

# Global Views

Weekly commentary on economic and financial market developments

December 2, 2011

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### Global Central Banks To Remain In The Spotlight Next Week

- Please see our full indicator, central bank, auction and event calendars on pp. A2-A9.

After unexpectedly ramping up their provisioning of US\$ loans to Europe's banking system this past week, global central banks will return to the limelight next week amid expectations that the ECB will follow it up with a rate cut of 25-50bps on Thursday. Each of the BoE (Thursday), BoC (Tuesday), RBA (Tuesday), RBNZ (Wednesday), Bank of Korea (Wednesday), Bank Indonesia (Thursday) and Peru (Wednesday) also make rate announcements with six of 22 analysts expecting the RBA to ease further.

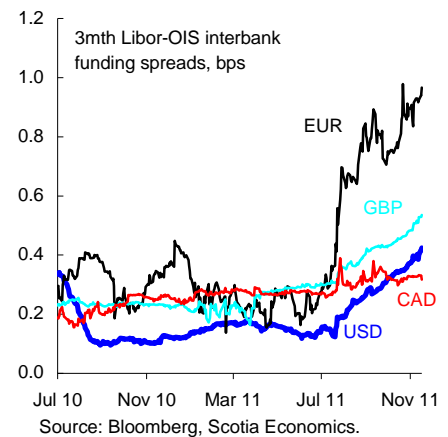
What the recent coordinated move by the Fed, ECB, BoE, BoJ, Bank of Canada and Swiss National Bank achieved was to remove the Lehman risk from Europe and that in itself mitigates a significant portion of the fear factor overhanging equities. By lowering the cost of US\$ funding to the ECB in exchange for euros, the ability of the ECB to lend in US\$ to European banks was enhanced and cheapened. As the accompanying chart depicts by way of upward pressures upon inter-bank funding spreads, European banks were getting increasingly shut out of private markets as liquidity and funding constraints were becoming more binding. The coordinated move now enables them to borrow more directly from central banks at a cheaper cost and for a longer time. Note, however, that at least this measure of unsecured borrowing in euros from the ECB did not reflect the same improvement in USD funding such that European banks still remain leery about lending to one another. But is the coordinated move the proverbial game changer? Hardly, as it does nothing to reverse deleveraging pressures across European banks, downsides to growth, and the continued turmoil of the continent's sovereign debt crisis that risks morphing into a fuller currency crisis — exacerbated by current account and fiscal balances that plague Europe within the confines of an inflexible union.

More key **European** tests will come through next week. A key will be the Friday EU-27 Summit meeting which begins with a 7:30pmET dinner with headline risk into next weekend. Expect progress toward announcing measures that strive toward greater fiscal oversight, but as we've noted before, we attach low odds to a meaningful framework including penalty structures for deviating from fiscal guidelines as much of Europe will be reticent to take policy direction from the imperfect northern states. Thus, the risk trade may well be too optimistic toward hopes for a big imminent deal.

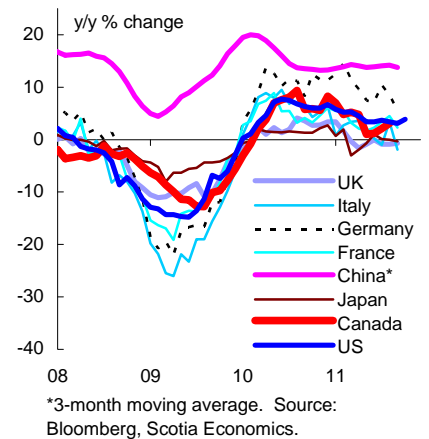
Germany returns to the market following the recent failed auction with a 5 year note issue on Wednesday following a six month bill auction on Monday — the same day France taps markets for a bills auction. The strength of German manufacturing and exports during October will be reviewed through updates on factory orders (Tuesday), industrial production (Wednesday) and exports (Friday). A mixture of industrial production and export figures will also be updated for France, Italy and the UK. The challenge remains that the pace of gains in industrial production has hit a wall as most of the crisis period losses have now been recouped while order books weaken (see second chart).

This will be a key week for **Canada** largely because of the BoC statement on Tuesday. We think it would take a large liquidity disruption stemming from Europe's debt crisis to motivate a rate cut from the BoC over coming meetings versus our baseline forecast for the BoC to remain on hold until 2013Q2. The recent globally

### Canadian Banks Are Much Sounder



### Industrial Production



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coordinated action among central banks that was cited above significantly removes this liquidity risk. Bank earnings continue with only one of the big five releasing Q4 results on Tuesday. Housing starts for November are unlikely to push higher yet following a string of monthly prints that have averaged out 205k since July. Thus, while volumes remain elevated, their contributions to growth have waned particularly since all of the recent strength has been in lower value-added multiples. Friday's trade report will be key in determining whether the Q3 trade lift following Q2 shocks is sustained into the October report. Canada holds a two year auction the day after the BoC statement.

The US economy is unlikely to be in the global driver's seat next week as primarily B-tier releases are on tap within a light schedule that mostly book-ends the week. Based upon what is already known through soft durable goods orders, broader factory sector orders are expected to post a small decline following two very soft prior monthly gains. Also on Monday, ISM non-manufacturing is expected to remain roughly within the modest expansion range it has been signalling since Spring. A long pause until Friday returns the focus to the US trade account during October which is expected to halt the string of improved readings following the June depths for the trade deficit. Following the much greater-than-expected improvement in the Conference Board's measure of consumer confidence, do not expect Friday's UofM sentiment survey to post the same improvement as it is more weighted to poor equity market performance of the past month in the lead-up to the survey in contrast to the greater labour market emphasis within the Conference Board's measure. Chicago Fed President Charles Evans is the only Fed speaker on tap for next week, but his status as an uber-dove will get headline attention for his Monday speech on the US economic outlook and the Fed's dual mandate. Evans, however, only votes once more at the December 13<sup>th</sup> FOMC and reverts to being an FOMC alternate next year. Finally, Q3's flow of funds report from the Federal Reserve will get headlines on Thursday for household wealth gains and debt reductions following in the wake of the NY Fed's report on continued household deleveraging.

The decision by the People's Bank of **China** to cut required reserve ratios may prove to be timely in many respects, one of which being in anticipation of much softer inflation figures next week. Consensus is expecting a full percentage point drop in headline CPI inflation while gentle moderation in growth rates for retail sales and industrial production is expected. In the grander sense, this may well be your China soft landing in play as we've been discussing with clients who are often more focused upon hard landing risks. Yes, China has investment and housing excesses and risks a sharp slowdown, but what is forgotten is that no other country has the capacity to ease like China has and can do so within the confines of a uni-party state and a style that lacks both transparency and a short-term rationing role played by the cost of capital as in Anglo-American styles of capitalism. The hard landing camp, in my opinion, simplistically erred by assuming that a uni-party state would be asleep at the switch as growth downsides become evident through higher frequency manufacturing and housing metrics. The required reserve ratio had been ratcheted from 7.5% back in 2006Q2 to a record high 21.5% for major banks today (and dropping to 21% next week). Within just the past year this ratio had been pushed higher from 17% in an effort to cool property lending. Apparently that worked a little too well, and now easing is the name of the game perhaps on multiple policy fronts into 2012. This hardly solves the world's problems on a risk-trade bias that will be pressured for a long time yet, but it's a pro-active positive step in the short run.

**Australian** GDP for Q3 (Tuesday) and November jobs (Wednesday) will represent elevated A\$ risks, and influences upon Asia-Pacific markets will be rounded out by Japanese trade figures on Wednesday.

**Lat-am** markets will be principally focused upon Brazil's Q3 GDP report which is expected to post a flat reading as the country's economy grinds to a halt following 1.2% Q1 growth and 0.8% Q2 growth. Peru's central bank is expected to remain on hold.

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## The Debt Zone

**Overview:** The global economy is set to slow further in 2012, with the simultaneous deleveraging of both the public and private sectors in many parts of the world reinforcing the historically sub-par performance of this expansion. Accelerating balance sheet adjustments are exacerbating the slowdown in the more heavily-indebted G7 nations. The euro zone is 'ground zero' because significant sovereign debt problems are being compounded by intensifying banking sector strains. Although the North American economies and Japan have rebounded somewhat from the early-year supply shocks that disrupted manufacturing, no advanced nation will escape the weaker growth consequences caused by some combination of fiscal retrenchment, household deleveraging, or financial sector caution.

Among the larger and less-indebted emerging countries, output growth is moderating in response to reduced trade flows associated with the sharper slide in European and U.S. activity, as well as the tightening of their respective domestic credit conditions. Even so, many of these emerging nations are expected to remain on a fundamentally stronger growth trajectory. Significant investments by governments and businesses, financed by massive savings balances, are supporting the transition to more domestic-led growth. This week's easing in the reserve requirements of China's banks, along with another round of interest rate cuts in Brazil, underscores the pro-growth commitment of policymakers, and the more favourable lending conditions available to households and businesses.

*Ongoing structural adjustments in the advanced nations that facilitate the repair of balance sheets, combined with infrastructure-led investments in emerging countries, should help put global growth back on a strengthening trend as we move into 2013. However, the projected 4% output advance is still on the slow side — more than a percentage point below the 5.2% increase in the first full year of recovery in 2010 — a reflection of the lingering economic underperformance when operating in the 'debt zone'.*

**The Euro 'Debt' Zone:** The euro zone is tipping into recession. Increasing fiscal austerity is deepening the downturns in the more heavily-indebted southern peripheral countries. Political risk has become the wildcard in the outlook. The failure to resolve the festering sovereign debt crisis has allowed the contagion to spread, pushing government borrowing costs sharply higher, and aggravating the debt sustainability of some of the larger nations. Slowdowns in the economies of Italy and Spain are quickly morphing into contractions. Even the largest euro zone economies are no longer immune, with the reduction in intra-regional trade taking an increasing bite out of the output gains in Germany and France.

It is increasingly unlikely that the euro zone will register any growth next year, with Germany's projected advance averaging a meagre 0.6%. Even with the latest round of liquidity injections co-ordinated by the advanced economies' central banks, any delay in implementing the far-reaching fiscal and financial reforms needed to stabilize the outlook will leave the region increasingly vulnerable to further weakness and growing banking sector strains. The ECB is expected to favour much lower interest rates, with the likelihood of additional euro weakness to around 1.25USD providing some support for internationally-destined exports.

**Deleveraging in the U.S.A.:** The U.S. economy has proved quite resilient in recent months after an extremely weak first-half performance. This development reflects a number of factors — the resumption in manufacturing activity, increased exports of technology, transportation and heavy equipment, the accelerated pace of business investment, and renewed job gains which have helped support a modest revival in consumer spending. But it also reflects a comparatively less restrictive federal fiscal stance than in the United Kingdom or on the Continent.

Nevertheless, sustaining this economic momentum will likely prove difficult in 2012 and beyond as the United States confronts its longstanding structural issues. Consumer spending will remain on a slower growth trajectory with Americans still focussed on reducing debt leverage. Household wealth and living standards are still being compressed by declining home values that are pressured by continuing housing oversupply and tight lending conditions, and the persistence of



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chronically high joblessness. And federal fiscal policy is set to tighten more, though some of the restraint will likely be deferred to 2013.

The United States is expected to re-establish a slower growth trajectory in 2012 in response to renewed consumer and business caution, with real GDP advancing a moderate 1.8% following a similar gain estimated for this year and 3.0% in 2010. The Fed is expected to keep its benchmark funds rate at 0.25% at least through mid-2013, with safe-haven inflows and central bank operations supporting ultra-low bond yields and the U.S. dollar for the time being. However, renewed concern over the extent and pace of U.S. fiscal retrenchment is likely to materialize next year, pointing to added volatility in financial markets, a weaker greenback, and a renewed upward drift in longer-term borrowing costs.

**Canadian Flexibility:** Canada also has rebounded from its early-year slowdown, with exports responding to increased U.S. demand and an end to outages in the Alberta oil sands. However, the emerging global slowdown will take a toll on growth next year, with competitive factors and a still-strong currency adding to the drag on non-resource exports to the United States and Europe. The cross-border performance gap between Canada and the United States will narrow, with Canadian real GDP forecast to increase 1.8% in 2012, following this year's estimated 2.3% advance and a 3.2% gain in 2010.

Nevertheless, Canada will continue to outperform from a domestic demand standpoint, a development that provides the country with the financial flexibility to reduce its government fiscal imbalances and large household debt burden. Ottawa and the Provinces will initiate more budgetary restraint over the next couple of years, reinforcing the consolidation gathering momentum in the United Kingdom and Europe, and taking hold in the United States.

Domestic demand conditions are expected to remain on a more solid footing, supported by G7-leading cumulative employment gains, buoyant housing and commercial real estate markets, favourable corporate balance sheets and investments, and available credit from well capitalized financial institutions. In addition, firm commodity prices and continuing solid demand from emerging countries should continue to bolster resource-related shipments primarily from the western and eastern provinces, and support the expanded developments in energy, mining and agriculture.

The Bank of Canada should keep its benchmark lending rate on hold until early in 2013. The current support for the greenback is expected to give way to a renewed bout of weakness as investors refocus on U.S. budgetary inaction. The loonie should move back again above parity in the second half of 2012 as a result of the currency's sensitivity to further commodity price gains, and the country's comparatively more favourable economic, fiscal, and financial sector performances.

