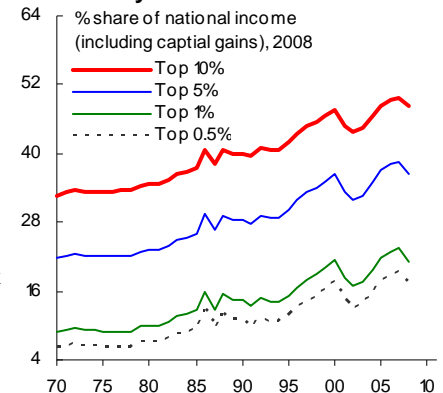
While affluent consumers in advanced economies may be growing more selective, wealthy Chinese shoppers — the second largest market for luxury products — are six to seven times more likely to boost spending over the next year, finds the Luxury Institute, with high-end stores cropping up across South East Asia and Brazil. Global sales of major luxury retailers are holding up better than those of U.S. luxury department stores. Around the world, luxury makers are adjusting marketing strategies, especially their online presence, to include Generation Y — those born between 1981 and 1995 — a technology-savvy group that is influencing their parents’ decisions, and appear to be more predisposed to luxury retail, especially the more affordable, contemporary lines.

Luxury Sector Tends To Underperform During Downturns



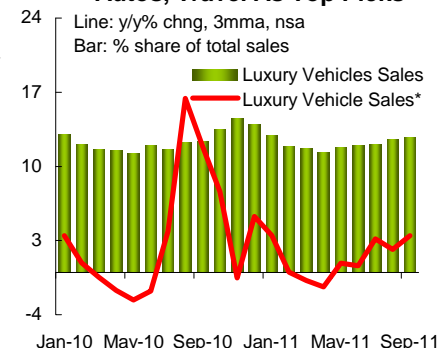
Source: Standard & Poor's, Scotia Economics.

Top 10% Of U.S. Earners Hold Nearly Half of National Income



Source: Piketty and Saez, Scotia Economics.

Affluent Americans Rank Luxury Autos, Travel As Top Picks



* Growth spread between luxury vehicle sales and overall sales excluding luxury units.

Source: Wards, Scotia Economics.

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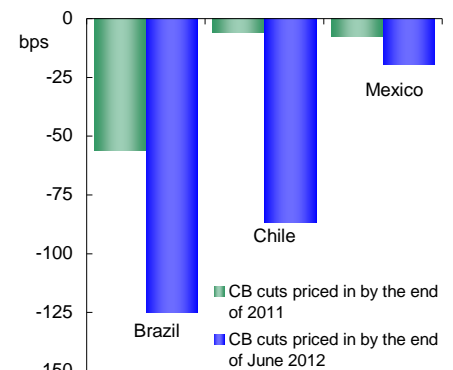
Expected Central Bank Moves & Their Implications On Foreign Exchange Markets

- **We expect Latin American monetary policies to diverge in 2012.**

Forecasts for monetary policy views in Latin America suggest a divergence across the region in 2012, mainly due to uneven reactions to the global economic deceleration and local demand performances. We do not foresee any changes to monetary policy interest rates in Mexico, Chile, Colombia or Peru for the remainder of the year, although we expect Brazil to continue to ease monetary conditions in 2011 and 2012. We anticipate Chile and Peru to follow Brazil in the first half of 2012I, while in Colombia, the country faces a better local economic environment, which could lead the central bank to increase rates in the face of a stronger than anticipated domestic demand profile.

Mexican conditions will likely remain unchanged in 2011 and 2012 as its monetary cycle is more dependant on US policy shifts. We consider the risks to this view dependent on the Mexican peso's (MXN) performance, as a peso rally combined with soft economic data could lead to monetary policy easing; however, we believe that it will be difficult for the MXN to rally as US/Mexican data softens. Within the region, investors views for the remainder of the year are currently divided for Mexico, where economists' surveys are split roughly 50-50, and swaps markets are currently pricing in slightly under a 50% probability of a 25 bps rate cut at the final monetary policy committee meeting for the year (scheduled for December 2nd). For 2012, a full rate cut is priced in for the rest of the year. We remain in the "hawkish camp" as we believe that even if US data were to turn to the downside, USDMXN rate would likely head significantly higher, which would keep Banco de Mexico (Banxico) in check. We believe a cut by Banxico at December's meeting would be a headwind for the MXN, but given Banxico's reluctance to surprise markets, we believe a cut would be signaled vocally.

Cuts Priced in by the End of 2011 and end of June 2012



Source: Scotia FX Strategy, Bloomberg

Inflation in Brazil and Peru remains above the central banks' official target range, while in Mexico, Colombia and Chile, it has remained relatively stable, close to the mid-point of the target range. Concerns regarding the pass-through effect from recent currency depreciation to consumer prices poses a threat to the inflation outlook, though this could be counterbalanced by the global economic slowdown.

Brazilian inflation continues to increase, despite the efforts made by the country's authorities to contain pressures at the beginning of the year. The IPCA-based annual inflation rate currently stands at 7.3%, its highest level in six years. However the central bank has cut rates by a cumulative 100 bps in the last two months, aiming "to mitigate the effects of a slowing global economy", noticeably giving more priority to growth than inflation. We project that the central bank of Brazil will ease monetary conditions further, cutting an additional 50 bps at the end of the year and another 100 bps in 2012.

In Brazil, DI (one-day interbank deposit futures) rates are pricing in 50 bps of additional rate cuts by the end of 2011, and a further 75 bps of rate cuts in 2012. The BRL has been the worst performing LATAM currency versus the USD since Banco Central do Brazil (BCB) began cutting the SELIC rate at the end of August 2011, and we look for further underperformance driven by skepticism regarding the prudence/timing of the rate cuts.

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We anticipate that the central bank of Chile will cut rates by 50 basis points in the first half of 2012, on the back of already visible signs of economic deceleration amid a stable inflationary outlook. Nonetheless, risks of more aggressive easing remain elevated. Chilean swaps are pricing in a less than 20% probability of a rate cut by the end of the year, which is consistent with the cautious stance that Banco Central de Chile (BCCCh) has been signaling to the market. For 2012, markets are pricing in roughly 75-100bps of cuts. We believe that the cautious approach followed by the BCCCh would reduce the adverse impact of rate cuts on CLP, but lower yields would likely still reduce appetite for the Chilean peso (hence a “more moderate than priced in” rate cut cycle would be supportive).

In the case of Peru, both headline and core inflation are above the official target range (1-3%), at 3.7% and 3.4%, respectively; however we estimate that inflation will come down through the end of the year and in 2012. A decrease in commodity prices will support the deceleration, while growth will remain closely linked to Asian demand. We expect the authorities to cut the reference rate by 50-75 bps to 3.75-3.50 in 2012.

Monetary policy rates (%)			
	Current rate	End 2011	End 2012
Brazil	11.50	11.00	10.50
Chile	5.25	5.25	4.75
Colombia	4.50	4.50	5.00
Mexico	4.50	4.50	4.50
Peru	4.25	4.25	3.75

Source: Scotia Economics

Colombia, decoupling from the rest of the region, will likely be relatively less affected by the global economic slowdown. The nation will take advantage of strong local demand and the new free trade agreement with the US, which could translate into a more promising economic outlook. Nonetheless, the risks of a tightened monetary policy stance remain high. Housing and food prices fed general inflation in September taking the annual rate to 3.73%, its highest level since mid-2009.

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Mexican Homebuilders: Investing For The Future

Recently proposed budget increases for housing subsidies signal the government's intention to continue to support the sector and should boost sales and earnings next year. In anticipation of next year's demand, especially for vertical housing, third-quarter results showed that homebuilders invested in additional inventories. We still worry that if it turns out that several years from now they have significantly overestimated demand, the increased subsidies will not be sufficient to justify the investments that continue to use up cash flow. Nevertheless, that potentially negative scenario is many years away, and we think homebuilder bonds could continue to recover if the news around Europe remains positive.

In a story that many investors must now be accustomed to, this week Mexican homebuilders reported growth in sales along with satisfactory Ebitda, while at the same time showing very negative free cash flow. Net sales grew up to 10%, and while Ebitda margins fell somewhat on average, especially at Homex, they remain satisfactory at 14% to 20%. Yet, cash flow continues to disappoint, especially as many of the homebuilders, in response to investor concerns, had been promising an improvement in that cash flow this year. A portion of the negative cash flow results from an increase in accounts receivable, explained by delays in the payment of various government subsidies. We are not that concerned about this factor, as surely the government will eventually pay up. Instead, we worry about the accumulation of additional inventories among all of the homebuilders, which, as we have written before, has explained the poor cash flow results of the homebuilders in the past.

Perhaps most representative of this strategy is the case of Urbi, which increased inventories by 1.7bn pesos this quarter. That figure included increases in finished homes and works in progress, but was primarily an increase in land reserves due to the acquisition of additional land for vertical housing in metropolitan areas, as well as investments in infrastructure, urbanization and land densification to support such vertical housing. Thus, management is investing for many years into the future, and even cited Warren Buffet's advice, "Be greedy when others are fearful" — not exactly the words that bondholders want to hear.

Such strategies are a concern for bondholders for two reasons. First, we have noticed over the past couple of years a gradual increase in leverage ratios among the homebuilders, with debt increasing to pay for inventories and other investments. Second, uncertainty regarding future demand for housing has been increasing, as the number of buyers of homes eligible for traditional government mortgages is depleted and attention turns increasingly towards unaffiliated Mexicans. These people include those working in the informal market or in professional services who have housing needs and may be able to afford mortgage payments, but who until recently did not have access to mortgage credit.

Homebuilder equities dropped significantly this year, underperforming much of the market, presumably based on some of these concerns. Since homebuilder demand is primarily dependent on government policy, the homebuilders repeatedly called upon the government to provide clarification of its intended policies in order to calm markets and provide a more certain environment for investment.