**Growth Is Better In Mexico, Latin America And Asia-Pacific:** Every region of the globe will feel the reduced trade-related effects of the economic and financial turbulence emanating from the advanced nations, and from Europe in particular. But many of the emerging nations have the economic and financial capabilities to remain comparatively strong performers. Output growth in Mexico is set to slow to an average of 2.9% in 2012, a full percentage point above the expected increases in its NAFTA partners. Mexico should continue to benefit from expanded investments in manufacturing, and automobiles in particular, with construction also providing support.

Solid domestic fundamentals should also remain supportive of growth throughout Latin America. The region continues to benefit from strong foreign investment and significant infrastructure developments. The ongoing shift to more domestic-led growth in the developing economies should keep commodity prices firm and help stabilize the global economy during this period of consolidation and restructuring in the advanced nations.

Domestic demand conditions throughout most of Asia-Pacific are still quite robust, as evidenced by the ongoing strength in imports and narrowing in trade surpluses. This reflects a number of factors, including massive government investments in infrastructure, strong business expenditures, supportive financial institutions, and solid employment gains that bolster consumer spending. China's growth is set to slip to just under a 9% advance in 2012, with its renewed softening in price pressures providing officials with the flexibility to favour even more accommodative policy settings in support of growth. In the case of India, higher inflation could still keep policy firm for the time being.



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### Scotia's 2012-13 BoC, Fed & Curve Forecasts

- Difficult to envision a big move in the curve until well into 2012.

#### BoC: Rate Pause versus Cut

When the BoC moved to the effective lower zero bound on its overnight rate target in April 2009, it only stayed there until June 2010. Getting off that lower zero bound was achieved through the use of a conditional commitment to leave rates on hold until the end of 2010Q2. When inflation threatened the BoC's condition, it hiked just before this point. Canada's well functioning financial system, in retrospect, did not require a sustained experiment at the lower bound. The purpose of this reminder is that the BoC's over-riding concern was in response to a massive liquidity shock to the world financial system that followed in the wake of the collapse of Lehman. That's what it took to get to the lower zero bound, and we think that same standard applies today. Thus, with a global focus upon reducing private event risk through central bank liquidity provisions, we assume the BoC will remain on hold until 2013Q2. In the meantime, markets have done the BoC's easing through a massive CAD depreciation combined with lower fixed-term borrowing costs. On net, a 30-40% probability of a rate cut seems reasonable, but a longer pause seems more likely than cuts.

#### Federal Reserve: Near-Term Policy Tweaking, Long-Term Hold

Scotia Economics forecasts that the Fed will remain on hold until 2013Q3, but with the fatter tail risk skewed toward later rather than sooner. We attach high odds to our assumption that the Fed will engineer one of two policy changes by the December 13th FOMC meeting. One may be a cut in the discount rate to 0.5% given the recent globally coordinated move to cut borrowing rates for swapping foreign currencies into USD, but Fed officials have recently discouraged such talk in light of the stronger position of US banks versus European banks. The other is a likely change in communication strategy that could strengthen the conditionality surrounding the Fed's loose commitment to keep rates on hold until at least mid-2013 should its views on the outlook come to fruition. We explored this issue in depth — including why we don't think the Fed will be as successful at conditional commitments as the BoC — in "The Fed Is Unlikely To Share The BoC's Commitment Success," (*Global Views*, November 25, 2011, pp.9-10). While it is possible the Fed announces a bolder step toward purchasing mortgage bonds in order to confront renewed concern regarding house prices, the success of such a policy lies in doubt given already record-low mortgage rates and inelastic money demand — and is unlikely to occur until Q1 at the earliest.

#### Short-term Curve Assumptions

It's difficult to object to client sentiment regarding the binary aspect of market outcomes. We have erred on the side of assuming a flat rate structure throughout at least the first half of 2012 in what is presented below. We base this upon a defensive bias stemming from European and US fiscal and political challenges, softening inflation, weak growth, little crowding-out by Treasury borrowing, and Fed policy in favour of a flat curve.

Scotia Economics' Canada-U.S. Yield Curve Forecast																
end of quarter, %																
November 29th 2011																
Canada	10q1	10q2	10q3	10q4	11q1	11q2	11q3	11q4f	12q1f	12q2f	12q3f	12q4f	13q1f	13q2f	13q3f	13q4f
BoC Overnight Target Rate	0.25	0.50	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.50	2.00	2.25
Prime Rate	2.25	2.50	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.50	4.00	4.25
3-month T-Bill	0.30	0.61	1.01	1.05	0.96	0.90	0.82	0.85	0.90	0.90	0.95	1.10	1.30	1.80	2.15	2.30
2-year Canada	1.74	1.39	1.38	1.68	1.83	1.59	0.89	1.00	1.10	1.10	1.45	1.80	1.95	2.10	2.35	2.40
5-year Canada	2.90	2.33	2.03	2.42	2.78	2.33	1.40	1.50	1.60	1.70	2.00	2.40	2.45	2.50	2.65	2.75
10-year Canada	3.57	3.08	2.76	3.12	3.35	3.11	2.16	2.10	2.20	2.40	2.65	2.95	3.05	3.10	3.15	3.30
30-year Canada	4.07	3.65	3.36	3.53	3.76	3.55	2.77	2.70	2.75	3.00	3.20	3.50	3.55	3.60	3.65	3.80
United States	10q1f	10q2f	10q3f	10q4f	11q1f	11q2f	11q3f	11q4f	12q1f	12q2f	12q3f	12q4f	13q1f	13q2f	13q3f	13q4f
Fed Funds Target Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.75	1.25
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.75	4.25
3-month T-Bill	0.15	0.17	0.15	0.12	0.09	0.01	0.02	0.00	0.05	0.05	0.10	0.15	0.15	0.40	0.95	1.45
2-year Treasury	1.02	0.60	0.42	0.59	0.82	0.46	0.24	0.30	0.30	0.50	0.90	1.00	1.10	1.20	1.35	1.50
5-year Treasury	2.54	1.77	1.26	2.00	2.28	1.76	0.95	1.00	1.15	1.35	1.55	1.65	1.75	1.80	1.90	1.95
10-year Treasury	3.83	2.93	2.51	3.29	3.47	3.16	1.92	1.90	2.00	2.20	2.60	3.00	3.10	3.20	3.30	3.50
30-year Treasury	4.71	3.89	3.68	4.33	4.51	4.37	2.91	2.95	3.00	3.15	3.60	3.90	4.00	4.10	4.20	4.40

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### In The Wake Of The U.S. Super Committee ...

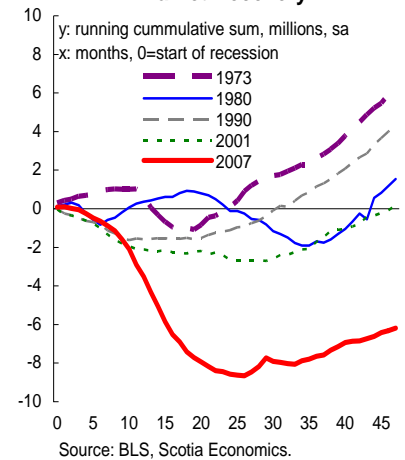
- Shadowed by weak labour markets, critical issues remain for Congress.

With no package of measures trimming the U.S. federal deficit from fiscal 2013 (FY13) to FY21 by at least US\$1.5 trillion for Congress to consider, the U.S. outlook remains clouded. Approval of a smaller package by the mid-January deadline could limit the sequestration cuts; instead discussion going forward may shift towards adjusting the sequestration process. Yet beyond the *Budget Control Act* that aims to trim the deficit by at least US\$2 trillion, further restraint of US\$2 trillion is required. With 2012 now just around the corner, issues demanding immediate attention include: the extension of unemployment insurance benefits; indexation of the Alternative Minimum Tax; the deferral, again, of a cut of nearly 30% in Medicare payments to physicians; and, the fate of a number of business tax provisions, including bonus depreciation for eligible investments which drops from a 100% first-year deduction to 50% in 2012. The final US\$1.2 trillion increase in the debt ceiling under the *Budget Control Act*, anticipated in February or March, could be contentious given the Republican objective of a dollar of deficit reduction for each dollar the debt ceiling is raised. Continuing resolutions authorizing short-term spending last only to mid-December, with final legislation for FY12 discretionary spending still pending.

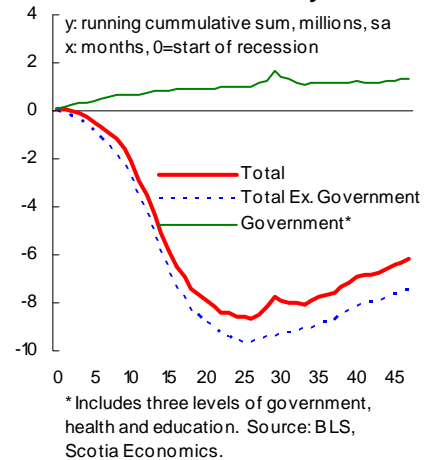
The U.S. labour market mirrors the current economic uncertainty. Although all of the output lost during the recession has been regained, only 28% of all the jobs shed have been recovered (*top chart*), 23% if the three levels of government, including health & education, are excluded (*middle chart*). California is one of eleven states with an unemployment rate sitting stubbornly above 10%. An 11<sup>th</sup> hour resolution is anticipated for a tenth renewal of extended unemployment insurance benefits given estimates, such as the National Law Project's forecast, that without this measure, roughly 2 million unemployed would be left without an average of US\$300 per week. Less certain is a Congressional compromise on how to fund a second-year extension of the employee payroll tax cut from 6.2% to 4.2%, making Obama's other proposals, such as a deeper cut to 3.1%, unlikely. The extent that consumers will spend, not save, this tax relief raises doubts about the measure's short-term economic boost, but the prospect of a broad tax increase without the extension will likely force the issue.

Washington's fiscal restraint will inevitably dampen public-sector payrolls (*bottom chart*), contributing to our forecast of U.S. employment growth averaging just 1¼% annually for 2012 and 2013. For state and local governments, the composition of the federal restraint is important. Sequestration excludes Medicaid, the major federal transfer to States. In a number of jurisdictions, federal spending, including transfers to individuals, accounts for at least a quarter of state GDP and Washington's discretionary outlays cover key areas such as education. Among the federal tax expenditures debated for reduction are the deductibility of nonbusiness state and local taxes, including property taxes on owner-occupied homes; and, the tax exemption for municipal bond interest.

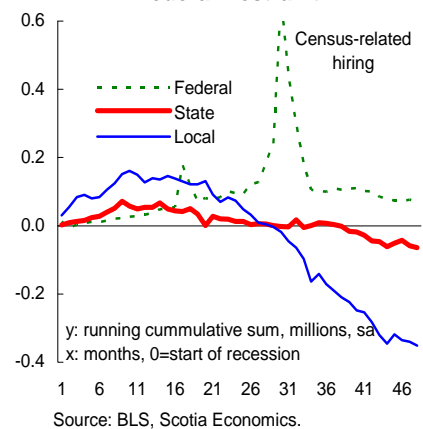
**The Weak U.S. Labour Market Recovery**



**U.S. Public-Sector Payrolls...**



**...Will Be Dampened By Federal Restraint**



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### Canadian Auto Industry Rebounds, But Investment Trends Are A “Red Flag”

- Auto production will strengthen in early 2012, but investment in Canada is lagging.

The Canadian auto industry continues to rebound from the global economic downturn, as well as from this year's supply disruptions caused by natural disasters in Japan and Thailand. Vehicle production will exceed 2.1 million units in 2011 for the first time since 2007. Additional production gains have been scheduled for the opening months of 2012, with automakers planning to boost North American output 10% above a year earlier. The Canadian auto industry is concentrated in Ontario and accounts for more than 20% of overall manufacturing activity in the province, as a result, we estimate that the increase in vehicle production will add roughly an annualized 0.6 percentage points to Ontario's economic growth early next year.

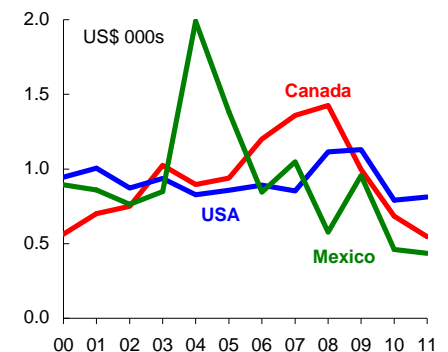
While rising output will boost economic growth, recent investment trends are less positive for the Canadian auto industry, suggesting that it will be difficult for Canada to increase its share of North American output beyond its traditional 16%. Capital investment in the North American auto industry peaked in 2007 and is finally stabilizing after a 35% slump through 2010. Investment is actually strengthening in the United States this year, in part because during the latest contract negotiations with the Detroit 3, the UAW was able to secure more than \$4 billion in new investment for U.S. plants. Capital expenditures have also started to stabilize in Mexico, and according to recent announcements will rebound sharply next year. In contrast, investment in the Canadian auto industry continues to slump, falling an additional 18% this year.

Investment in Canadian assembly and parts plants will be reduced to \$1.2 billion this year — the lowest level since the mid-1980s and roughly 62% below the \$3.1 billion annual average of the past decade. The fall-off is particularly noteworthy at assembly facilities, which normally account for more than 70% of overall industry investment. Capital expenditures at Canadian auto assembly plants will slump in 2011 to the lowest level since 1985.

On a per vehicle basis, auto industry investment in Canada this year will plunge 43% below the prevailing level in the United States. This represents a sharp reversal from the trend of the past decade, when investment in the Canadian auto sector was, on average, 3% higher than either in the United States or Mexico. While investment in Canada remains marginally higher than in Mexico this year, recent announcements indicate that over the next several years, investment in Mexico's auto industry is set to approach the record pace set in 2004 and 2005 (see chart). During those two years, Mexico's auto sector was the recipient of 17% of the industry's overall investment in North America, nearly double its share of vehicle production. This enormous capital influx expanded assembly capacity in Mexico by 20%, and has enabled it to consistently produce more vehicles than Canada since 2008.

Recent announcements of new products and hires for Canada by both General Motors and Honda are encouraging. However, these announcements pale in comparison with the news coming from Mexico — the auto industry's North American growth leader. Over the past six months, the industry has announced investments of nearly US\$3 billion geared to expand existing facilities or building new plants in Mexico. Most of the new investment is coming from Japanese automakers searching for low-cost jurisdictions to provide relief from the ongoing yen appreciation, which is undercutting profitability.

**Investment Slumps In Canada, But Has Stabilized In The U.S. & Mexico\***



\* Investment per vehicle produced in each country. Source: Statistics Canada, BEA, Government of Mexico.



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### UK: Autumn Budget Statement — The Kitchen Sink Budget

- We were braced for a sharp downgrading of the Chancellor's outlook. In the event, Osborne went beyond what most people (including ourselves) were expecting. The GDP growth outlook was slashed to below the consensus. Accordingly the government's borrowing estimates were ramped up by more than previously assumed — up by between GBP20bn and GBP30bn per year — more than double what we had assumed.
- The Chancellor will still meet his self-imposed fiscal rules, though the current budget deficit will not be closed until two years later than previously assumed.
- In sum, Osborne didn't hold back. He has probably got all of the bad news out of the way in one go. Something would have to go pretty badly wrong in order for Osborne to have to come back in 6 months and deliver another round of revisions.
- Unsurprisingly there were no major giveaways. The worsening in the outlook has used up any wiggle room that had been set aside in the Emergency Budget. Any further deterioration in the outlook from here will mean that the Chancellor has to choose between abandoning meeting its targets in the timeframe originally set out, or to ramp up the austerity measures.

#### Key Announcements:

- GDP growth projections were slashed;
- Net borrowing for the current fiscal year 2011-12, although on track thus far, was revised up by GBP5bn;
- Borrowing from fiscal year 2012 onwards was revised up by GBP20bn to GBP30bn per year — much higher than expected;
- GBP40bn SME lending programme announced;
- GBP20bn infrastructure scheme, financed by pension funds announced;
- Fiscal targets still expected to be met;
- 3p/litre motor fuel increase scrapped;
- Rail fare increase capped at RPI +1%;
- Public sector pay growth restricted to 1% per year once the current 2-year freeze ends;
- Increase in pension age brought forward;
- GBP5bn of infrastructure spending on 500 projects;
- Introduced GBP20bn National Loan Guarantee Scheme to support SMEs; and
- Bank levy rate adjusted higher to keep revenue target on track.

#### Economic Projections

The OBR's projection for 2012 growth was slashed by almost 2 percentage points — down from 2.5% y/y to 0.7% y/y (Table 1). The forecasts for future years are probably a touch too upbeat, especially given that the fiscal tightening will re-intensify in 2013. Nonetheless, if one of the key objectives of introducing the OBR was to raise the credibility of the macroeconomic projections then mission accomplished.

Table 1: Evolution of OBR GDP Projection

	GDP %y/y				
	2011	2012	2013	2014	2015
OBR (Nov-11)	0.9	0.7	2.1	2.7	3
OBR (Mar-11)	1.7	2.5	2.9	2.9	2.8
Change	0.8	1.8	0.8	0.2	-0.2
Scotia	0.8	0.8	1.9	2.5	2.5
Consensus	1.0	1.0			

#### Fiscal Projections

Against a backdrop of a sharp downgrading in the growth outlook, the projection for government borrowing from fiscal 2012 onwards was revised upwards by far more than expected. Borrowing was raised by a total of GBP112bn between now and fiscal year 2015-16 or roughly GBP20bn to GBP30bn per year. That is equivalent to 1.5% – 2% of GDP.

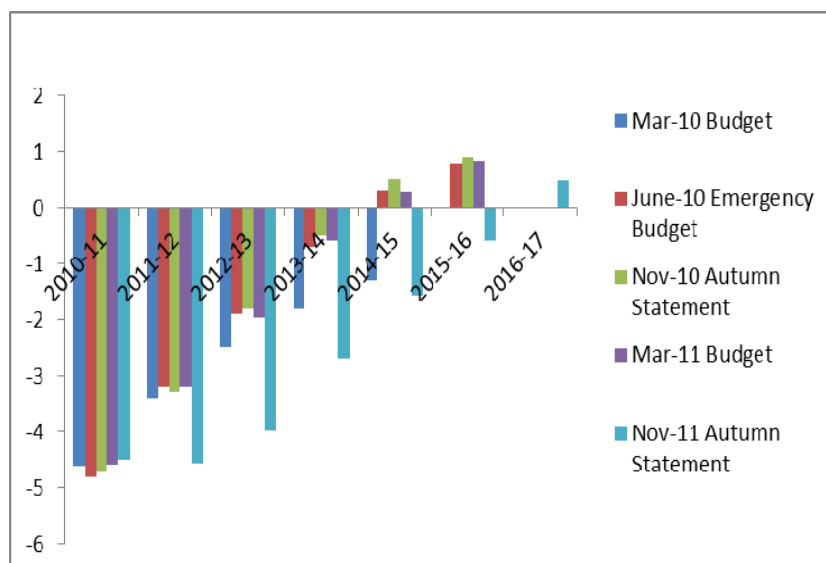
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Table 4: Evolution in OBR Fiscal Projections

PSNBx GBP bn							
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
OBR (Nov-11)	-137.1	-127	-121	-99	-79	-54	-24
OBR (Mar-11)	-145.9	-122	-101	-70	-47	-28	
Change	-8.8	5	20	29	32	26	
PSNBx % of GDP							
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
OBR (Nov-11)	-9.3	-8.3	-7.7	-6.0	-4.5	-2.9	-1.2
OBR (Mar-11)	-9.9	-7.9	-6.2	-4.1	-2.6	-1.5	
Change	-0.6	0.4	1.5	1.9	1.9	1.5	
Cyc Adj PSNBx % of GDP							
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
OBR (Nov-11)	-7.1	-6.5	-5.6	-4.0	-2.8	-1.7	-0.6
OBR (Mar-11)	-7.4	-5.3	-3.7	-2.0	-1.0	-0.4	
Change	-0.3	1.3	1.9	2.0	1.8	1.3	
1-y Change in Cyc Adj PSNB % of GDP							
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	ave
OBR (Nov-11)	1.9	0.6	1.0	1.6	1.1	1.1	1.2
OBR (Mar-11)	1.5	2.1	1.6	1.7	0.9	0.6	1.6
Change	-0.4	1.5	0.6	0.1	-0.2	-0.5	0.3
Cyc Adj Budget Def % of GDP							
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
OBR (Nov-11)		-4.7	-4.0	-2.7	-1.6	-0.6	0.5
OBR (Mar-11)		-3.2	-2.0	-0.6	0.3	0.8	
Change	0.0	1.5	2.0	2.1	1.9	1.4	

Chart 1: Evolution in Structural Budget Deficit Projection.



The cyclically adjusted budget deficit is now judged to close 2 years later than previously assumed. It will now take until 2016-17 for this to happen, compared to 2014-15 in the March Budget.

Chart 1 illustrates the extent of the revisions. The structural deficit is now expected to be much bigger than assumed even than at the time of the March 2010 Budget under the previous Government — i.e. before the austerity measures were introduced.

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It is also noteworthy that the pace of fiscal tightening is now less intense than it was previously. In particular, the average pace of narrowing in the cyclically adjusted PSNB was 1.6% of GDP per year in the March Budget. On the back of today's revisions, that pace has been slowed to 1.2% of GDP.

The pace of fiscal consolidation for the current fiscal year is judged to be just 0.6% of GDP, with the pace re-intensifying in future years. That is a sensible proposition given that growth is at its weakest right now and better positioned to withstand increased fiscal tightening in future years. Nonetheless, what it does highlight is that with the pace of fiscal tightening likely to intensify in future years (particularly 2013-14) even when the economy does resume recovery, it is unlikely to be on a particularly steep upward trajectory. What we should have learnt from the last two years is that austerity slows growth (particularly when synchronised with tightening internationally). There is therefore a danger that the consensus forecasts for growth (and our own forecast for that matter) proves to be too optimistic from 2013 onwards.

### **Noteworthy Discretionary Policy Measures**

The combination of petrol prices at, or very close to record highs, coupled with waning popularity in opinion polls meant that the Chancellor had to scrap plans to add 3p/litre to the price of petrol from January. In isolation, that price hike would have added 0.1 percentage point to headline inflation, but will cost the Treasury around GBP1bn in lost tax.

To be absolutely clear, the wording in the Budget was as follows: "*Delay Jan 2012 increase to August and cancel August 2012 increase*". So there is still a tax-related petrol price increase in the pipeline, but it is still some way off (and may yet not happen).

Although rail fares will now only rise by 6% in January instead of 8%, given the relatively low weight in the CPI and RPI, the impact on inflation is negligible.

### **Gilt Issuance**

Key announcements today included:

- Planned gilt issuance for the current fiscal year raised by GBP10.6bn to GBP178.9bn;
- That issuance will be concentrated most in the medium to short sector of the curve;
- The indicative issuance projection for 2012-13 was ramped up considerably, up to GBP189bn from GBP164bn previously; and
- CPI-linked bonds will not begin from next year, but will keep the case for issuance in future years under review.

### **Conclusion**

The Chancellor has done his best to make sure that he doesn't have to come back in the spring and deliver further substantial revisions. He has got all of the bad news out of the way in one go. The government's trump card has been credibility and they have got bags of it. In contrast to past budgets, you would be hard pushed to criticise that these forecasts have been put together with a glass half-full. Clearly if there is a disaster in the Eurozone, then Osborne may yet have to revise these forecasts yet further. But for now, this is about as bad as it should get.

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## EMU Moving From A Credit-Less Recovery To A Credit Crunch Recession?

### Key Points

- The highlight of the coming week will be the final ECB meeting of the year. Since last month's 25 bps rate cut, EMU economic data have confirmed that the region has probably already entered recession.
- Nonetheless, comments from Mr. Draghi at the latest press conference hinted that last month's rate cut had already factored this prospect in, suggesting that the central bank could still opt for a status quo this time.
- The release of updated GDP and inflation forecasts will provide further insights into how "mild" the ECB judges this recession is likely to be and, in turn, how quickly the next step in cutting rates could be taken.
- Furthermore, rising risks of shifting from a credit-less recovery to a full-blown credit crunch fuel the risk of moving into a deeper recession.
- We look for the ECB to respond to this threat next week by taking further actions to offer liquidity over medium- to longer-term maturities in order to ease the pressures on credit activity.

### Gauging the magnitude of the "mild" recession

Last month, the ECB president indicated that the Eurozone will enter a "mild" recession around the turn of the year. The release of new ECB GDP and inflation forecasts at next week's ECB meeting will provide more details on exactly how "mild" the staff expect the recession to be. Already, the consensus has moved a lot lower over the past three months with forecasts for EMU GDP growth in 2012 revised down to +0.4% in November from +1.5% in August. The new ECB forecasts released next week are likely to mimic this significant downward revision to growth compared to its September expectations which had envisaged a mid-point of 1.3%.

ECB Macroeconomic Projections & Consensus												
	ECB September forecast								Consensus (August)			
	2011			2012				2011 mid	2012 mid		2011	2012
HICP	2.5	to	2.7	1.2	to	2.2		2.6	1.7		2.6	1.9
GDP	1.4	to	1.8	0.4	to	2.2		1.6	1.3		1.9	1.5
									Consensus (November)			
HICP											2.7	1.8
GDP											1.6	0.4

The downward revision to consensus expectations for growth has been accompanied by an increasing divergence in views. The spread between most optimistic and pessimistic growth forecasts has doubled, illustrating increasingly divergent views regarding how strong and long this "mild" recession might be. In August, this gap was 1% (lowest forecast at +1.0% vs. highest at +2.0%), while in the November issue, it reached close to 2% (Low at -0.8% vs. high at +1.1%). In our view, it is the behaviour of bank lending that will determine how deep the recession will be.

### Structural shift in the drivers of credit growth

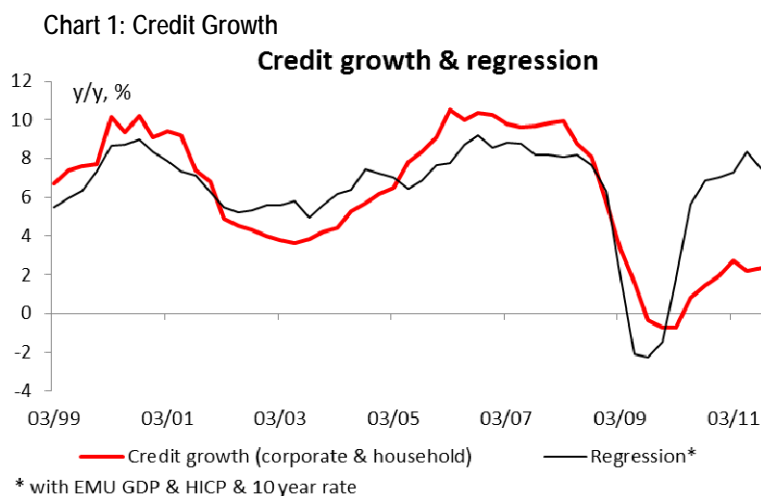
The link between economic activity and bank lending remains particularly strong in the Euro area. It is true for households which rely 100% on it but also for corporates. Indeed, as of Q3 2011, out of total financing need for corporates of almost EUR7trn, the biggest proportion is by far accounted for by loans — almost 70%. Looking to a simple correlation between EMU GDP growth and bank credit growth to households and corporates in the first decade of the EMU area (1999-2009) we reach a figure of close to 70%.