Finally, the government came through, at least in part. While cutting many other programs, the government budget for 2012 included a 70% increase in subsidies to housing. The budget rose to \$9.5bn pesos whereas it had been between 4bn and 6bn pesos in recent years. The distribution will be as follows: \$4bn to Infonavit for traditional mortgages, \$2bn to non-affiliated housing, \$1.9bn to housing construction controlled by non-profits and state programs, \$1bn for police subsidies, and \$0.5bn for sustainable housing. The budget envisions 250,000 subsidies as compared to 170,000 in 2011. These subsidies reduce the monthly payments required of lower income homebuyers; for example, if a home costs 200,000 pesos, the homebuyer could receive a subsidy of 60,000 pesos so that he would only be required to take out a 140,000 peso mortgage. Of

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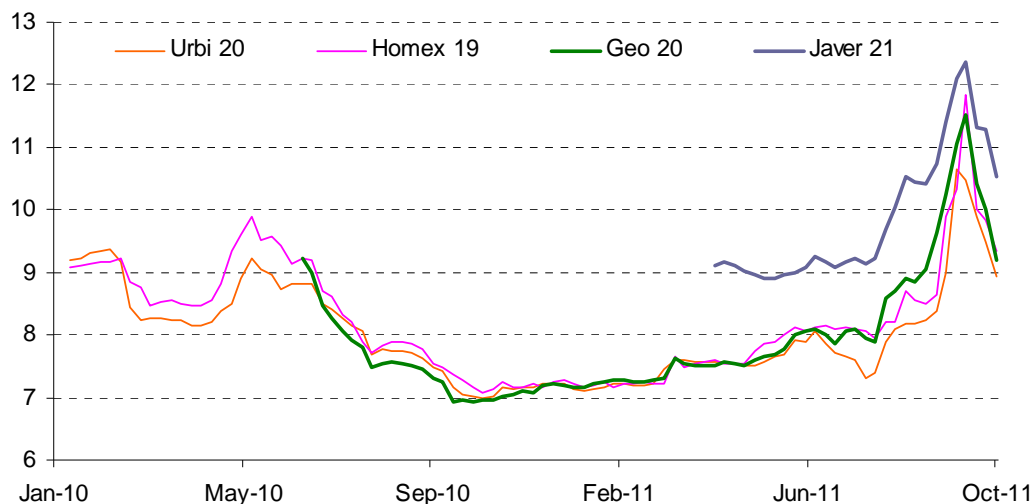
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course, the average subsidy across all Infonavit homes would be much smaller, only 8,000 pesos based on our calculation. The government wants to support the housing market both because there is a housing shortage and because construction can generate significant employment and economic activity.

How large is the subsidy relative to the needs and finances of the homebuilders? We calculate that the four homebuilders represent 21% of Infonavit sales. Thus, as a rough approximation, they stand to benefit indirectly from subsidies of about \$2bn pesos, or about \$150mn USD. In comparison, the firms have external bonds of \$1.7bn USD, total annual Ebitda of 11.5bn pesos, and their inventories have increased by about \$8bn pesos over the last twelve months. Thus, the additional subsidies represent a moderate amount for the homebuilders, enough to boost sales and earnings in good years but not enough to save the firms if it turns out in a few years that they have significantly overestimated demand.

Figure 1. Homebuilder yield history



Despite these concerns, we continue to find value in the bonds in the medium-term. As demonstrated by the builders' ability to continually generate sales growth, a falloff in sales hardly seems an immediate concern. Bonds sold off sharply during the earlier global volatility, a sell-off we found overdone in light of the fact that government funding for housing is not dependent on the economic cycle. Yields are still 100bp higher than they were earlier in the summer, and that gap is even larger once we consider that yields on Mexican government bonds have dropped by about 50bp. So far, the bond market has ignored the news about poor cash flow. Thus, we think there is some further room for recovery if the good news about Europe continues.

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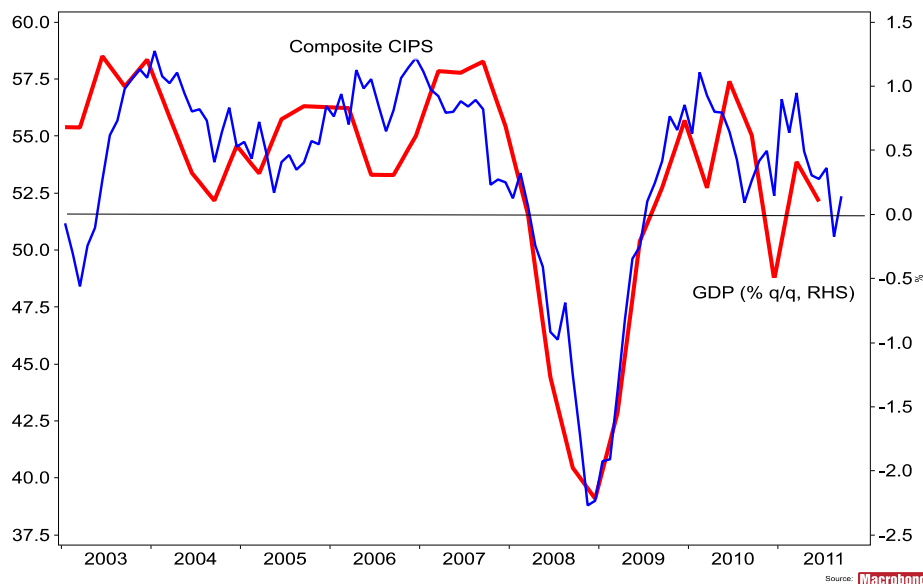
UK GDP Preview: Still Growing ... For Now

- The highlight of next week's UK economic data calendar will be the initial estimate of Q3 GDP.

We expect UK GDP to expand by 0.3% q/q during Q3. That would represent a moderate acceleration compared with the Q2 pace of 0.1% q/q and would not be as bad as initially feared. However, we doubt that pace of expansion will last.

At first glance, the relationship between the composite of the two PMI surveys and GDP highlights a significant chance that GDP posts zero growth or even contracts (Chart 1). However, the mechanics of the monthly data that feed into GDP suggest that is unlikely. In particular, the temporary influences that held GDP down during Q2 (not least the royal wedding) reversed during Q3, which in turn is likely to boost Q3 growth.

Chart 1: UK GDP vs Composite CIPS



Perhaps the best illustration of these favourable base effects is industrial production. The lost working day during Q2 due to the royal wedding contributed to a 1.2% q/q dive in industrial production during Q2. Unless the sector continued to contract at that pace, industrial production will boost Q3 growth.

The sector has hardly boomed during Q3 so far. In July output fell by 0.4% m/m and only bounced back by 0.2% m/m in August (i.e. down by a combined 0.2% so far for the first two months of the quarter for which we have data). However, the point is, the performance has been less negative than Q2, so in isolation this would point to faster GDP growth in Q3 than Q2. This phenomenon will not be an issue during Q4, meaning it is more likely at that point that output shrinks in line with the indications from the CIPS surveys.

Indeed, the ONS estimated in the preliminary estimate of Q2 GDP that were it not for the special factors during Q2, output growth would have been around 0.5 percentage points higher. Hence it will not be until Q4 (assuming no disasters such as snow, hurricanes or floods etc) that we have an undistorted gauge of growth. At that point, we expect confirmation that the recovery has stalled.

Scenarios for Q3 GDP

The tables below show what the key monthly data that feed into GDP imply in terms of the overall growth rate. They show the monthly data that we already have, along with 3 scenarios for the remaining monthly data that we don't yet have. There are 3 scenarios. The first is a 'neutral' assumption where the remaining monthly services, construction and industrial production data are assumed to print zero % m/m growth. The result is overall % q/q GDP growth of 0.4% q/q.

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Table 1: Scenarios for Q3 GDP — Neutral Assumption

Neutral Assumption											
	Services Output (75% weight in GDP)			Industrial Output (17% weight in GDP)			Construction Output (6.3% weight in GDP)			Agriculture	GDP
	% m/m	% q/q	Contrib to GDP % q/q	% m/m	% q/q	Contrib to GDP % q/q	% m/m nsa	% q/q (sa)	Contrib to GDP % q/q	Contrib to GDP % q/q	
Apr	-0.9			-1.7			-12.0				
May	1.6			1.0			3.2				
Jun	-0.3	0.2	0.15	0.3	-1.2	-0.20	4.7	1.1	0.07	0.04	0.06
Jul	0.2			-0.4			-2.2				
Aug	0.0			0.2			0.4				
Sep	0.0	0.5	0.38	0.0	0.25	0.04	0.0	-0.2	-0.01	0.00	0.41

Table 2 shows a downside risks scenario. The purpose of this table is to show what is required in order to achieve a negative reading for overall q/q GDP growth. The point is, things would have to go really badly in order to get a negative GDP print in Q3. It isn't impossible, just very hard. One issue that would affect all three scenarios is if the monthly data that we already have for Q3 are revised. However, for the purpose of these scenarios, we assume they are not.

Table 2: Scenarios for Q3 GDP — Downside Risk Scenario

Downside Risk Scenario											
	Services Output (75% weight in GDP)			Industrial Output (17% weight in GDP)			Construction Output (6.3% weight in GDP)			Agriculture	GDP
	% m/m	% q/q	Contrib to GDP % q/q	% m/m	% q/q	Contrib to GDP % q/q	% m/m nsa	% q/q (sa)	Contrib to GDP % q/q	Contrib to GDP % q/q	
Apr	-0.9			-1.7			-12.0				
May	1.6			1.0			3.2				
Jun	-0.3	0.2	0.15	0.3	-1.2	-0.20	4.7	1.1	0.07	0.04	0.06
Jul	0.2			-0.4			-2.2				
Aug	-0.4			0.2			0.4				
Sep	-0.4	0.1	0.08	-0.7	0	0.00	-2.0	-1	-0.06	-0.07	-0.06

Clearly services sector output accounts for the biggest weight in overall GDP (around ¾). Hence a disappointing monthly services output reading is the thing that could change the outcome one way or the other. That said, even though construction output accounts for just 6% of overall GDP, it can swing violently and has accounted for more than its fair share of surprises in overall GDP.