It is not abnormal to see a slowdown in credit growth when the economic outlook is deteriorating. Traditionally, a 1% swing in nominal GDP growth has roughly a 2% impact on credit growth. In the first decade of the EMU area (1999-2009), the 4% y/y rise in GDP growth was consistent with around 7.5% y/y credit growth. It will be worth watching if there the pattern of credit growth is at odds with traditional macroeconomic fundamentals. If that is the case, it will strengthen the risk of a pronounced credit crunch.

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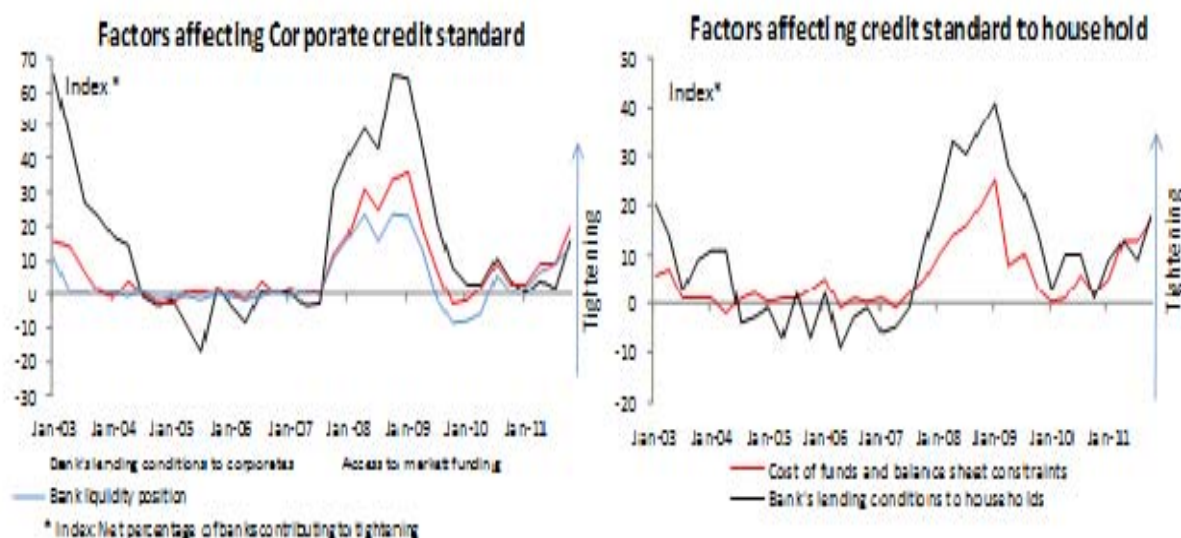
Simple macroeconomic drivers for credit growth could be seen from both the demand side — the appetite from households and corporates to increase credit — and the supply side — banks' lending rate. We address the demand side by just looking to nominal GDP growth as mentioned above and the supply side with 10 year swap rates. The correlation between all these factors is strong up to 2009 but beyond this, it has weakened, emphasising that there are non-conventional factors that are currently influencing credit growth. More specifically, following the sharp drop in 2008/2009 on the back of the collapse of the economy, the recovery in credit growth has been much more muted than suggested by the path of GDP growth and record-low interest rates (Chart 1).



We have to admit that part of the explanation comes from the fact that we moved from a credit growth cycle to a deleveraging cycle. As a result, traditional elasticities between GDP growth and credit growth are now likely to be lower than was the case during the 2000's. Also, in its September monthly bulletin, the ECB noted that weak loan growth in the household sector in particular could reflect a shift in the developments of individual countries towards those who have historically shown a lower elasticity to GDP. Nonetheless, there are increasing indications that banks' liquidity crunch story has affected lending growth over the past two years.

Indeed, looking to past ECB lending surveys, factors like bank liquidity positions or bank access to market funding (which were not relevant up to 2008) have now become major factors in driving banks credit conditions for both corporate and households. In October for example, the ECB's lending survey showed a renewing tightening in credit conditions with these two factors being mentioned as among the main ones behind this trend (Charts 2-3). Also, the last ECB quarterly survey on the access to finance of small and medium enterprises indicates that between April and September, access to finance remained the second most pressing problem for them.

Chart 2 & 3: ECB Bank Lending Survey – Factors Affecting Lending Standards





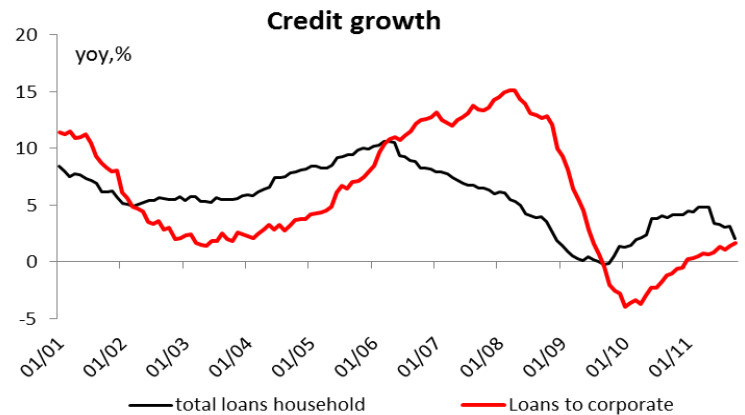
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### Risks are rising of a shift from a credit-less to a credit crunch scenario

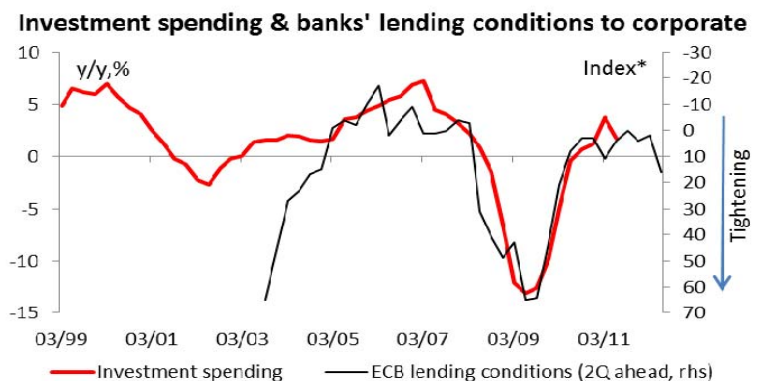
So far, data on credit growth have been mixed. In October, loans to households slowed down sharply to around 2.0% y/y, from 3.2% in September and the high-point of 4.8% y/y during the Spring. On the other side, credit growth to corporates accelerated to 1.7% y/y in October from 1.5% the previous month. However, this level is low and well below the average over the past decade (around 6% y/y). Furthermore, it is likely that there are longer lags between tighter banks' credit conditions and credit growth for corporates than for household. Indeed, during earlier tensions, the former could secure some funding by making use of credit lines which had been established previously. However, with banks in the process of reducing their balance sheets, and given the hangover of the first round of the credit crunch, it will likely spill over into a sharp decline in corporate credit growth more quickly this time around.

Chart 4: Credit growth



As we mentioned previously, credit conditions offered by banks are again moving into tightening mode. This is equally the case for larger corporates as it is for small and medium size ones which means that the risk is spreading across the different sectors and what's more, banks expect further tightening ahead. Traditional lags between the ECB lending survey and investment spending confirm a contraction in the coming quarters although so far, the magnitude looks indeed "mild".

Chart 5: Investment & banks' lending conditions



\* Index: Net percentages of banks contributing to tightening

Even so, the possibility for banks to secure sufficient funding remains impaired as demonstrated by the malfunctioning of the interbank market. The TED spread (3 month Euribor minus 3 month German T-Bills) has shown increased signs of stress of late. It means that banks are increasingly reliant on funding themselves through customers' deposits and less through markets. In turn this limits their capacity for making new loans to either firms or households. Further still, the next ECB lending survey is likely to show additional tightening in credit conditions.

In late 2008 and early 2009, both the ECB and government measures helped to reduce the pressures on the interbank market and on the liquidity. With less room for manoeuvre from governments today, all the pressures lie on the ECB. So far, the reintroduction this Autumn of the measures taken two years ago proved to be insufficient to ease these tensions. The central bank is therefore likely to face further pressure to take additional measures with the focus in particular to offer liquidity for medium to long term in order to ease the pressures on credit activity.

Tracking closely credit growth to corporates is all the more important as, like in 2008/2009, a new contraction will have a major impact on the economy as a whole. Any signs of strong deviation from macro fundamentals will question the ECB's assumed "mild" recession scenario. Over the past two years, the Euro area experienced a credit-less recovery. However, the last ECB lending survey and ongoing tensions in interbank markets suggest that we could be moving into a credit crunch recession.

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## Colombian Utilities 3Q11 Update

The following article was published on November 30, 2011.

*Results for Emgesa and EPM continue to demonstrate differences in long-term strategies, with Emgesa concentrating in the high-margin hydroelectric generation in Colombia, while EPM seeks the benefits of geographic diversification at the expense of lower margins. Bond markets disregard these fundamental differences, and instead trade to maintain around a 200bp spread over the offshore COP sovereign bonds. Yields on those offshore bonds have been much more affected by problems in Europe than the local bonds, but have recovered some earlier losses.*

### Fundamentals update

EPM held its earnings call yesterday, while Emgesa reported results at the end of October. Operating results were different in several ways, reflecting continued differences in long-term strategies, each with its own advantages and disadvantages. EPM reports an accumulated growth rate of revenues for the first three quarters of 40%, thanks in largest part to acquisitions in Central America. In contrast, Emgesa remains focused on the Colombian market, and reported an 8% fall in revenues for the same period. EPM's growth, however, comes at the cost of lower margins. Ebitda margin fell from 37% in 3Q11 to 30% in 3Q10, because EPM's recent acquisitions operate in less profitable sectors. In contrast, Emgesa margins increased for the cumulative period to 66% from 58% in the previous year, due to higher water levels that allowed 96% of electric generation to come from less costly hydro stations. Emgesa's focus on hydro generation in Colombia allows it to stay in a very-high margin business but also exposes the company to some idiosyncratic risks, albeit unlikely ones. EPM benefits from diversification across countries and sectors, but its businesses in other countries are less profitable and its telecom business is suffering.

EPM's more aggressive growth strategy will require additional financing. We asked during the call about EPM's plans for further issuance. Management replied that the company's intention has always been to become a recurrent issuer in the long-term. The next bond issuance could occur during the second half of 2012, especially if more acquisitions are completed in the first half of next year. Nevertheless, both companies have low leverage levels, with Debt to Ebitda at 1.8 for Emgesa and 1.9 for EPM; those are likely to remain relatively low going forwards. EPM bond and loan covenants limit leverage levels to 3.5, but management says that it targets a maximum of 2.7x. Appendix 1 provides a more detailed comparison of firm results and strategies.

### Recent market movements

Markets are not paying much attention to utility fundamentals, however. Emgesa and EPM yields move very closely together, with differentials typically no more than 20bp. We are aware of at least two explanations for the differentials, both based on technical factors which are difficult to measure. First, it is believed that retail investors were more heavily invested in EPM than Emgesa and sold their bonds to realize profits from currency appreciation. That explanation is consistent with the fact that the largest differential between EPM and Emgesa occurred in the summer when the currency was at its strongest point; the differential narrowed afterwards once the currency started to depreciate. Yet, we really only have one datapoint by which to judge this relationship. Second, some attribute yield differences to local regulations regarding ownership of public vs. private debt. For example, Colombian pension funds may not hold more than 50% of their assets in public debt. Since EPM is 100% owned by the municipality of Medellin, while Emgesa is controlled by an Italian company, restrictions could create a preference for Emgesa. Nevertheless, when we look at Colombian pension fund holdings at the end of August, we see that public debt holdings were no more than 42% suggesting that the restriction is not binding. Still, the pension funds may have their own internal goals regarding public debt holdings that could influence their choice among the two utilities.

Another point of comparison is of course the utilities versus the sovereign global COP bonds. The Bloomberg data on the sovereign bonds is fairly incomplete, making it difficult to track any recent trends in the spread over sovereign. We can say that the utilities generally trade about 200bp above the sovereign, whereas fundamentals justify a much lower differential (see our article, "Emgesa: Is it better than Colombia?"), and that differential ensures value for long-term investors. In the latest bout of volatility, we noticed that the utilities sold off about 100bp, in line with the global COP bonds, but twice as much as the local COP bonds, demonstrating perhaps that global investors are more worried about Europe than Colombian investors. Similar to most other assets these

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days, returns on the bonds are driven by uncertainty in Europe, which has caused a 10% depreciation of the Colombian peso, as well as smaller losses in the price of the bonds.