Table 3: Scenarios for Q3 GDP — Base Case

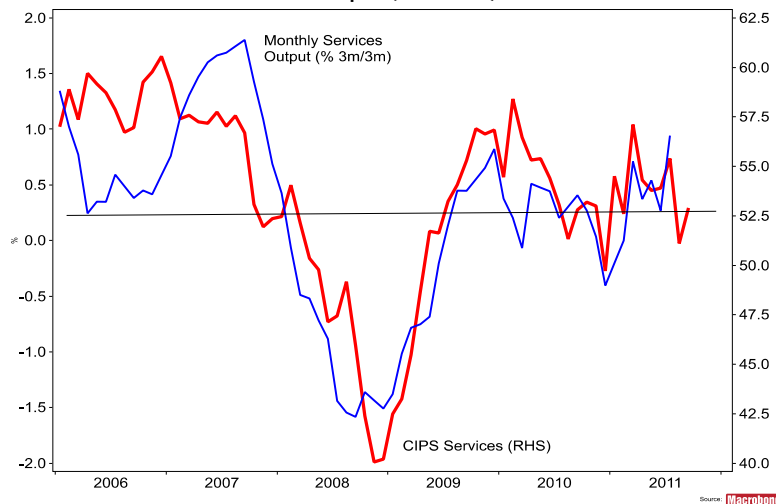
Base Case											
	Services Output (75% weight in GDP)			Industrial Output (17% weight in GDP)			Construction Output (6.3% weight in GDP)			Agriculture	GDP
	% m/m	% q/q	Contrib to GDP % q/q	% m/m	% q/q	Contrib to GDP % q/q	% m/m nsa	% q/q (sa)	Contrib to GDP % q/q	Contrib to GDP % q/q	
Apr	-0.9			-1.7			-12.0				
May	1.6			1.0			3.2				
Jun	-0.3	0.2	0.15	0.3	-1.2	-0.20	4.7	1.1	0.07	0.04	0.06
Jul	0.2			-0.4			-2.2				
Aug	-0.2			0.2			0.4				
Sep	-0.2	0.3	0.23	-0.1	0.22	0.04	0.0	-0.2	-0.01	0.01	0.27

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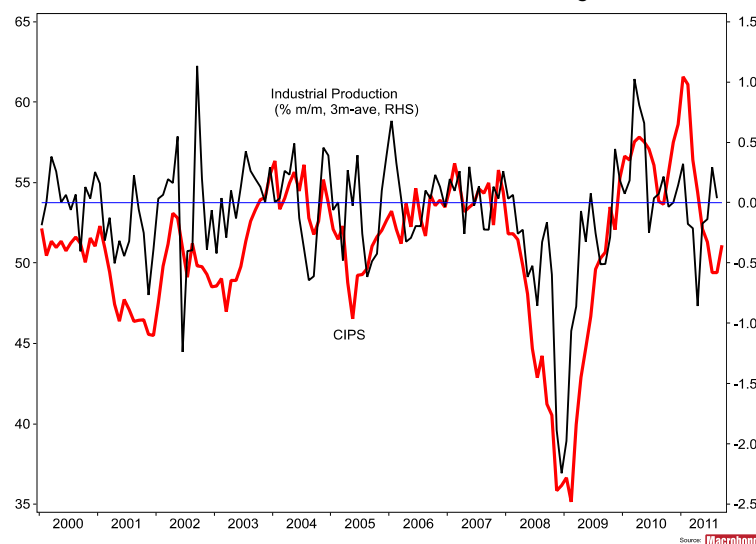
Last but not least, Table 3 shows the assumptions that underpin our base case forecast of 0.3% q/q. Much of our pessimism rests on our assumption that services sector output will suffer over the remainder of Q3. Chart 2 shows the services sector CIPS against monthly services sector output. In order to be consistent with the CIPS services survey, services output will need to fall by around 0.2% m/m in both August and September.

Chart 2: Services Sector Output (% 3m/3m) vs CIPS Services



Similarly, while it isn't the tightest relationship in the world, the manufacturing CIPS does suggest that it is more likely than not that industrial output shrank during September.

Chart 3: Industrial Production vs CIPS Manufacturing



Conclusion

We expect Q3 GDP to post a reasonable pace of expansion during Q3, rising by 0.3% q/q. While it is not our base case, it would not be hard for growth to surprise on the upside, growing by as much as 0.5% q/q. Meanwhile, it is looking extremely challenging for GDP to have posted a contraction during Q3 on the basis of the monthly data that we already have.

The bulk of the strength is likely to prove temporary and is the result of the reversal of one-off influences that held back Q2 GDP growth. These will not be an issue during Q4 and at that point we expect growth to slip into negative territory — in line with the indication from the CIPS surveys.

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ECB Preview October Meeting

Key Points

- Dovish comments from the last ECB press conference hinted that a rate cut was a very close call. Further evidence of weakening activity and of tightening credit conditions since then adds further weight for easing monetary policy.
- However, we doubt that the new ECB president Mr. Draghi will opt for it and will rather preserve a wait-and-see attitude for the time being as high inflation is likely to be an obstacle.
- The focus will therefore be on gauging the commitment of the ECB to remain active in the market on both the liquidity and the bond purchasing programs. While comments from Mr. Draghi following the EU summit this week were quite encouraging, this press conference will help to see how strong is his balance of power inside the board.

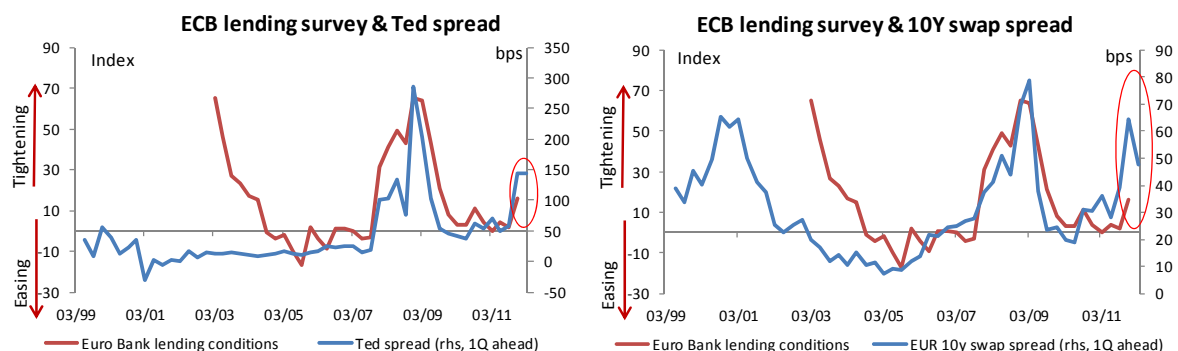
Increasing downside risk to the activity justifies a rate cut...

The ECB has been constantly pointing to the need to disconnect between “standard measures”, that is interest rates which are focused on delivering price stability, and “non-standard measures”, that is liquidity which is designed to deal with any impediment in the transmission mechanism of the monetary policy. In recent months, the central bank has been keen to move on the second element but to pause on the first.

However, the need to move on the first element has become more striking over the past months in order to adjust rising downside risks to economic activity and growing fears of a new recession. Comments from the last press conference clearly suggested that the ECB board is more and more aware of this. Indeed, indications that the decision to keep rates unchanged last month was not a consensus one and the fact that the “accommodative stance” of the monetary policy is no longer mentioned hints that a rate cut is in the pipeline. Since then, worsening activity data and indications of tighter credit conditions should have strengthened the case for a rate cut inside the board and next meeting would look as a perfect one to deliver the pills.

Indeed, both the EMU PMI manufacturing index and consumer confidence moved further south with the former indicating that manufacturing activity could be contracting in all regions, including Germany. Adding to this, rising evidence of credit tightening means that eroding confidence on both the supply and the consumer side will continue.

In October, the ECB lending survey indeed showed a net tightening of credit conditions. Looking to Ted spread (3 month Euribor — 3 month German) and 10Y swap spread (10Y swap — German 10y bond), which are usually measures of the Bank’s stress regarding the liquidity and the macroeconomic issues, this tightening process will continue and is likely to be even more exacerbated with the constraint from the EU for banks to increase their capital ratio. EMU investment and job market outlook looks therefore bleak in this environment.



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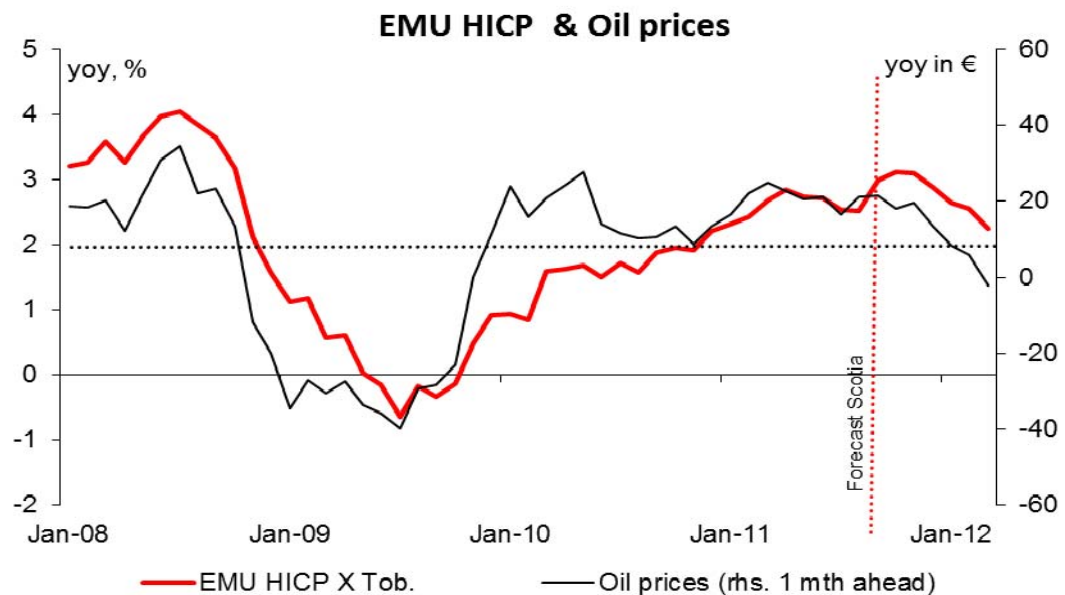
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Finally, with budget austerity measures being announced in one country after another (France being the latest), the ECB has more and more pressures to accompany the move.

...but ongoing high inflation delays again the timing

However, if inflation was an argument not to cut rates in October, it will play again for this meeting. Indeed, while preliminary inflation data in Germany eased somewhat to 2.8% y/y from a high point at 2.9% y/y in September, the slight slowdown mainly reflected a national one-off element which is unlikely to be repeated at the EMU level.

EMU October flash inflation will be released early next week but we think that the risks are for an acceleration towards 3.1% y/y from 3% y/y. Indeed, details of German preliminary inflation reports show on-going rising price pressures in the food sector which is likely to be repeated in the rest of the area. In addition, EMU inflation will be impacted by the 1 point rise in Italian VAT which could add between 0.1% and 0.2%.



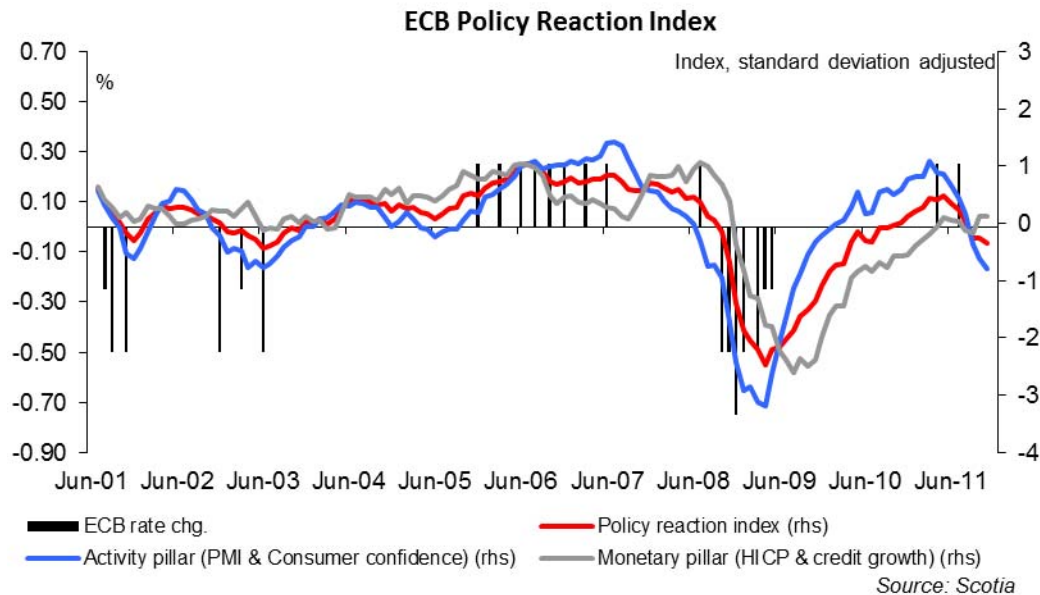
* Brent price stable at €80

Looking to our in house ECB monetary policy index, which was presented some weeks ago in this publication, the further fall in the index into negative territory further strengthens the case for a rate cut as the sub-activity index (based on PMI and consumer confidence) continued to move down. However, the fact that the monetary pillar (HICP & credit growth) failed to soften because of on-going high inflation could prove to be a strong impediment especially for a new president who will be keen to be seen as a guardian of the ECB's "price stability" mandate. In October, our call for a rate cut was indeed motivated by our fears of this element.

In terms of rate cuts, with a likely status quo next week, the focus will shift to the December meeting. Given that this meeting will see the ECB presenting new growth and inflation forecasts for the next two years, any downgrading expectations could act as a trigger for adjusting rates lower. However, with inflation likely to stay at 3% or even higher up to the end of the year and with no significant easing before Q1, the risk could be even for a further delay and that the ECB looks "behind the curve" which will lack the traction in boosting global confidence.

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How strong is the position of the new president inside the board? First clue this week!

With likely no change in rates, the focus will be again on liquidity and bond purchase and on gauging how strong is the commitment of the ECB to remain active in the market on these points. Mr. Draghi's comments following the EU summit that the ECB "is determined to prevent malfunctioning in the money and financial markets creating an obstacle to monetary transmission" suggests that he is ready to carry on with all the recent decisions, but can he go beyond?

While he is likely to repeat that all non-standard measures are temporary by nature, with the latest plan from the EU summit now calling for a banking recapitalization program of more than €100 bn, we expect Mr. Draghi to strengthen the case that the central bank is ready to ease any renewing tensions on this point and that liquidity will remain ample.

However, it is the capacity of the ECB to continue to buy bonds to deal with the solvency issue which will be the most watched. In the past, Mr. Trichet has indicated that the ECB bond purchasing program will stop once the EFSF is in place. However, it is not the first time in the Euro crisis that we saw the ECB using strong rhetoric to push governments to adopt "quantum leap" solutions before smoothing its stance. Could it be the case this time also? Mr. Draghi hinted in this direction but he will have to fight German resistance. In addition to the resignation of Mr. Stark, the comments from the Bundesbank president at the last ECB press conference also illustrate some malaise with the current bond buying program. So, next week's meeting will provide a first idea on how strong is the position of the new president inside the board, but with some risk of disappointment for the time being.

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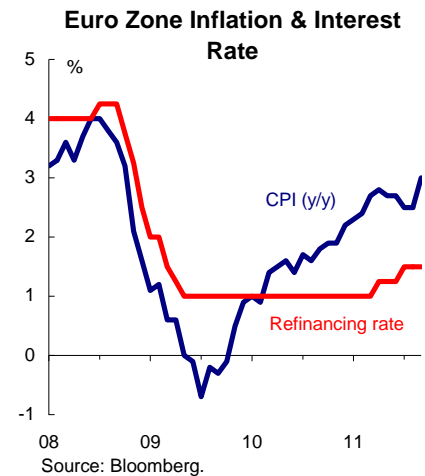
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Key Data Preview

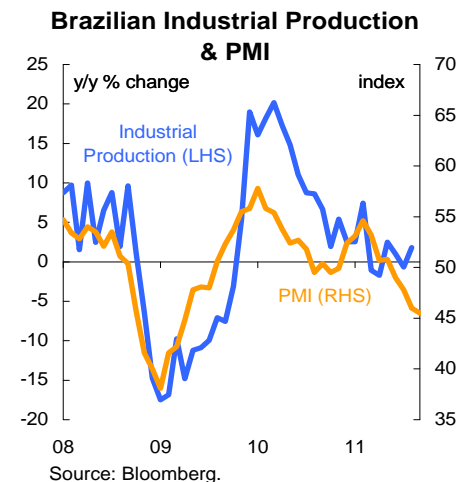
EUROPE

The October flash CPI estimate for the euro zone will be published next Monday, October 31st, and we expect the report to show a moderation in the yearly rate of inflation to 2.9% y/y (0.3% m/m). The headline index surged 3.0% y/y in September, up from a likely underestimated rate of 2.5% in both July and August, reflecting an adjustment to seasonal factors for clothing and footwear. Inflation is set to remain elevated for another couple of months, before embarking on a marked downward trend at the turn of the year as the commodity price gains and methodological changes of the last year begin to drop out of the base year. The annual pace of price gains should retreat fairly quickly toward the European Central Bank's (ECB) target of "below, but close to, 2%" by mid-2012, and could reach as low as 1% for some euro zone members. With a view to such muted inflationary conditions, combined with the possibility of a recession in the currency union, the ECB will undoubtedly be considering an interest rate cut in the near term.



LATIN AMERICA

Amid the global deceleration, Brazilian economic activity has been closely followed by market participants. Industrial production for September will be released on November 1st. In August industrial production (IP) increased by 1.8% y/y, compared to a fall of 0.7% y/y in July; however the 12-month average growth rate is pointing to a continued deceleration in the sector. Confidence in the industry has also decreased. The Purchase Manufacturing Index (PMI) reached its lowest level in two years, falling from 46 points in August to 45.5 in September. In light of these numbers, we expect a sluggish performance by the Brazilian industrial sector for the month; however September's BRL depreciation could provide a slight competitive boost to output.



ASIA

South Korea's trade figures for October, to be reported in the coming week, will provide a preview of Asian export performance as the nation is the first in the region to release its such numbers. South Korea's third-quarter trade flow data already depicted a fall in exports to the US and Europe. Interestingly, these fluctuations were accompanied by a pickup in the pace of foreign sales to China and Japan, leading overall shipments to fall slightly by 1% q/q (in value terms, non-seasonally adjusted). Such a slowdown contrasts with the 5% q/q average gain of the first half of the year. South Korea directs 45% of its foreign sales to Asia, while only 15% go to the US and Europe. We therefore anticipate a continuation of these trends over the coming months, and expect the country's exports to expand at a 12.7% y/y rate in October.