We continue to like the bonds from a long-term perspective, and believe that even in a protracted Europe-led crisis, credit fundamentals should remain supportive. Nevertheless, we acknowledge that short-term returns can go in either direction and depend completely on external factors.

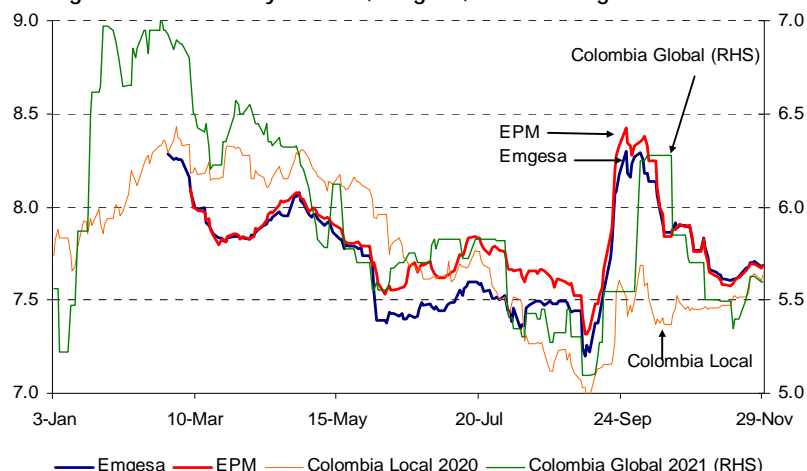
For more comprehensive information, see our past articles:

“Comparing Colombia’s Emgesa and EPM,” May 12, 2011.

“Emgesa: Is it better than Colombia?” February 24, 2011.

“The case for Colombian peso bonds,” February 11, 2011.

Figure 1. Yield history for EPM, Emgesa, and sovereign COP bonds



#### Appendix 1. Emgesa and EPM financials as of September 2011

	<u>Emgesa</u>	<u>Group EPM</u>	<u>EPM Energy</u>
Ownership	Private	Municipal	
% Revenues from Energy in 2011	100%	75%	
% Revenue from Generation in 2010	100%	40%	
% Hydroelectric	96%		
New Hydroelectric Projects in Colombia	El Quimbo	Ituango	
New capacity (MW)	400	2,400	
Cost (MM USD)	837	4,459	
Completion Date	2014	2019 - 2022	
Current Generation Capacity (MW)	2,914	3,258	
Revenues (MM USD)	734	4,443	3,351
EBITDA (MM USD)	484	1,439	1,104
Net Income (MM USD)	253	619	556
Ebitda Margin	66%	32%	33%
Operating Margin	58%	22%	
Net Income Margin	34%	14%	17%
Revenue Growth (YTD 3Q11 vs 3Q10)	-8%	40%	60%*
Ebitda Growth (YTD 3Q11 vs 3Q10)	5%	27%	
Debt / Ebitda	1.8	1.9	
Ebitda / Financial Expenses	8.3	7.1	
Geographic Presence	Colombia	Colombia, El Salvador, Guatemala, US, Spain	
Global Ratings (S&P/Fitch/Moody's)	--/BBB/--	--/BBB/Baa3	

Source: Firm reports

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## Key Data Preview

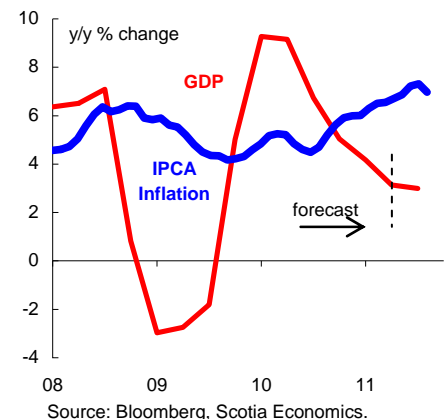
### EUROPE

The highlight of the UK data calendar over the coming week will be the CIPS services index for November. Although the trend in this survey will remain down, we see a significant chance of an improvement in November. The business expectations component jumped in October, and in the past this has provided a reliable guide to the headline index with a lead time of one to two months. The improvement in the services sector PMIs in Germany and France also suggests some hope of an upturn. Industrial production is likely to post a small contraction in October. The slump in the manufacturing sector PMI in recent months points to an accelerated pace of contraction in manufacturing output which accounts for the bulk of the weight in the overall industrial production index. Manufacturing aside, we expect the utilities component to subtract from overall output. Mild weather is likely to have held back demand for heating. The Bank of England Monetary Policy Committee (MPC) meeting is likely to be uneventful. The MPC has implicitly indicated that more quantitative easing is forthcoming at the February meeting. It is very unlikely that the committee will choose to accelerate the pace of asset purchases between then and now, given the market volatility which would likely ensue.

### LATIN AMERICA

Brazilian third quarter GDP (December 6<sup>th</sup>) and November inflation (December 8<sup>th</sup>) will be the major economic indicators in the region for the coming week; however, Colombian and Mexican inflation and the Chilean monthly economic activity indicator will also attract investors' attention. We expect the Brazilian economy to keep losing momentum (as already indicated by monthly data) growing by 3.0% y/y in the third quarter of the year. As a result, we have revised our 2011 GDP growth forecast from 4.0% y/y to 3.5% y/y. Inflation remained high in October at around 7.0% y/y in October, coming down from September's peak of 7.30% y/y, but still above the central bank's tolerance level. We expect consumer prices to return to the expected 4.5%  $\pm$  2% range in 2012.

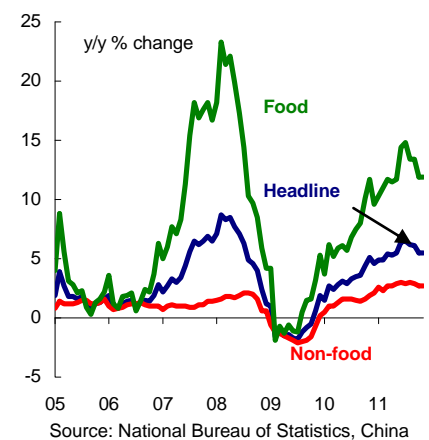
Brazil GDP & Inflation



### ASIA

China's inflation reading for November will be published next week. A downtrend in the yearly inflation rate has been established since August, with a continuation of the trend anticipated. A 5% y/y read is expected for November. Food cost containment has been the main driver of the fall in price pressures, with non-food inflation adopting a downward trajectory more recently. While base effects are playing a relevant role, the efforts of the authorities to quell property market speculative gains, which have affected consumer sentiment on the back of falling wealth perceptions, have certainly succeeded as consumers feel less buoyant. Within a context of persistent labour market pressures, less elevated raw material costs have also played a role as important leading factors in the disinflationary process. This week's reduction by the People's Bank of China of the bank reserve requirement constitutes an explicit switch of the central bank's monetary policy stance, in recognition of the more benign inflationary environment. We expect further loosening of monetary policy as labour market pressures continue to subside on the back of the now evident slowdown in the manufacturing sector.

China's Inflation



## Key Indicators for the week of December 3 - 9

North America							
Country	Date	Time	Event	Period	BNS	Consensus	Latest
MX	12/05	09:00	Consumer Confidence	NOV	--	--	90.6
US	12/05	10:00	ISM Non-Manf. Composite	NOV	54.0	53.5	52.9
US	12/05	10:00	Factory Orders (MoM)	OCT	-0.5	-0.3	0.3
MX	12/05	13:00	IMEF Manufacturing Index	NOV	--	--	51.4
MX	12/05	13:00	IMEF Non Manufacturing Index	NOV	--	--	53.0
CA	12/06	08:30	Building Permits (MoM)	OCT	--	1.6	-4.9
CA	12/06	09:00	<b>Bank of Canada Rate</b>		<b>1.00</b>	<b>1.00</b>	<b>1.00</b>
CA	12/06	10:00	Ivey Purchasing Managers Index SA	NOV	--	55.0	54.4
MX	12/06	10:00	International Reserves Weekly (USD billions)	2-Dec	--	--	139.6
US	12/07	07:00	MBA Mortgage Applications (WoW)	2-Dec	--	--	-11.7
MX	12/07	09:00	Consumer Prices (MoM)	NOV	1.0	0.9	0.7
MX	12/07	09:00	Consumer Prices (YoY)	NOV	3.4	3.5	3.2
MX	12/07	09:00	Consumer Prices Core (MoM)	NOV	0.3	--	0.3
US	12/07	15:00	Consumer Credit (USD billions)	OCT	--	7.0	7.4
CA	12/08	08:15	Housing Starts (000s)	NOV	190.0	200.0	207.6
CA	12/08	08:30	New Housing Price Index (MoM)	OCT	--	0	0.2
CA	12/08	08:30	New Housing Price Index (YoY)	OCT	--	--	2.3
US	12/08	08:30	Initial Jobless Claims (000s)	2-Dec	400	398	402
US	12/08	08:30	Continuing Claims (000s)	25-Nov	--	--	3740
US	12/08	10:00	Wholesale Inventories (MoM)	OCT	--	0.3	-0.1
CA	12/08	10:30	Bank of Canada Publishes Financial System Review				
US	12/08	12:00	Flow of Funds Third Quarter				
MX	DEC 08-15		ANTAD Same-Store Sales (YoY)	NOV	--	--	5.8
CA	12/09	08:30	Labor Productivity (QoQ)	3Q	--	-0.2	-0.9
CA	12/09	08:30	Int'l Merchandise Trade (CAD billions)	OCT	0.3	0.7	1.2
US	12/09	08:30	Trade Balance (USD billions)	OCT	-43.5	-43.0	-43.1
MX	12/09	09:00	Trade Balance (USD millions)	OCT F	--	--	-466.4
US	12/09	09:55	U. of Michigan Confidence	DEC P	64	66	64

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.



## Key Indicators for the week of December 3 - 9

Europe								
Country	Date	Time	Event	Period	BNS	Consensus	Latest	
UK	DEC 01-08		Halifax House Prices sa (MoM)	NOV	-0.2	0.0	1.2	
UK	DEC 01-08		Halifax House Price (3Mths/Year)	NOV	-0.7	-0.7	-1.8	
IR	12/05	02:00	Ireland November NCB Services PMI					
SP	12/05	03:00	Industrial Output NSA (YoY)	OCT	--	--	-1.7	
SP	12/05	03:15	Spain November Services PMI					
IT	12/05	03:45	PMI Services	NOV	42.5	--	43.9	
FR	12/05	03:50	PMI Services	NOV F	49.3	49.3	49.3	
GE	12/05	03:55	PMI Services	NOV F	51.4	51.4	51.4	
EC	12/05	04:00	PMI Composite	NOV F	47.2	47.2	47.2	
EC	12/05	04:00	PMI Services	NOV F	47.8	47.8	47.8	
EC	12/05	04:30	Sentix Investor Confidence	DEC	--	-21.0	-21.2	
UK	12/05	04:30	PMI Services	NOV	52.5	50.5	51.3	
UK	12/05	04:30	Official Reserves (USD millions, Changes)	NOV	--	--	1387.0	
EC	12/05	05:00	Euro-Zone Retail Sales (YoY)	OCT	-0.2	-0.8	-1.4	
UK	12/05	19:01	BRC Sales Like-For-Like (YoY)	NOV	--	-0.5	-0.5	
EC	12/06	05:00	Euro-Zone GDP s.a. (QoQ)	3Q P	0.2	0.2	0.2	
EC	12/06	05:00	Euro-Zone GDP s.a. (YoY)	3Q P	1.4	1.4	1.4	
EC	12/06	05:00	Euro-Zone Household Cons (QoQ)	3Q P	--	0.3	-0.2	
EC	12/06	05:00	Euro-Zone Gross Fix Cap (QoQ)	3Q P	--	0.6	0.1	
EC	12/06	05:00	Euro-Zone Govt Expend (QoQ)	3Q P	--	0.1	-0.1	
GE	12/06	06:00	Factory Orders (YoY) (nsa)	OCT	--	1.9	2.4	
UK	12/06	19:01	BRC Shop Price Index (YoY)	NOV	--	--	2.1	
PO	12/06		Industrial sales (YoY)	OCT	--	--	2.1	
UK	12/06		New Car Registrations (YoY)	NOV	--	--	2.6	
FR	12/07	02:45	Trade Balance (EUR millions)	OCT	--	-6000.0	-6303.0	
SW	12/07	03:30	Budget Balance (SEK billions)	NOV	--	--	3.0	
NO	12/07	04:00	Industrial Prod. WDAJ (YOY)	OCT	--	--	4.2	
IT	12/07	04:00	Industrial Production nsa (YoY)	OCT	--	-2.8	-2.7	
UK	12/07	04:30	Industrial Production (MoM)	OCT	-0.2	-0.3	0.0	
UK	12/07	04:30	Industrial Production (YoY)	OCT	-0.7	-0.7	-0.7	
UK	12/07	04:30	Manufacturing Production (MoM)	OCT	-0.3	-0.3	0.2	
UK	12/07	04:30	Manufacturing Production (YoY)	OCT	1.4	1.4	2.0	
GE	12/07	06:00	Industrial Prod. (YoY) (nsa wda)	OCT	3.4	3.5	5	
UK	12/07	10:00	NIESR GDP Estimate (QoQ)	NOV	--	--	0.5	
IR	DEC 07-12		CPI (EU Harmonised) (YoY)	NOV	--	--	1.5	
IR	DEC 07-12		CPI (YoY)	NOV	--	--	2.8	
FR	12/08	01:30	Non-Farm Payrolls (QoQ)	3Q F	0.0	0.0	0.0	
FR	12/08	02:30	Bank of France Bus. Sentiment	NOV	--	--	95.5	
UK	12/08	07:00	BOE Asset Purchase Target (GBP billions)	DEC	275	275	275	
UK	12/08	07:00	<b>BOE Announces Interest Rates</b>		<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	
EC	12/08	07:45	<b>ECB Announces Interest Rates</b>		<b>1.00</b>	<b>1.00</b>	<b>1.25</b>	
IR	DEC 08-12		Industrial Production SA (YoY)	OCT	--	--	-0.1	
GE	12/09	02:00	Exports SA (MoM)	OCT	--	-1.3	1.0	
GE	12/09	02:00	Imports SA (MoM)	OCT	--	0.3	-0.5	
GE	12/09	02:00	Current Account (EUR billions)	OCT	--	14.0	15.7	
GE	12/09	02:00	Consumer Price Index (YoY)	NOV F	2.4	2.4	2.4	
GE	12/09	02:00	CPI - EU Harmonised (YoY)	NOV F	2.8	2.8	2.8	
GE	12/09	02:00	Labor Costs Workday Adj (YoY)	3Q	--	--	4.4	
GE	12/09	02:00	Trade Balance (EUR billions)	OCT	--	15.0	17.4	
FR	12/09	02:45	Industrial Production (YoY)	OCT	--	2.8	2.3	
FR	12/09	02:45	Central Govt. Balance (EUR billions)	OCT	--	--	-92.7	
FR	12/09	02:45	Manufacturing Production (YoY)	OCT	--	3.5	3.4	
SW	12/09	03:30	Industrial Prod. n.s.a. (YoY)	OCT	--	4.1	4.8	