Key Indicators for the week of October 31 - November 4

North America

Country	Date	Time	Event	Period	BNS	Consensus	Latest
CA	10/31	08:30	Industrial Product Price (MoM)	SEP	0.2	0.1	0.5
CA	10/31	08:30	Raw Materials Price Index (MoM)	SEP	-1.7	-2.0	-3.2
CA	10/31	08:30	Gross Domestic Product (MoM)	AUG	0.2	0.2	0.3
CA	10/31	08:30	Gross Domestic Product (YoY)	AUG	--	2.2	2.3
US	10/31	09:45	Chicago Purchasing Manager	OCT	--	59.0	60.4
US	10/31	10:30	Dallas Fed Manf. Activity	OCT	--	-5.0	-14.4
US	11/01	10:00	Construction Spending (MoM)	SEP	--	0.3	1.4
US	11/01	10:00	ISM Manufacturing	OCT	51.5	52.0	51.6
US	11/01	10:00	ISM Prices Paid	OCT	--	55.0	56.0
MX	11/01	11:00	Central Bank Economists Survey				
MX	11/01	11:00	Remittances (US\$ mns)	SEP	--	1850.0	2134.7
US	11/01	17:00	Total Vehicle Sales (mns)	OCT	13.2	13.2	13.0
US	11/01	17:00	Domestic Vehicle Sales (mns)	OCT	10.3	10.3	10.2
US	11/02	07:00	MBA Mortgage Applications (WoW)	28-Oct	--	--	4.9
US	11/02	07:30	Challenger Job Cuts (YoY)	OCT	--	--	211.5
US	11/02	08:15	ADP Employment Change (000s)	OCT	110	100.0	91.0
US	11/02	12:30	FOMC Rate Decision	2-Nov	0.25	0.25	0.25
US	11/03	08:30	Nonfarm Productivity (QoQ SAAR)	3Q P	--	2.8	-0.7
US	11/03	08:30	Unit Labor Costs (QoQ SAAR)	3Q P	--	-0.5	3.3
US	11/03	08:30	Initial Jobless Claims (000s)	28-Oct	400	400	402
US	11/03	08:30	Continuing Claims (000s)	21-Oct	3700	3700	3645
US	11/03	10:00	ISM Non-Manf. Composite	OCT	54	53.6	53.0
US	11/03	10:00	Factory Orders (MoM)	SEP	-0.2	-0.1	-0.2
MX	11/03	14:00	IMEF Manufacturing Index	OCT	--	50.3	50.0
MX	11/03	14:00	IMEF Non Manufacturing Index	OCT	--	50.5	49.6
US	11/03		ICSC Chain Store Sales (YoY)	OCT	--	5.2	5.5
CA	11/04	07:00	Unemployment Rate	OCT	7.1	7.1	7.1
CA	11/04	07:00	Net Change in Employment (000s)	OCT	0	10.0	60.9
CA	11/04	07:00	Participation Rate	OCT	--	66.8	66.8
CA	11/04	08:30	Building Permits (MoM)	SEP	3	2.3	-10.4
US	11/04	08:30	Change in Nonfarm Payrolls (000s)	OCT	90	95.0	103.0
US	11/04	08:30	Change in Private Payrolls (000s)	OCT	--	125.0	137.0
US	11/04	08:30	Unemployment Rate	OCT	9.1	9.1	9.1
US	11/04	08:30	Avg Hourly Earning (MoM) All Emp	OCT	0.2	0.2	0.2
US	11/04	08:30	Avg Weekly Hours All Employees	OCT	34.3	34.3	34.3
US	11/04	08:30	Chg in Household Survey Empl (000s)	OCT	--	--	398
CA	11/04	10:00	Ivey Purchasing Managers Index SA	OCT	--	55.4	55.7
MX	11/04	10:00	Consumer Confidence	OCT	--	91.0	92.4

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

Key Indicators for the week of October 31 - November 4

Europe								
Country	Date	Time	Event	Period	BNS	Consensus	Latest	
UK	10/30	20:01	Hometrack Housing Survey (MoM)	OCT	--	--	-0.1	
FR	10/31	03:45	Producer Prices (MoM)	SEP	--	0.1	0.0	
SP	10/31	04:00	Total Housing Permits (MoM)	AUG	--	--	-11.9	
SW	10/31	04:30	Wages - Non-Manual Workers (YoY)	AUG	--	--	2.4	
IT	10/31	05:00	Unemployment Rate (SA)	SEP P	--	7.9	7.9	
NO	10/31	05:00	Retail sales - vol sa (MoM)	SEP	--	0.2	1.3	
UK	10/31	05:30	Net Consumer Credit (£ bns)	SEP	0.5	0.4	0.5	
UK	10/31	05:30	Net Lending Sec. on Dwellings (£ bns)	SEP	0.5	0.6	0.6	
UK	10/31	05:30	Mortgage Approvals (000s)	SEP	52.0	50.6	52.4	
EC	10/31	06:00	Euro-Zone CPI Estimate (YoY)	OCT	2.9	2.9	3.0	
EC	10/31	06:00	Euro-Zone Unemployment Rate	SEP	10.0	10.0	10.0	
IT	10/31	06:00	CPI (NIC incl. tobacco) (MoM)	OCT P	--	0.1	0.0	
IT	10/31	06:00	CPI (NIC incl. tobacco) (YoY)	OCT P	--	2.9	3.0	
IT	10/31	06:00	CPI - EU Harmonized (MoM)	OCT P	1.2	0.6	2.0	
IT	10/31	06:00	CPI - EU Harmonized (YoY)	OCT P	4.1	3.5	3.6	
IT	10/31	07:00	PPI (YoY)	SEP	--	4.7	4.8	
PO	10/31		Industrial Production (MoM)	SEP	--	--	8.3	
PO	10/31		Retail Sales (MoM)	SEP	--	--	0.9	
SP	10/31		Current Account (€ bns)	AUG	--	--	-1.5	
GE	10/31	00:00	Retail Sales (MoM)	SEP	1.5	1.0	-2.7	
UK	11/01	03:00	Nat'wide House prices sa (MoM)	OCT	0.0	0.0	0.1	
SW	11/01	03:30	Swedbank PMI Survey	OCT	--	47.2	48.1	
NO	11/01	04:00	Norway PMI SA	OCT	--	53.7	54.8	
UK	11/01	05:30	PMI Manufacturing	OCT	50.0	50.0	51.1	
UK	11/01	05:30	GDP (QoQ)	3Q A	0.3	0.3	0.1	
UK	11/01	05:30	GDP (YoY)	3Q A	0.3	0.4	0.6	
UK	11/01	05:30	Index of Services (MoM)	AUG	-0.2	0.0	0.2	
IR	11/01	00:00	Consumer Confidence	OCT	--	--	53.3	
UK	NOV 1-4		Halifax House Prices sa (MoM)	OCT	0.1	0.1	-0.5	
SP	11/02	04:15	Spain October Manufacturing PMI					
IT	11/02	04:45	PMI Manufacturing	OCT	46.0	47.2	48.3	
FR	11/02	04:50	PMI Manufacturing	OCT F	49.0	49.0	49.0	
GE	11/02	04:55	Unemployment Rate (s.a)	OCT	--	6.9	6.9	
GE	11/02	04:55	PMI Manufacturing	OCT F	48.9	48.9	48.9	
NO	11/02	05:00	Unemployment Rate (AKU)	AUG	--	3.2	3.2	
EC	11/02	05:00	PMI Manufacturing	OCT F	47.3	47.3	47.3	
UK	11/02	05:30	PMI Construction	OCT	--	50.0	50.1	
IT	11/02	13:00	New Car Registrations (YoY)	OCT	--	--	-5.7	
IT	11/02	14:00	Budget Balance YTD (€ bns)	OCT	--	--	-58.8	
SP	11/03	04:00	Unemployment (MoM) Net ('000s)	OCT	--	52.0	95.8	
UK	11/03	05:30	PMI Services	OCT	51.9	52.0	52.9	
UK	11/03	05:30	Official Reserves (Changes) (US\$ mns)	OCT	--	--	-2444	
IR	11/03	07:00	Unemployment Rate	OCT	--	--	14.3	
EC	11/03	08:45	ECB Announces Interest Rates	3-Nov	1.50	1.50	1.50	
GE	11/04	03:55	PMI Services	OCT F	52.1	52.1	52.1	
SP	11/04	04:00	Industrial Output NSA (YoY)	SEP	--	--	0.6	
SP	11/04	04:15	Spain October Services PMI					
IT	11/04	04:45	PMI Services	OCT	45.0	46.0	45.8	
FR	11/04	04:50	PMI Services	OCT F	46.0	46.0	46.0	
EC	11/04	05:00	PMI Composite	OCT F	47.2	47.2	47.2	
EC	11/04	05:00	PMI Services	OCT F	47.2	47.2	47.2	
EC	11/04	06:00	Euro-Zone PPI (MoM)	SEP	0.2	0.2	-0.1	
EC	11/04	06:00	Euro-Zone PPI (YoY)	SEP	5.8	5.8	5.9	
GE	11/04	06:00	Factory Orders (YoY) (nsa)	SEP	8.8	7.5	3.9	
GE	11/04	06:00	Factory Orders (MoM) (sa)	SEP	1.3	0.1	-1.4	

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

Key Indicators for the week of October 31 - November 4

Asia Pacific

Country	Date	Time	Event	Period	BNS	Consensus	Latest
CH	OCT 27-29		Leading Index	SEP	--	--	101.8
SK	10/30	17:00	Business Survey- Manufacturing	NOV	--	--	86.0
SK	10/30	17:00	Business Survey- Non-Manufacturing	NOV	--	--	86.0
NZ	10/30	17:45	Building Permits (MoM)	SEP	--	2.0	12.5
AU	10/30	18:30	AiG Perf of Construction Index	OCT	--	--	30.0
SK	10/30	19:00	Industrial Production (MoM)	SEP	--	-0.4	-1.9
SK	10/30	19:00	Industrial Production Mfg (YoY)	SEP	--	--	4.9
SK	10/30	19:00	Service Industry Output (YoY)	SEP	--	--	4.8
SK	10/30	19:00	Leading Index (YoY)	SEP	--	--	2.0
JN	10/30	19:15	Markit/JMMA Manufacturing PMI	OCT	--	--	49.3
AU	10/30	20:30	Private Sector Credit (MoM)	SEP	--	0.3	0.2
JN	10/31	01:00	Construction Orders (YoY)	SEP	--	--	9.3
JN	10/31	01:00	Annualized Housing Starts	SEP	--	0.9	0.9
TH	10/31	03:30	Total Exports (YoY)	SEP	--	--	28.5
TH	10/31	03:30	Total Imports (YoY)	SEP	--	--	45.9
TH	10/31	03:30	Total Trade Balance (US\$ mns)	SEP	--	--	705.0
TH	10/31	03:30	Current Account Balance (US\$ mns)	SEP	--	400	-697
TH	10/31	03:30	Overall Balance (US\$ mns)	SEP	--	--	-556.3
TH	10/31	03:30	Business Sentiment Index	SEP	--	--	52.2
TA	10/31	04:00	GDP - Constant Prices (YoY)	3Q P	--	3.6	5.0
HK	10/31	05:00	Govt Mthly Budget Surp/Def (HK\$ bns)	SEP	--	--	5.4
NZ	10/31	17:45	Average Hourly Earnings (QoQ)	3Q	--	--	1.2
NZ	10/31	17:45	Private Wages Exc Overtime (QoQ)	3Q	--	0.9	0.5
NZ	10/31	17:45	Private Wages Inc Overtime (QoQ)	3Q	--	0.5	0.5
AU	10/31	18:30	AiG Performance of Mfg Index	OCT	--	--	42.3
SK	10/31	19:00	Consumer Price Index (MoM)	OCT	0.1	0.1	0.1
SK	10/31	19:00	Consumer Price Index (YoY)	OCT	4.1	4.2	4.3
SK	10/31	19:00	Core Consumer Price Index (YoY)	OCT	--	--	3.9
NZ	10/31	20:00	ANZ Commodity Price (MoM)	OCT	--	--	-1.3
SK	10/31	20:00	HSBC Manufacturing PMI	OCT	--	--	47.5
AU	10/31	20:30	House Price Index (QoQ)	3Q	--	-1.5	-0.1
CH	10/31	21:00	PMI Manufacturing	OCT	52	51.8	51.2
SK	10/31	21:00	Ext Trade - Export (YoY)	OCT	12.7	10.9	18.8
SK	10/31	21:00	Ext Trade - Imports (YoY)	OCT	24.8	23.7	29.3
SK	10/31	21:00	Ext Trade - Balance (US\$ mns)	OCT	2600	2118	1556
JN	10/31	21:30	Labor Cash Earnings (YoY)	SEP	--	-0.4	-0.4
TA	10/31	22:00	HSBC Taiwan Manufacturing PMI	OCT	--	--	44.5
CH	10/31	22:30	HSBC Manufacturing PMI	OCT	--	--	49.9
AU	10/31	23:30	RBA Cash Target	1-Nov	4.75	4.50	4.75
ID	10/31		Consumer Confidence Index	OCT	--	--	115.0
JN	10/31		Official Reserve Assets (US\$ bns)	OCT	--	--	1200.6
TH	11/01	00:00	Consumer Price Index (YoY)	OCT	4.1	4.5	4.0
TH	11/01	00:00	Core CPI (YoY)	OCT	2.8	3.0	2.9
ID	11/01	00:00	Inflation (YoY)	OCT	4.6	4.8	4.6
ID	11/01	00:00	Core Inflation (YoY)	OCT	4.7	4.8	4.9
ID	11/01	00:00	Exports (YoY)	SEP	42	40.9	37.1
ID	11/01	00:00	Total Imports (YoY)	SEP	50	47.2	23.7
ID	11/01	00:00	Total Trade Balance (US\$ mns)	SEP	--	2800.0	3758.3
IN	11/01	01:00	India October Markit Manufacturing PMI				
JN	11/01	01:00	Vehicle Sales (YoY)	OCT	--	--	1.7

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

Key Indicators for the week of October 31 - November 4

Asia Pacific (continued from previous page)

Country	Date	Time	Event	Period	BNS	Consensus	Latest
AU	11/01	01:30	RBA Commodity Price Index	OCT	--	--	115.4
AU	11/01	01:30	RBA Commodity Index SDR (YoY)	OCT	--	--	26.6
IN	11/01	01:30	Exports (YoY)	SEP	--	--	44.3
IN	11/01	01:30	Imports (YoY)	SEP	--	--	41.8
HK	11/01	04:30	Retail Sales - Value (YoY)	SEP	--	28.7	29.0
HK	11/01	04:30	Retail Sales - Volume (YoY)	SEP	--	20.9	20.7
JN	11/01	19:50	Monetary Base (YoY)	OCT	--	--	16.7
AU	11/01	20:00	HIA New Home Sales (MoM)	SEP	--	--	1.1
AU	11/01	20:30	Building Approvals (MoM)	SEP	--	-4.9	11.4
SK	NOV 1-4		Foreign Exchange Reserve (US\$ bns)	OCT	--	--	303.4
NZ	11/02	17:45	Unemployment Rate	3Q	--	6.4	6.5
NZ	11/02	17:45	Employment Change (QoQ)	3Q	--	0.6	0.0
NZ	11/02	17:45	Participation Rate (QoQ)	3Q	--	68.5	68.4
AU	11/02	18:30	AiG Performance of Service Index	OCT	--	--	50.3
AU	11/02	20:30	Retail Sales s.a. (MoM)	SEP	--	0.4	0.6
AU	11/02	20:30	Retail Sales Ex Inflation(QoQ)	3Q	--	0.6	0.3
CH	11/02	21:00	China Non-manufacturing PMI	OCT	--	--	59.3
CH	11/02	22:30	China HSBC Services PMI	OCT	--	--	50.6
HK	NOV 2-4		Purchasing Managers Index	OCT	--	--	45.9
ID	NOV 2-7		Foreign Reserves	OCT	--	--	114.5
ID	NOV 2-7		Net Foreign Assets (IDR tns)	OCT	--	--	1035.3
IN	11/03	01:00	India October Markit Services PMI				
PH	11/03	21:00	Consumer Price Index (YoY)	OCT	--	5.0	4.8
PH	11/03	21:00	Consumer Price Index NSA (MoM)	OCT	--	0.1	0.2
PH	11/03	21:00	Core CPI (YoY) 2000=100	OCT	--	--	3.5
MA	11/04	00:01	Exports (YoY)	SEP	--	13.0	10.9
MA	11/04	00:01	Imports (YoY)	SEP	--	9.2	6.9
MA	11/04	00:01	Trade Balance (US\$ bns)	SEP	--	9.4	11.0
TA	11/04	04:20	Foreign Exchange Reserves (US\$ bns)	OCT	--	--	389.2
MA	11/04	05:30	Foreign Reserves (US\$ bns)	30-Oct	--	--	134.4

Latin America

Country	Date	Time	Event	Period	BNS	Consensus	Latest
BZ	10/31	06:30	Central Bank Weekly Economists Survey				
CO	10/31	12:00	Urban Unemployment Rate	SEP	--	10.2	10.4
BZ	11/01	07:00	Industrial Production sa (MoM)	SEP	--	-0.7	-0.2
BZ	11/01	07:00	Industrial Production (YoY)	SEP	--	1.2	1.8
BZ	11/01	08:00	PMI Manufacturing	OCT	--	--	45.5
PE	11/02		Consumer Price Index (MoM)	OCT	--	0.2	0.3
PE	11/02		Consumer Price Index (YoY)	OCT	--	4.0	3.7
BZ	11/03	10:30	Central Bank Posts Currency Flows' Data for Prev. Week				
BZ	11/04	08:30	Vehicle Production (Anfavea)	OCT	--	--	261184
BZ	11/04	08:30	Vehicle Exports (Anfavea)	OCT	--	--	44646
BZ	11/04	08:30	Vehicle Sales (Anfavea)	OCT	--	--	311648
CL	NOV 4-7		Economic Activity (YoY)	SEP	--	4.5	4.6
CO	NOV 4-11		Vehicle Sales	OCT	--	--	28883

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

Global Auctions for the week of October 31 - November 4

North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	10/31	11:30	U.S. to Sell 3-Month Bills
US	10/31	11:30	U.S. to Sell 6-Month Bills
US	11/01	11:30	U.S. to Sell 4-Week Bills
CA	11/02	12:00	Canada to Sell 3-Year Notes

Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
EC	10/31	06:15	ECB Announces Allotment in 8-Day Main Refinancing Tender
GE	10/31	06:15	Germany to Sell EU2 Bln 12-Mth Bills
BE	10/31	06:30	Belgium to Sell 4% 2014 Bonds
BE	10/31	06:30	Belgium to Sell 3.5% 2017 Bonds
BE	10/31	06:30	Belgium to Sell 4.25% 2021 Bonds
FR	10/31	10:00	France to Sell Bills
SZ	11/01	06:30	Switzerland to Sell 3-Month Bills
GE	11/02	06:15	Germany to Sell Add'l EU5 Bln 5-Year Notes
EC	11/03	05:30	Spain to Sell 4.25% 2016 Bonds
FR	11/03	06:00	France to Sell Bonds
UK	11/03	06:30	U.K. to Sell GBP2 Bln 4.25% 2032 Bonds
UK	11/04	07:10	U.K. to Sell Bills

Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
JN	10/31	23:35	Japan to Sell 3-Month Bills
JN	10/31	23:45	Japan to Sell 10-Year Bond

Source: Bloomberg, Scotia Economics.