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

## Key Indicators for the week of December 3 - 9

## Europe (continued from previous page)

Country	Date	Time	Event	Period	BNS	Consensus	Latest
NO	12/09	04:00	CPI (YoY)	NOV	--	1.5	1.4
UK	12/09	04:30	PPI Input NSA (MoM)	NOV	1.0	-0.1	0.8
UK	12/09	04:30	PPI Input NSA (YoY)	NOV	14.1	12.9	0.8
UK	12/09	04:30	PPI Output n.s.a. (MoM)	NOV	-0.1	0.0	0.0
UK	12/09	04:30	PPI Output n.s.a. (YoY)	NOV	5.2	5.3	5.7
UK	12/09	04:30	PPI Output Core NSA (MoM)	NOV	0.0	0.0	0.3
UK	12/09	04:30	PPI Output Core NSA (YoY)	NOV	3.3	3.3	0.3
UK	12/09	04:30	Visible Trade Balance (GBP millions)	OCT	-9300	-9400	-9814
UK	12/09	04:30	Trade Balance Non EU (GBP millions)	OCT	-5000	-5400	-5715
UK	12/09	04:30	Total Trade Balance (GBP millions)	OCT	--	-3450	-3940
PO	12/09		GDP (YoY)	3Q F	-1.7	-1.7	-1.7
PO	12/09		Trade Balance (EUR millions)	OCT	--	--	-1324

## Asia Pacific

Country	Date	Time	Event	Period	BNS	Consensus	Latest
ID	DEC 01-09		Danareksa Consumer Confidence	NOV	--	--	91.4
NZ	12/04	16:45	Value of All Buildings (QoQ) SA	3Q	--	--	-6.6
AU	12/04	17:30	AiG Performance of Service Index	NOV	--	--	48.8
JN	12/04	18:50	Loans & Discounts Corp (YoY)	OCT	--	--	-0.7
AU	12/04	19:30	Company Operating Profit (QoQ)	3Q	--	3.0	6.7
AU	12/04	19:30	Inventories (QoQ)	3Q	--	1.2	2.5
AU	12/04	19:30	ANZ Job Advertisements (MoM)	NOV	--	--	-0.7
CH	12/04	21:30	China HSBC Services PMI	NOV	--	--	54.1
HK	12/04	21:30	Purchasing Managers Index	NOV	--	--	49.0
ID	DEC 04-09		Foreign Reserves (USD billions)	NOV	--	--	114.0
ID	DEC 04-09		Net Foreign Assets (IDR trillions)	NOV	--	--	972.2
JN	DEC 04-09		Tokyo Avg Office Vacancies (%)	NOV	--	--	8.8
TA	12/05	03:00	CPI (YoY)	NOV	--	1.3	1.2
TA	12/05	03:00	WPI (YoY)	NOV	--	6.0	5.9
TA	12/05	03:20	Foreign Exchange Reserves (USD billions)	NOV	--	--	393.3
SK	12/05	18:00	GDP (QoQ)	3Q F	--	--	0.7
SK	12/05	18:00	GDP (YoY)	3Q F	--	--	3.4
AU	12/05	19:30	Current Account Balance (AUD millions)	3Q	--	-5600.0	-7419.0
AU	12/05	19:30	Australia Net Exports of GDP (ratio)	3Q	--	-0.7	-0.5
PH	12/05	20:00	Consumer Price Index (YoY)	NOV	--	4.9	5.2
PH	12/05	20:00	Consumer Price Index NSA (MoM)	NOV	--	0.5	0.3
PH	12/05	20:00	Core CPI (YoY) 2000=100	NOV	--	--	3.9
AU	12/05	22:30	<b>RBA CASH TARGET</b>	6-Dec	<b>4.50</b>	<b>4.25</b>	<b>4.50</b>
AU	12/06	17:30	AiG Perf of Construction Index	NOV	--	--	34.7
AU	12/06	19:30	Gross Domestic Product (QoQ)	3Q	1.4	1.2	1.2
AU	12/06	19:30	Gross Domestic Product (YoY)	3Q	2.5	2.3	1.4
SK	12/06	22:00	Bank Lending to HH (KRW trillions)	NOV	--	--	451.8
SK	12/06	22:00	South Korea Money Supply L	OCT	--	--	8.9
SK	12/06	22:00	South Korea Money Supply M2	OCT	--	--	4.2
HK	DEC 06-07		Foreign Currency Reserves (USD billions)	NOV	--	--	281.7
ID	DEC 06-13		Money Supply - M1 (YoY)	OCT	--	--	19.70
ID	DEC 06-13		Money Supply - M2 (YoY)	OCT	--	--	16.0
PH	DEC 06-07		Foreign Reserves (USD millions)	NOV	--	--	75831.6
AU	12/07		Foreign Reserves (AUD billions)	NOV	--	--	44.9
JN	12/07		Leading Index CI	OCT P	--	91.5	91.5
JN	12/07		Coincident Index CI	OCT P	--	90.3	89.0
MA	12/07	04:30	Foreign Reserves (USD billions)	30-Nov	--	--	135.0
NZ	12/07	15:00	<b>RBNZ Official Cash Rate</b>	8-Dec	<b>2.50</b>	<b>2.50</b>	<b>2.50</b>
NZ	12/07	16:45	Manufacturing Activity	3Q	--	--	2.1
NZ	12/07	16:45	Manufacturing Activity Volume SA (QoQ)	3Q	--	--	-0.7
NZ	12/07	18:00	QV House Prices (YoY)	NOV	--	--	1.2

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

## Key Indicators for the week of December 3 - 9

## Asia Pacific (continued from previous page)

Country	Date	Time	Event	Period	BNS	Consensus	Latest
JN	12/07	18:50	Bank Lending Banks Adjust (YoY)	NOV	--	--	0.3
JN	12/07	18:50	Bank Lending Ex-Trusts (YoY)	NOV	--	--	0.1
JN	12/07	18:50	Bank Lending incl Trusts (YoY)	NOV	--	--	0.0
JN	12/07	18:50	Current Account Total (JPY billions)	OCT	--	507.2	1584.8
JN	12/07	18:50	Adjusted Current Account Total (JPY billions)	OCT	--	520.00	1186.60
JN	12/07	18:50	Current Account Balance (YOY)	OCT	--	-65.5	-21.4
JN	12/07	18:50	Trade Balance - BOP Basis (JPY billions)	OCT	--	-190.5	373.2
JN	12/07	18:50	Machine Orders (MoM)	OCT	--	0.5	-8
JN	12/07	18:50	Machine Orders (YOY)	OCT	--	9.4	9.8
JN	12/07	18:50	Japan Buying Foreign Bonds (JPY billions)	2-Dec	--	--	-101.4
JN	12/07	18:50	Japan Buying Foreign Stocks (JPY billions)	2-Dec	--	--	13.7
JN	12/07	18:50	Foreign Buying Japan Bonds (JPY billions)	2-Dec	--	--	-259.1
JN	12/07	18:50	Foreign Buying Japan Stocks (JPY billions)	2-Dec	--	--	-134.8
SK	12/07	19:00	Bank of Korea Monetary Policy Committee Meeting		--		
AU	12/07	19:30	Part Time Employment Change (000s)	NOV	--	--	-9.9
AU	12/07	19:30	Full Time Employment Change (000s)	NOV	--	--	20.0
AU	12/07	19:30	Employment Change (000s)	NOV	--	10.0	10.1
AU	12/07	19:30	Participation Rate	NOV	65.6	65.6	65.6
AU	12/07	19:30	Unemployment Rate	NOV	5.2	5.2	5.2
SK	12/07	20:00	<b>South Korea 7-Day Repo Rate</b>		<b>3.25</b>	<b>3.25</b>	<b>3.25</b>
TH	12/07	22:30	Consumer Confidence Economic	NOV	--	--	62.8
MA	12/07	23:01	Industrial Production (YoY)	OCT	--	1.5	2.5
MA	12/07	23:01	Manufacturing Sales Value (YoY)	OCT	--	--	16.5
JN	12/07	23:30	Bankruptcies (YoY)	NOV	--	--	-14.1
ID	DEC 07-08		<b>Bank Indonesia Reference Rate</b>		<b>5.75</b>	<b>6.00</b>	<b>6.00</b>
JN	DEC 07-08		Eco Watchers Survey: Current	NOV	--	--	45.9
JN	DEC 07-08		Eco Watchers Survey: Outlook	NOV	--	--	45.9
IN	12/08	01:30	Food Articles WPI (YoY)	NOV	--	--	8.0
IN	12/08	01:30	Fuel Power Light WPI (YoY)	NOV	--	--	15.5
IN	12/08	01:30	Primary Articles WPI (YoY)	NOV	--	--	7.7
TA	12/08	03:00	Total Trade Bal in (USD billions)	NOV	--	2.1	3.3
TA	12/08	03:00	Total Exports (YoY)	NOV	--	8.6	11.7
TA	12/08	03:00	Total Imports (YoY)	NOV	--	2.7	11.8
SK	12/08	16:00	Producer Price Index (YoY)	NOV	--	--	5.6
NZ	12/08	16:45	NZ Card Spending - Retail (MoM)	NOV	--	--	1.5
NZ	12/08	16:45	NZ Card Spending - Total (MoM)	NOV	--	--	1.8
JN	12/08	18:50	BSI Large All Industry (QoQ)	4Q	--	--	6.60
JN	12/08	18:50	BSI Large Manufacturing (QoQ)	4Q	--	--	10.3
JN	12/08	18:50	GDP Deflator (YoY)	3Q F	-1.7	-1.9	-1.9
JN	12/08	18:50	Nominal GDP (QoQ)	3Q F	1.4	1.2	1.4
JN	12/08	18:50	GDP Annualized	3Q F	6.0	5.1	6.0
JN	12/08	18:50	Gross Domestic Product (QoQ)	3Q F	1.5	1.3	1.5
JN	12/08	18:50	Japan Money Stock M2 (YoY)	NOV	--	2.7	2.7
JN	12/08	18:50	Japan Money Stock M3 (YoY)	NOV	--	2.3	2.3
NZ	12/08	19:00	ANZ Consumer Confidence Index	DEC	--	--	109
NZ	12/08	19:00	ANZ Consumer Confidence MoM	DEC	--	--	-2.9
CH	12/08	21:00	Consumer Price Index (YoY)	NOV	5.0	4.5	5.5
CH	12/08	21:00	Producer Price Index (YoY)	NOV	3.8	3.3	5
CH	DEC 08-09		Industrial Production YTD (YoY)	NOV	--	14	14.1
CH	DEC 08-09		Industrial Production (YoY)	NOV	12.2	12.6	13.2
CH	DEC 08-09		Fixed Assets Inv Excl. Rural YTD (YoY)	NOV	24.5	24.8	24.9
CH	DEC 08-09		Retail Sales YTD (YoY)	NOV	--	17	17
CH	DEC 08-09		Retail Sales (YoY)	NOV	17.5	16.8	17.2
TH	12/09	02:30	Foreign Reserves (USD billions)	2-Dec	--	--	176.4
TH	12/09	02:30	Forward Contracts (USD billions)	2-Dec	--	--	30.4
MA	12/09	05:01	Exports (YoY)	OCT	--	7.15	16.61
MA	12/09	05:01	Imports (YoY)	OCT	--	5.6	12.9
MA	12/09	05:01	Trade Balance (MYR billions)	OCT	--	9.15	9.63