Events for the week of October 31 - November 4

North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	11/02	12:30	FOMC Rate Decision
US	11/02	14:15	Bernanke Speaks at Fed Press Conference
US	11/03	08:30	Fed's Lockhart Opens Emory Economic Conference in Atlanta
US	11/04	13:00	Fed's Tarullo Speaks in Washington on Regulation

Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
UK	OCT 28-30		Commonwealth Summit in Perth, Australia
GE	11/02	06:30	Merkel, Erdogan Speak at German-Turkish Event, Berlin
PO	11/02	20:00	Portugal's Parliament to Discuss, Vote 2012 Government Budget
UK	11/03	05:45	BOE Testifies on Financial-Services Bill
EC	11/03	08:30	Draghi Speaks at ECB Monthly News Conference
EC	11/03	08:45	ECB Announces Interest Rates
FR	NOV 3-4		G20 Summit in Cannes

Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
AU	10/31	23:30	RBA Cash Target

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	December 6, 2011	1.00	--
Federal Reserve – Federal Funds Target Rate	0.25	November 2, 2011	0.25	0.25
Banco de México – Overnight Rate	4.50	December 2, 2011	4.50	--

The Bank of Canada revised its growth and inflation projections this week and signalled that it will likely keep monetary policy on hold at least for the rest of this year and throughout next year. Indeed, the BoC now expects spare capacity to close off at the end of 2013 after revising down its growth projections for 2011 and 2012 and increasing its 2013 estimate. The BoC also materially changed its inflation projection and now thinks core inflation will drop below its 2% inflation target in 2012 and remain there until the end of 2013 while headline CPI is expected to decline to 1% in 2012 before eventually returning to 2% by the end of 2013. In the U.S., the Federal Reserve will also likely revise down its growth and inflation numbers and is expected keep rates on hold. No unconventional policy moves are expected either. Fed Chairman Bernanke will speak to the press following the rate announcement - only one of four press briefings during the year - and answer questions regarding U.S. monetary policy and the updated US forecast.

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	November 3, 2011	1.50	1.50
Bank of England – Bank Rate	0.50	November 10, 2011	0.50	0.50
Swiss National Bank – Libor Target Rate	0.00	December 15, 2011	0.00	--
Central Bank of Russia – Refinancing Rate	8.25	November 25, 2011	8.25	8.25
Hungarian National Bank – Base Rate	6.00	November 29, 2011	6.00	--
Central Bank of the Republic of Turkey – 1 Week Repo Rate	5.75	November 23, 2011	5.75	--

We share the consensus view that a rate cut is unlikely when the European Central Bank (ECB) meets next week for the first policy decision with President Mario Draghi heading the Governing Council. Inflation remains elevated, surging to 3.0% y/y in September, though early indications from Germany and Spain point to a moderation in October. Mr. Draghi has kept a low profile in recent weeks, signaling that he will maintain the ECB's strict commitment to its inflation-fighting mandate. In this light, he is unlikely to rattle markets by making an immediate change to the bank's monetary stance at his inaugural presidential press conference.

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	November 16, 2011	0.10	--
Reserve Bank of Australia – Cash Target Rate	4.75	October 31, 2011	4.75	4.50
Reserve Bank of New Zealand – Cash Rate	2.50	December 7, 2011	2.50	2.50
People's Bank of China – Lending Rate	6.56	TBA	--	--
Reserve Bank of India – Repo Rate	8.50	TBA	8.50	--
Hong Kong Monetary Authority – Base Rate	0.50	TBA	0.50	--
Central Bank of China Taiwan – Discount Rate	1.88	December 30, 2011	1.88	--
Bank Negara Malaysia – Overnight Policy Rate	3.00	November 11, 2011	3.00	--
Bank of Korea – Bank Rate	3.25	November 10, 2011	3.25	--
Bank of Thailand – Repo Rate	3.50	November 30, 2011	3.50	--
Bank Indonesia – Reference Interest Rate	6.50	November 10, 2011	6.75	--
Central Bank of the Philippines – Overnight Policy Rate	4.50	December 1, 2011	4.50	--

The Reserve Bank of Australia (RBA) will likely leave the reference cash rate unchanged at 4.75% after its next monetary policy meeting at the end of the month. The country's inflation rate for the third quarter fell slightly to 3.5% y/y from 3.6% in the second quarter (Australia and New Zealand are unique in that they report quarterly, not monthly, price fluctuations), while core inflation accentuated its downward trend, closing at 2.3%. RBA pronouncements continue to imply vigilance within an environment where labour market conditions in some sectors, particularly mining, remain tight.

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	11.50	November 30, 2011	11.00	--
Banco Central de Chile – Overnight Rate	5.25	November 15, 2011	5.25	--
Banco de la República de Colombia – Lending Rate	4.50	October 28, 2011	4.50	--
Banco Central de Reserva del Perú – Reference Rate	4.25	November 10, 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	November 10, 2011	5.50	--

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

Forecasts as at October 7, 2011*

	2000-09	2010	2011f	2012f	2000-09	2010	2011f	2012f
Output and Inflation (annual % change)								
Real GDP								
Consumer Prices²								
World ¹	3.6	5.2	3.8	3.8				
Canada	2.1	3.2	2.1	1.7	2.1	1.8	2.9	2.0
United States	1.7	3.0	1.7	1.5	2.6	1.6	2.8	1.9
Mexico	1.7	5.4	3.7	2.9	4.9	4.4	3.4	4.0
United Kingdom	1.9	1.8	0.7	0.7	1.9	3.7	4.4	2.1
Euro zone	1.4	1.8	1.6	1.1	2.0	2.2	2.6	1.5
Japan	0.6	4.0	0.3	3.2	-0.3	-0.4	1.1	1.3
Australia	3.1	2.7	2.9	3.0	3.2	2.7	2.8	2.5
China	9.4	10.4	9.1	8.9	2.0	4.6	5.0	4.5
India	7.4	9.0	7.9	8.3	22.5	32.2	7.5	6.0
Korea	4.4	6.2	4.7	5.0	3.1	3.5	3.7	3.3
Thailand	4.1	7.9	4.5	4.8	2.6	3.0	3.5	2.8
Brazil	3.3	7.5	3.5	4.0	6.7	5.9	6.5	6.0
Chile	3.7	5.2	6.5	4.8	3.5	1.4	3.5	3.3
Peru	5.2	8.8	6.2	5.6	2.5	2.1	3.8	2.7
Central Bank Rates (% end of period)	11Q1	11Q2	11Q3f	11Q4f	12Q1f	12Q2f	12Q3f	12Q4f
Bank of Canada	1.00	1.00	1.00	1.00	1.00	1.00	1.25	1.75
Federal Reserve	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
European Central Bank	1.00	1.25	1.50	1.50	1.50	1.50	1.50	1.50
Bank of England	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Swiss National Bank	0.25	0.25	0.00	0.00	0.00	0.00	0.25	0.25
Bank of Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Reserve Bank of Australia	4.75	4.75	4.75	4.75	4.75	5.00	5.00	5.00
Exchange Rates (end of period)								
Canadian Dollar (USDCAD)	0.97	0.96	1.05	1.02	1.00	0.99	0.98	0.98
Canadian Dollar (CADUSD)	1.03	1.04	0.95	0.99	1.00	1.01	1.02	1.02
Euro (EURUSD)	1.42	1.45	1.34	1.40	1.42	1.42	1.40	1.40
Sterling (GBPUSD)	1.60	1.61	1.56	1.60	1.61	1.62	1.63	1.64
Yen (USDJPY)	83	81	77	80	82	83	84	85
Australian Dollar (AUDUSD)	1.03	1.07	0.97	1.00	1.02	1.04	1.06	1.08
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	13.9	12.9	12.9	12.7	12.7	12.7
Brazilian Real (USDBRL)	1.63	1.56	1.88	1.80	1.79	1.77	1.76	1.75
Commodities (annual average)	2000-09	2010	2011f	2012f				
WTI Oil (US\$/bbl)	51	79	92	92				
Brent Oil (US\$/bbl)	50	80	108	104				
Nymex Natural Gas (US\$/mmbtu)	5.95	4.40	4.25	4.50				
Copper (US\$/lb)	1.78	3.42	4.05	4.05				
Zinc (US\$/lb)	0.73	0.98	1.00	1.01				
Nickel (US\$/lb)	7.11	9.89	10.50	9.00				
Gold, London PM Fix (US\$/oz)	522	1,225	1,565	1,675				
Pulp (US\$/tonne)	668	960	980	1,000				
Newsprint (US\$/tonne)	572	607	643	690				
Lumber (US\$/mfbm)	275	254	255	260				

¹ World GDP for 2000-09 are IMF PPP estimates; 2010e-12f are Scotia Economics' estimates based on a 2010 PPP-weighted sample of 38 countries.

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

* See Scotia Economics 'Global Forecast Update' (www.scotiacapital.com/English/bns_econ/forecast.pdf) for additional forecasts & commentary.

Canada	2010	11Q1	11Q2	Latest	United States	2010	11Q1	11Q2	Latest
Real GDP (annual rates)	3.2	3.6	-0.4		Real GDP (annual rates)	3.0	0.4	1.3	
Current Acc. Bal. (C\$B, ar)	-50.9	-40.3	-61.3		Current Acc. Bal. (US\$B, ar)	-471	-478	-472	
Merch. Trade Bal. (C\$B, ar)	-9.0	5.8	-14.3	-7.5 (Aug)	Merch. Trade Bal. (US\$B, ar)	-646	-729	-762	-737 (Aug)
Industrial Production	4.9	5.7	2.3	1.5 (Jul)	Industrial Production	5.3	5.3	3.8	3.4 (Sep)
Housing Starts (000s)	192	178	192	208 (Sep)	Housing Starts (millions)	0.58	0.58	0.57	0.66 (Sep)
Employment	1.4	1.9	1.6	1.8 (Sep)	Employment	-0.8	0.9	0.9	1.1 (Sep)
Unemployment Rate (%)	8.0	7.8	7.5	7.1 (Sep)	Unemployment Rate (%)	9.6	8.9	9.1	9.1 (Sep)
Retail Sales	5.5	2.5	4.1	3.9 (Aug)	Retail Sales	6.8	8.6	8.1	8.1 (Sep)
Auto Sales (000s)	1561	1573	1573	1625 (Aug)	Auto Sales (millions)	11.6	13.0	12.1	13.1 (Sep)
CPI	1.8	2.6	3.4	3.2 (Sep)	CPI	1.6	2.1	3.4	3.9 (Sep)
IPPI	1.0	4.1	5.0	-5.2 (Aug)	PPI	4.2	4.9	6.9	6.9 (Sep)
Pre-tax Corp. Profits	21.2	12.9	14.8		Pre-tax Corp. Profits	25.0	2.8	1.3	
Mexico					Brazil				
Real GDP	5.4	4.6	3.3		Real GDP	6.7	3.8	2.7	
Current Acc. Bal. (US\$B, ar)	-5.7	-4.2	-10.4		Current Acc. Bal. (US\$B, ar)	-47.4	-58.3	-43.4	
Merch. Trade Bal. (US\$B, ar)	-3.0	7.6	5.7	-22.0 (Sep)	Merch. Trade Bal. (US\$B, ar)	20.2	12.7	39.3	36.9 (Sep)
Industrial Production	6.0	5.2	3.4	3.1 (Aug)	Industrial Production	10.5	2.6	0.6	1.0 (Aug)
CPI	4.2	3.5	3.3	3.1 (Sep)	CPI	5.1	6.8	6.5	7.2 (Sep)
Chile					Italy				
Real GDP	5.2	10.0	6.8		Real GDP	1.2	1.0	0.8	
Current Acc. Bal. (US\$B, ar)	3.0	0.7	0.1		Current Acc. Bal. (US\$B, ar)	-0.07	-0.13	-0.08	-0.09 (Aug)
Merch. Trade Bal. (US\$B, ar)	11.6	16.5	15.5	3.9 (Sep)	Merch. Trade Bal. (US\$B, ar)	-39.1	-77.2	-45.6	-54.2 (Aug)
Industrial Production	0.5	11.7	7.8	5.0 (Sep)	Industrial Production	6.5	2.3	2.1	3.8 (Aug)
CPI	1.4	2.9	3.3	3.3 (Sep)	CPI	1.6	2.3	2.7	3.1 (Sep)
Germany					France				
Real GDP	3.6	4.6	2.8		Real GDP	1.4	2.2	1.7	
Current Acc. Bal. (US\$B, ar)	187.6	194.8	156.6	120.8 (Aug)	Current Acc. Bal. (US\$B, ar)	-44.5	-51.5	-81.9	-50.8 (Aug)
Merch. Trade Bal. (US\$B, ar)	201.2	208.6	209.3	236.7 (Aug)	Merch. Trade Bal. (US\$B, ar)	-39.0	-54.2	-52.0	-41.6 (Aug)
Industrial Production	10.1	12.8	8.0	7.9 (Aug)	Industrial Production	5.1	4.7	2.1	4.4 (Aug)
Unemployment Rate (%)	7.7	7.3	7.1	6.9 (Sep)	Unemployment Rate (%)	9.8	9.7	9.7	9.9 (Aug)
CPI	1.1	2.1	2.3	2.5 (Oct)	CPI	1.5	1.8	2.1	2.2 (Sep)
Euro Zone					United Kingdom				
Real GDP	1.7	2.4	1.6		Real GDP	1.8	1.6	0.6	
Current Acc. Bal. (US\$B, ar)	-77	-165	-120	-109 (Aug)	Current Acc. Bal. (US\$B, ar)	-56.9	-30.7	-12.2	
Merch. Trade Bal. (US\$B, ar)	32.0	-71.1	-15.3	-53.6 (Aug)	Merch. Trade Bal. (US\$B, ar)	-152.4	-146.1	-160.0	-152.6 (Aug)
Industrial Production	7.4	6.5	4.2	5.3 (Aug)	Industrial Production	1.9	1.6	-0.8	-1.0 (Aug)
Unemployment Rate (%)	10.1	9.9	9.9	9.9 (Aug)	Unemployment Rate (%)	7.9	7.7	7.8	8.1 (Jul)
CPI	1.6	2.5	2.8	3.0 (Sep)	CPI	3.3	4.1	4.4	5.2 (Sep)
Japan					Australia				
Real GDP	4.0	-0.7	-1.1		Real GDP	2.7	1.0	1.4	
Current Acc. Bal. (US\$B, ar)	195.9	193.9	75.4	63.3 (Aug)	Current Acc. Bal. (US\$B, ar)	-32.9	-41.7	-22.4	
Merch. Trade Bal. (US\$B, ar)	74.6	30.9	-52.6	-3.4 (Sep)	Merch. Trade Bal. (US\$B, ar)	19.3	22.0	49.5	45.6 (Aug)
Industrial Production	16.6	-2.5	-7.0	-4.1 (Sep)	Industrial Production	4.5	-4.7	-3.3	
Unemployment Rate (%)	5.1	4.7	4.6	4.1 (Sep)	Unemployment Rate (%)	5.2	5.0	4.9	5.2 (Sep)
CPI	-0.7	-0.5	-0.4	0.0 (Sep)	CPI	2.8	3.3	3.6	
China					South Korea				
Real GDP	10.4	9.7	9.5		Real GDP	6.2	4.2	3.4	
Current Acc. Bal. (US\$B, ar)	305.4				Current Acc. Bal. (US\$B, ar)	28.2	10.4	22.0	37.2 (Sep)
Merch. Trade Bal. (US\$B, ar)	181.5	-8.4	186.0	174.2 (Sep)	Merch. Trade Bal. (US\$B, ar)	41.2	29.0	33.3	18.7 (Sep)
Industrial Production	13.5	14.8	15.1	13.8 (Sep)	Industrial Production	16.6	11.2	6.7	5.1 (Aug)
CPI	4.6	5.4	6.4	6.1 (Sep)	CPI	3.0	4.5	4.2	4.3 (Sep)

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

Source: Bloomberg, Scotia Economics.

Interest Rates (% , end of period)

Canada	11Q2	11Q3	Oct/21	Oct/28*	United States	11Q2	11Q3	Oct/21	Oct/28*
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	0.83	0.82	0.88	0.85	3-mo. T-bill	0.01	0.02	0.02	0.00
10-yr Gov't Bond	3.11	2.16	2.36	2.41	10-yr Gov't Bond	3.16	1.92	2.22	2.31
30-yr Gov't Bond	3.55	2.77	2.98	3.07	30-yr Gov't Bond	4.37	2.91	3.26	3.36
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	64.3	(Aug)	FX Reserves (US\$B)	128.3	136.6	138.7	(Jul)
Germany					France				
3-mo. Interbank	1.51	1.51	1.53	1.54	3-mo. T-bill	1.18	0.38	0.68	0.56
10-yr Gov't Bond	3.03	1.89	2.11	2.19	10-yr Gov't Bond	3.41	2.60	3.25	3.16
FX Reserves (US\$B)	64.8	66.0	67.2	(Aug)	FX Reserves (US\$B)	61.0	60.3	56.5	(Aug)
Euro-Zone					United Kingdom				
Refinancing Rate	1.25	1.50	1.50	1.50	Repo Rate	0.50	0.50	0.50	0.50
Overnight Rate	1.72	1.46	0.93	0.92	3-mo. T-bill	4.85	4.85	4.85	4.85
FX Reserves (US\$B)	319.9	317.2	319.3	(Aug)	10-yr Gov't Bond	3.38	2.43	2.53	2.60
Japan					FX Reserves (US\$B)	75.3	79.7	82.5	(Aug)
Discount Rate	0.30	0.30	0.30	0.30	Australia				
3-mo. Libor	0.13	0.13	0.13	0.13	Cash Rate	4.75	4.75	4.75	4.75
10-yr Gov't Bond	1.14	1.03	1.01	1.04	10-yr Gov't Bond	5.21	4.22	4.49	4.55
FX Reserves (US\$B)	1080.6	1100.8	1173.9	(Aug)	FX Reserves (US\$B)	33.3	40.3	42.1	(Aug)

Exchange Rates (end of period)

USDCAD	0.96	1.05	1.01	0.99	¥/US\$	80.56	77.06	76.29	75.73
CADUSD	1.04	0.95	0.99	1.01	US\$/Australian\$	107.22	96.62	103.76	107.10
GBPUSD	1.605	1.558	1.595	1.611	Chinese Yuan/US\$	6.46	6.38	6.38	6.36
EURUSD	1.450	1.339	1.390	1.415	South Korean Won/US\$	1068	1178	1148	1105
JPYEUR	0.86	0.97	0.94	0.93	Mexican Peso/US\$	11.714	13.897	13.675	13.133
USDCHF	0.84	0.91	0.88	0.86	Brazilian Real/US\$	1.563	1.879	1.776	1.693

Equity Markets (index, end of period)

United States (DJIA)	12414	10913	11809	12196	U.K. (FT100)	5946	5128	5489	5690
United States (S&P500)	1321	1131	1238	1282	Germany (Dax)	7376	5502	5971	6309
Canada (S&P/TSX)	13301	11624	11949	12503	France (CAC40)	3982	2982	3171	3334
Mexico (Bolsa)	36558	33503	35021	36865	Japan (Nikkei)	9816	8700	8679	9050
Brazil (Bovespa)	62404	52324	55255	59246	Hong Kong (Hang Seng)	22398	17592	18026	20019
Italy (BCI)	1039	796	853	891	South Korea (Composite)	2101	1770	1838	1929

Commodity Prices (end of period)

Pulp (US\$/tonne)	1035	970	970	970	Copper (US\$/lb)	4.22	3.23	3.20	3.62
Newsprint (US\$/tonne)	640	640	640	640	Zinc (US\$/lb)	1.05	0.86	0.81	0.87
Lumber (US\$/mfbm)	237	240	236	229	Gold (US\$/oz)	1505.50	1620.00	1642.50	1741.00
WTI Oil (US\$/bbl)	95.42	79.20	87.40	93.19	Silver (US\$/oz)	35.02	30.45	30.80	35.42
Natural Gas (US\$/mmbtu)	4.37	3.67	3.63	3.90	CRB (index)	338.05	298.15	311.08	323.65

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

Emerging Markets Strategy

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