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

## Key Indicators for the week of December 3 - 9

Latin America							
Country	Date	Time	Event	Period	BNS	Consensus	Latest
CL	12/05	06:30	Economic Activity (YoY)	OCT	--	4.4	5.7
CO	12/05	19:00	Consumer Price Index (MoM)	NOV	--	0.2	0.2
CO	12/05	19:00	Consumer Price Index (YoY)	NOV	--	4.0	4
BZ	12/06	06:00	GDP (IBGE) (QoQ)	3Q	--	0.0	0.8
BZ	12/06	06:00	GDP (IBGE) (YoY)	3Q	3.0	2.4	3.1
BZ	12/06	07:30	Vehicle Production (Anfavea)	NOV	--	--	265571
BZ	12/06	07:30	Vehicle Exports (Anfavea)	NOV	--	--	52249
BZ	12/06	07:30	Vehicle Sales (Anfavea)	NOV	--	--	280567
CO	12/06	16:00	Exports FOB - US\$ million	OCT	--	--	4481.8
CO	DEC 06-09		Vehicle Sales (units)	NOV	--	--	25828
CL	12/07	06:00	CPI (MoM)	NOV	--	0.1	0.5
CL	12/07	06:00	CPI (YoY)	NOV	--	--	3.7
CL	12/07	06:30	Trade Balance in (USD millions)	NOV	--	--	837.0
CL	12/07	06:30	Copper Exports (USD millions)	NOV	--	--	3531.0
BZ	12/07	09:30	Central Bank Posts Currency Flows' Data for Prev. Week				
PE	12/07	18:00	<b>Reference Rate</b>	DEC	<b>4.25</b>	<b>4.25</b>	<b>4.25</b>
BZ	12/07		CNI Capacity Utilization (%)	OCT	--	--	81.6
BZ	12/08	05:30	COPOM Monetary Policy Meeting Minutes				
BZ	12/08	06:00	IBGE Inflation IPCA (MoM)	NOV	--	0.5	0.43
BZ	12/08	06:00	IBGE Inflation IPCA (YoY)	NOV	--	6.62	6.97
CO	12/09		Monetary Policy Meeting Minutes				

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

## Global Auctions for the week of December 3 - 9

## North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	12/05	11:30	U.S. to Sell 3-Month Bills
US	12/05	11:30	U.S. to Sell 6-Month Bills
CA	12/06	10:30	Canada to Sell CAD6.5 Bln 98-Day Bills
CA	12/06	10:30	Canada to Sell CAD2.5 Bln 168-Day Bills
CA	12/06	10:30	Canada to Sell CAD2.5 Bln 350-Day Bills
US	12/06	11:30	U.S. to Sell 4-Week Bills
CA	12/07	12:00	Canada to Sell 2-Year Notes

## Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
GE	12/05	05:15	Germany to Sell EU3 Bln 6-Mth Bills
NE	12/05	06:00	Netherlands to Sell Bills
FR	12/05	09:00	France to Sell Bills
EC	12/05	09:30	ECB Calls for Bids in 7-Day Main Refinancing Tender
DE	12/06	04:30	Denmark to Sell Bonds
AS	12/06	05:00	Austria to Sell Bonds
EC	12/06	05:15	ECB Announces Allotment in 7-Day Main Refinancing Tender
SZ	12/06	05:30	Switzerland to Sell 3-Month Bills
UK	12/06	05:30	U.K. to Sell GBP1.75 Bln 4.25% 2040 Bonds
US	12/07	03:15	ECB Calls for Bids in 3-Month Dollar Tender
EC	12/07	05:00	ECB Announces Allotment in 3-Month Dollar Tender
SW	12/07	05:10	Sweden to Sell Bills
GE	12/07	05:15	Germany to Sell Add'l EU5 Bln 5-Year Notes
UK	12/07	05:30	U.K. to Sell GBP900 Mln 1.25% I/L 2032 Bonds
PO	12/07	05:30	Portugal to Sell 3-Month Bills
UK	12/09	06:10	U.K. to Sell Bills

## Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
JN	12/05	22:35	Japan to Sell 6-Month Bills
JN	12/06	03:00	Japan Auction for Enhanced-Liquidity
CH	12/06	22:00	China to Sell 3 Year Bond
JN	12/06	22:35	Japan to Sell 3-Month Bills
JN	12/07	22:45	Japan to Sell 30-Year Bond

Source: Bloomberg, Scotia Economics.



## Events for the week of December 3 - 9

## North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	12/05	12:10	Fed's Evans Speaks in Muncie, Indiana
CA	12/06	09:00	<b>Bank of Canada Rate</b>
US	12/06	10:00	Fed's Tarullo Testifies at Senate Banking Committee
CA	12/08	10:30	Bank of Canada Publishes Financial System Review

## Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
EC	12/05	02:00	U.S. Ambassador to EU Kennard Speaks in Brussels
EC	DEC 05-06		EU Foreign Ministers Meet in Brussels
UK	12/06	04:30	Bank of England Publishes Record of Interim FPC Meeting
GE	12/06	08:30	Merkel Attends National 'IT Summit' in Munich
UK	12/07	07:00	Prime Minister's Question Time in House of Commons
EC	12/07	12:00	Germany's Henkel Speaks on Euro Crisis
EC	12/08	06:30	European Conservative Leaders Meet in Marseille
UK	12/08	07:00	<b>Bank of England Monetary Policy Committee Decision</b>
UK	12/08	07:00	BOE Asset Purchase Target
EC	12/08	07:45	<b>ECB Announces Interest Rates</b>
EC	12/08	08:30	ECB Monthly News Conference
EC	12/08	10:30	ECB's Constancio Speaks at Conference in Frankfurt
EC	12/08	13:30	<b>EU-27 Leaders Hold First Summit Session in Brussels</b>
EC	12/09		<b>EU Leaders Hold Summit Meeting in Brussels</b>

## Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
NZ	12/04	16:00	Government Financial Statements
AU	12/05	22:30	<b>RBA Cash Target</b>
NZ	12/07	15:00	<b>RBNZ Official Cash Rate</b>
SK	12/07	20:00	<b>South Korea 7-Day Repo Rate</b>
ID	DEC 07-08		<b>Bank Indonesia Reference Rate</b>

## Latin America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
PE	12/07	18:00	<b>Reference Rate</b>
BZ	12/08	05:30	COPOM 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	December 6, 2011	1.00	1.00
Federal Reserve – Federal Funds Target Rate	0.25	December 13, 2011	0.25	--
Banco de México – Overnight Rate	4.50	January 20, 2012	4.50	--

The Bank of Canada is expected to hold its rate unchanged in next Tuesday's statement. Scotia Economics expects the BoC to remain on hold until 2013Q2. The litmus test for rate cuts is a severe liquidity shock in our view, and the odds of this occurring in the banking space were lowered following a globally coordinated central bank move to cheapen the cost of USD funding through central bank currency swap arrangements with the Fed. As for the FOMC meeting on December 13th, we are expecting the focus to be upon changed communication strategies perhaps strengthening conditional rate guidance, but Fed officials have recently poured cold water on expectations for a cut in the discount rate in the wake of the globally coordinated move to lower funding costs for European banks since the US banking system is in a healthier position.

## Europe

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
European Central Bank – Refinancing Rate	1.25	December 8, 2011	1.00	1.00
Bank of England – Bank Rate	0.50	December 8, 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	TBA	8.25	--
Hungarian National Bank – Base Rate	6.50	December 20, 2011	6.50	--
Central Bank of the Republic of Turkey – 1 Week Repo Rate	5.75	December 22, 2011	5.75	--

Both the European Central Bank (ECB) and the Bank of England (BoE) will meet on December 8th. We do not foresee any adjustment to monetary policy conditions in the UK at this meeting, though we note that the BoE has signaled that an acceleration of bond purchases (i.e., further quantitative easing) will likely be initiated in February. Inflation in the euro zone remained elevated at 3.0% y/y in November for the third consecutive month. Despite the above-target pace of price gains, we anticipate that the ECB will reduce the benchmark refinancing rate by at least 25 basis points (bps) next week, in light of the continued escalation of the debt/banking crisis and its increasingly negative growth implications. Following last month's quarter-point cut, this would mark a full reversal of the two 25 bps hikes implemented earlier this year. We do not discount the possibility of further easing by the ECB in the coming months.

## 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	December 21, 2011	0.10	--
Reserve Bank of Australia – Cash Target Rate	4.50	December 5, 2011	4.50	4.25
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	December 16, 2011	8.50	--
Hong Kong Monetary Authority – Base Rate	0.50	TBA	0.50	--
Central Bank of China Taiwan – Discount Rate	1.88	December 29, 2011	1.88	--
Bank Negara Malaysia – Overnight Policy Rate	3.00	January 31, 2012	3.00	--
Bank of Korea – Bank Rate	3.25	December 7, 2011	3.25	3.25
Bank of Thailand – Repo Rate	3.25	January 25, 2012	3.25	--
Bank Indonesia – Reference Interest Rate	6.00	December 8, 2011	6.00	6.00
Central Bank of the Philippines – Overnight Policy Rate	4.50	January 19, 2012	4.50	--

The Reserve Banks of both Australia and New Zealand will meet next week to decide on monetary conditions. Although inflation came down in both countries, the elevated rate continues to challenge central bank targets. While core inflation came down in Australia in the third quarter, the fall was predicated upon a flat reading for the goods group and the strongest pickup in services costs in three years. These results point to persistent local supply-side pressures, as implied by favourable conditions within the mining sector where investment spending continues to drive ahead. Labour market pressures are less severe in non-mining sectors, however there is no evidence of slack, with the unemployment rate falling in October to 5.2%. In New Zealand inflation fell on the back of slower price gains in tradable items, with non-tradable goods inflation displaying no change. Headline inflation, currently at 4.6% y/y, remains well above the central bank's 1-3% comfort zone. Upon this basis, we expect both monetary authorities to keep conditions unchanged next week. Inflation continues to trend down in Indonesia having fallen to 4.1% y/y in November. However, core inflation remained practically constant at 4% y/y. Bank Indonesia will likely keep the reference interest rate at its current 6% level after next week's meeting. In South Korea, headline inflation picked up in November, leading us to expect no change in policy.

## 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	11.00	January 18, 2012	11.00	--
Banco Central de Chile – Overnight Rate	5.25	December 13, 2011	5.25	5.25
Banco de la República de Colombia – Lending Rate	4.75	December 16, 2011	4.75	4.75
Banco Central de Reserva del Perú – Reference Rate	4.25	December 7, 2011	4.25	4.25

We maintain our view that the central bank of Peru will keep the reference interest rate unchanged at 4.25% for the eight consecutive month this year. Inflation pressures keep building up reaching 4.2% y/y in October, above the central bank's tolerance target range of  $2 \pm 1\%$ . This could prompt the monetary authorities to react; however, recent monthly indicators suggest that the economy has been slowing down despite real GDP expanding by 6.5% y/y in the third quarter of 2011 (6.6% y/y in the second quarter and 8.7% y/y in the first).

## 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	TBA	5.50	--

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

## Forecasts as at December 1, 2011\*

	2000-10	2011f	2012f	2013f	2000-10	2011f	2012f	2013f
<b>Output and Inflation (annual % change)</b>								
	<b>Real GDP</b>				<b>Consumer Prices<sup>2</sup></b>			
World <sup>1</sup>	3.7	3.8	3.7	4.0				
Canada	2.2	2.3	1.8	2.4	2.1	3.0	1.8	2.0
United States	1.8	1.8	1.8	2.2	2.5	3.2	1.8	2.1
Mexico	2.1	3.9	2.9	3.7	4.9	3.6	4.0	4.1
United Kingdom	1.9	0.8	0.8	1.8	2.1	4.4	2.1	2.5
Euro zone	1.4	1.6	0.0	1.3	2.1	2.6	1.5	1.8
Japan	0.9	0.1	3.2	1.8	-0.3	0.2	0.4	0.5
Australia	3.1	2.1	4.2	3.3	3.1	3.0	2.8	2.5
China	9.5	9.1	8.9	8.5	2.3	5.0	4.5	4.3
India	7.5	7.6	8.1	8.0	6.4	8.1	6.5	6.0
Korea	4.6	3.8	4.3	4.5	3.1	3.7	3.3	3.0
Thailand	4.1	2.8	3.5	4.5	2.6	3.5	3.0	2.8
Brazil	3.7	3.5	4.0	4.5	6.6	6.5	5.7	5.0
Chile	3.8	6.5	4.7	5.8	3.3	3.5	2.8	3.8
Peru	5.5	6.9	5.5	5.6	2.4	4.8	3.5	2.5
<b>Central Bank Rates (% end of period)</b>	<b>11Q4f</b>	<b>12Q1f</b>	<b>12Q2f</b>	<b>12Q3f</b>	<b>12Q4f</b>	<b>13Q1f</b>	<b>13Q2f</b>	<b>13Q3f</b>
Bank of Canada	1.00	1.00	1.00	1.00	1.00	1.00	1.50	2.00
Federal Reserve	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.75
European Central Bank	1.00	0.75	0.75	0.75	0.75	0.75	0.75	1.00
Bank of England	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75
Swiss National Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25
Bank of Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.25
Reserve Bank of Australia	4.50	4.25	4.25	4.25	4.25	4.25	4.50	4.50
<b>Exchange Rates (end of period)</b>								
Canadian Dollar (USDCAD)	1.04	1.02	1.01	0.99	0.98	0.98	0.97	0.97
Canadian Dollar (CADUSD)	0.96	0.98	0.99	1.01	1.02	1.02	1.03	1.03
Euro (EURUSD)	1.30	1.29	1.28	1.27	1.25	1.25	1.26	1.28
Sterling (GBPUSD)	1.55	1.56	1.59	1.62	1.63	1.65	1.66	1.67
Yen (USDJPY)	78	78	80	80	82	83	83	84
Australian Dollar (AUDUSD)	1.00	1.02	1.04	1.06	1.08	1.09	1.09	1.10
Chinese Yuan (USDCNY)	6.3	6.3	6.2	6.1	6.1	6.0	6.0	5.9
Mexican Peso (USDMXN)	13.5	13.5	13.2	13.0	13.0	13.1	13.2	13.3
Brazilian Real (USDBRL)	1.80	1.79	1.77	1.76	1.75	1.77	1.80	1.82
<b>Commodities (annual average)</b>	<b>2000-10</b>	<b>2011f</b>	<b>2012f</b>	<b>2013f</b>				
WTI Oil (US\$/bbl)	54	95	95	104				
Brent Oil (US\$/bbl)	52	111	108	110				
Nymex Natural Gas (US\$/mmbtu)	5.81	4.05	3.50	4.25				
Copper (US\$/lb)	1.93	4.00	4.00	3.50				
Zinc (US\$/lb)	0.75	0.99	0.99	1.10				
Nickel (US\$/lb)	7.36	10.35	9.00	8.00				
Gold, London PM Fix (US\$/oz)	586	1,565	1,675	1,600				
Pulp (US\$/tonne)	694	977	912	950				
Newsprint (US\$/tonne)	575	640	680	725				
Lumber (US\$/mfbm)	273	255	260	300				

<sup>1</sup> World GDP for 2000-10 are IMF PPP estimates; 2011-13f are Scotia Economics' estimates based on a 2010 PPP-weighted sample of 38 countries.

<sup>2</sup> 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](http://www.scotiacapital.com/English/bns_econ/forecast.pdf)) for additional forecasts & commentary.

Canada	2010	11Q2	11Q3	Latest	United States	2010	11Q2	11Q3	Latest
Real GDP (annual rates)	3.2	-0.5	3.5		Real GDP (annual rates)	3.0	1.3	2.0	
Current Acc. Bal. (C\$B, ar)	-50.9	-64.5	-48.5		Current Acc. Bal. (US\$B, ar)	-471	-472		
Merch. Trade Bal. (C\$B, ar)	-9.0	-14.7	1.9	15.0 (Sep)	Merch. Trade Bal. (US\$B, ar)	-646	-762	-724	-707 (Sep)
Industrial Production	4.9	2.4	3.5	5.2 (Sep)	Industrial Production	5.3	3.8	3.4	3.9 (Oct)
Housing Starts (000s)	192	192	205	208 (Oct)	Housing Starts (millions)	0.58	0.57	0.61	0.63 (Oct)
Employment	1.4	1.6	1.5	3.1 (Nov)	Employment	-0.8	0.9	1.1	2.1 (Nov)
Unemployment Rate (%)	8.0	7.5	7.2	7.4 (Nov)	Unemployment Rate (%)	9.6	9.1	9.1	8.6 (Nov)
Retail Sales	5.5	4.1	4.1	4.2 (Sep)	Retail Sales	6.8	8.1	8.2	7.3 (Oct)
Auto Sales (000s)	1561	1574	1602	1586 (Sep)	Auto Sales (millions)	11.6	12.1	12.4	13.2 (Oct)
CPI	1.8	3.4	3.0	2.9 (Oct)	CPI	1.6	3.4	3.8	3.5 (Oct)
IPPI	1.0	5.1	5.3	-4.7 (Oct)	PPI	4.2	6.9	6.9	5.9 (Oct)
Pre-tax Corp. Profits	21.2	15.1	17.0		Pre-tax Corp. Profits	25.0	1.3	4.2	
<b>Mexico</b>					<b>Brazil</b>				
Real GDP	5.4	3.2	4.5		Real GDP	6.7	2.7		
Current Acc. Bal. (US\$B, ar)	-5.7	-11.9	-15.0		Current Acc. Bal. (US\$B, ar)	-47.4	-43.4	-42.2	
Merch. Trade Bal. (US\$B, ar)	-3.0	5.7	-15.3	-5.6 (Oct)	Merch. Trade Bal. (US\$B, ar)	20.2	39.2	40.3	7.0 (Nov)
Industrial Production	6.0	3.5	3.4	3.6 (Sep)	Industrial Production	10.5	0.6	0.1	-2.7 (Oct)
CPI	4.2	3.3	3.4	3.2 (Oct)	CPI	5.1	6.5	7.1	6.9 (Oct)
<b>Chile</b>					<b>Italy</b>				
Real GDP	5.2	6.6	4.8		Real GDP	1.2	0.8		
Current Acc. Bal. (US\$B, ar)	3.0	1.0	-11.6		Current Acc. Bal. (US\$B, ar)	-0.07	-0.08	-0.04	-0.06 (Sep)
Merch. Trade Bal. (US\$B, ar)	11.6	14.8	3.6	10.0 (Oct)	Merch. Trade Bal. (US\$B, ar)	-39.1	-45.6	-18.6	-30.4 (Sep)
Industrial Production	0.5	7.8	2.4	-0.8 (Oct)	Industrial Production	6.5	1.8	0.1	-1.9 (Sep)
CPI	1.4	3.3	3.1	3.7 (Oct)	CPI	1.6	2.7	2.9	3.4 (Oct)
<b>Germany</b>					<b>France</b>				
Real GDP	3.6	2.9	2.6		Real GDP	1.4	1.6	1.6	
Current Acc. Bal. (US\$B, ar)	188.2	156.6	168.0	259.1 (Sep)	Current Acc. Bal. (US\$B, ar)	-44.5	-81.9	-48.6	-71.4 (Sep)
Merch. Trade Bal. (US\$B, ar)	201.9	212.0	225.5	250.3 (Sep)	Merch. Trade Bal. (US\$B, ar)	-38.8	-52.0	-48.1	-54.9 (Sep)
Industrial Production	10.1	8.1	8.1	5.4 (Sep)	Industrial Production	4.6	2.0	3.4	2.3 (Sep)
Unemployment Rate (%)	7.7	7.1	7.0	6.9 (Nov)	Unemployment Rate (%)	9.8	9.7	9.8	9.8 (Oct)
CPI	1.1	2.3	2.5	3.1 (Nov)	CPI	1.5	2.1	2.1	2.3 (Oct)
<b>Euro Zone</b>					<b>United Kingdom</b>				
Real GDP	1.7	1.6	1.3		Real GDP	1.8	0.6	0.5	
Current Acc. Bal. (US\$B, ar)	-77	-120	-66	-42 (Sep)	Current Acc. Bal. (US\$B, ar)	-56.9	-12.2		
Merch. Trade Bal. (US\$B, ar)	32.0	-15.3	5.7	35.5 (Sep)	Merch. Trade Bal. (US\$B, ar)	-152.4	-160.1	-174.8	-185.9 (Sep)
Industrial Production	7.4	4.2	4.2	2.9 (Sep)	Industrial Production	1.9	-0.8	-0.8	-0.8 (Sep)
Unemployment Rate (%)	10.0	9.9	10.1	10.2 (Oct)	Unemployment Rate (%)	7.9	7.8		8.3 (Aug)
CPI	1.6	2.8	2.7	3.0 (Oct)	CPI	3.3	4.4	4.7	5.0 (Oct)
<b>Japan</b>					<b>Australia</b>				
Real GDP	4.1	-1.0	-0.2		Real GDP	2.7	1.4		
Current Acc. Bal. (US\$B, ar)	195.9	75.4	153.5	247.5 (Sep)	Current Acc. Bal. (US\$B, ar)	-32.9	-22.4		
Merch. Trade Bal. (US\$B, ar)	74.6	-54.0	-29.3	-71.6 (Oct)	Merch. Trade Bal. (US\$B, ar)	19.3	50.2	43.0	43.6 (Sep)
Industrial Production	16.6	-7.0	-2.0	0.3 (Oct)	Industrial Production	4.5	-3.3		
Unemployment Rate (%)	5.1	4.6	4.4	4.5 (Oct)	Unemployment Rate (%)	5.2	4.9	5.2	5.2 (Oct)
CPI	-0.7	-0.4	0.1	-0.2 (Oct)	CPI	2.8	3.6	3.5	
<b>China</b>					<b>South Korea</b>				
Real GDP	10.4	9.5	9.1		Real GDP	6.2	3.4	3.4	
Current Acc. Bal. (US\$B, ar)	305.4				Current Acc. Bal. (US\$B, ar)	28.2	22.0	27.6	50.8 (Oct)
Merch. Trade Bal. (US\$B, ar)	181.5	185.9	250.5	204.4 (Oct)	Merch. Trade Bal. (US\$B, ar)	41.2	33.4	25.2	46.9 (Nov)
Industrial Production	13.5	15.1	13.8	13.2 (Oct)	Industrial Production	16.6	6.7	5.4	7.6 (Oct)
CPI	4.6	6.4	6.1	5.5 (Oct)	CPI	2.9	4.0	4.3	6.9 (Nov)

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

Source: Bloomberg, Scotia Economics.

## Interest Rates (% , end of period)

Canada	11Q2	11Q3	Nov/25	Dec/02*	United States	11Q2	11Q3	Nov/25	Dec/02*
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	0.83	0.77	3-mo. T-bill	0.01	0.02	0.02	-0.01
10-yr Gov't Bond	3.11	2.16	2.09	2.15	10-yr Gov't Bond	3.16	1.92	1.96	2.07
30-yr Gov't Bond	3.55	2.77	2.64	2.71	30-yr Gov't Bond	4.37	2.91	2.92	3.06
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US\$B)	62.3	63.5	65.2	(Oct)	FX Reserves (US\$B)	136.6	137.4	137.4	(Sep)
<b>Germany</b>					<b>France</b>				
3-mo. Interbank	1.51	1.51	1.44	1.45	3-mo. T-bill	1.18	0.38	0.35	0.21
10-yr Gov't Bond	3.03	1.89	2.26	2.14	10-yr Gov't Bond	3.41	2.60	3.69	3.27
FX Reserves (US\$B)	66.0	66.9	67.1	(Oct)	FX Reserves (US\$B)	60.3	51.8	52.9	(Oct)
<b>Euro-Zone</b>					<b>United Kingdom</b>				
Refinancing Rate	1.25	1.50	1.25	1.25	Repo Rate	0.50	0.50	0.50	0.50
Overnight Rate	1.72	1.46	0.72	0.74	3-mo. T-bill	4.85	4.85	4.85	4.85
FX Reserves (US\$B)	317.2	311.0	315.3	(Oct)	10-yr Gov't Bond	3.38	2.43	2.29	2.30
<b>Japan</b>					FX Reserves (US\$B)	79.7	78.9	80.5	(Oct)
Discount Rate	0.30	0.30	0.30	0.30	<b>Australia</b>				
3-mo. Libor	0.13	0.13	0.14	0.14	Cash Rate	4.75	4.75	4.75	4.50
10-yr Gov't Bond	1.14	1.03	1.03	1.04	10-yr Gov't Bond	5.21	4.22	3.85	4.00
FX Reserves (US\$B)	1100.8	1160.7	1167.5	(Oct)	FX Reserves (US\$B)	40.3	39.7	42.8	(Oct)

## Exchange Rates (end of period)

USDCAD	0.96	1.05	1.05	1.02	¥/US\$	80.56	77.06	77.73	77.88
CADUSD	1.04	0.95	0.96	0.98	US\$/Australian\$	107.22	96.62	97.11	102.25
GBPUSD	1.605	1.558	1.544	1.559	Chinese Yuan/US\$	6.46	6.38	6.38	6.36
EURUSD	1.450	1.339	1.324	1.338	South Korean Won/US\$	1068	1178	1164	1131
JPYEUR	0.86	0.97	0.97	0.96	Mexican Peso/US\$	11.714	13.897	14.231	13.558
USDCHF	0.84	0.91	0.93	0.92	Brazilian Real/US\$	1.563	1.879	1.892	1.794

## Equity Markets (index, end of period)

United States (DJIA)	12414	10913	11232	12074	U.K. (FT100)	5946	5128	5165	5540
United States (S&P500)	1321	1131	1159	1253	Germany (Dax)	7376	5502	5493	6071
Canada (S&P/TSX)	13301	11624	11462	12119	France (CAC40)	3982	2982	2857	3160
Mexico (Bolsa)	36558	33503	34573	36818	Japan (Nikkei)	9816	8700	8160	8644
Brazil (Bovespa)	62404	52324	54894	58185	Hong Kong (Hang Seng)	22398	17592	17689	19040
Italy (BCI)	1039	796	757	820	South Korea (Composite)	2101	1770	1776	1916

## Commodity Prices (end of period)

Pulp (US\$/tonne)	1035	970	950	950	Copper (US\$/lb)	4.22	3.23	3.26	3.58
Newsprint (US\$/tonne)	640	640	640	640	Zinc (US\$/lb)	1.05	0.86	0.85	0.93
Lumber (US\$/mfbm)	237	240	234	--	Gold (US\$/oz)	1505.50	1620.00	1688.50	1747.00
WTI Oil (US\$/bbl)	95.42	79.20	96.77	100.45	Silver (US\$/oz)	35.02	30.45	31.24	33.15
Natural Gas (US\$/mmbtu)	4.37	3.67	3.54	3.59	CRB (index)	338.05	298.15	305.45	313.60

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



### Emerging Markets Strategy

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