Scotiabank Group

Global Views

Weekly commentary on economic and financial market developments

January 6, 2012

Global Views **is available on: www.scotiabank.com, Bloomberg at SCOE and Reuters at SM1C**

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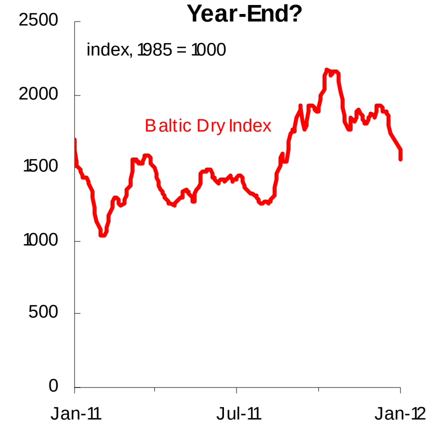
Pick Your Theatre, There Will Be Plenty Of Entertainment Next Week

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

Brace yourself for a mind-spinning week of developments that will pose elevated risks across all major markets. Few markets will be swung solely by the global tone as domestic risk factors will be prevalent across multiple markets.

Waning Trade Momentum Into Year-End?



Source: Bloomberg.

Asian markets could well chip in and affect the global tone through a heavy release schedule in China and the concomitant risk of policy changes. China's trade surplus is expected to deteriorate in the December reading on Monday and markets will watch the export growth figures that have been waning throughout much of 2010-11. In fact, trade figures will be released by many countries around the world next week and improve our understanding of how international trading activity is holding up as Europe enters recession and Chinese growth softens. As the accompanying chart demonstrates, one measure of trade is the Baltic Dry Index which abruptly cooled off in late December. Most of next week's trade figures, however, will be for November which also generally witnessed lower shipping readings, although the Baltic index has long been anything but a perfect guide owing to the role played by a glut of global ship construction. New yuan loans will start to matter more after next week's December print since we'll see how they perform in the first half of the year during which the state sends out its loan quotas. The key report on the week, however, will be the CPI update for December on Wednesday. Consensus is expecting a further cooling in the inflation rate to about 4% from the 6.5% peak in July as inflation rapidly drifts lower. Premier Wen's recent comments about challenges to growth in Q1 and high inflation might therefore face some relief on the latter point and thus open up room for additional easing through a drop in the required reserve ratio. China is intent upon cooling its property bubble, but we think targeted policies toward other sectors of the economy including consumption and policy easing will help carve out a relatively soft landing albeit with the market bias likely to continue in favour of hard landing concerns. The fourth-quarter GDP report that lands the following week along with retail sales and industrial production will shift the emphasis back to growth considerations. We are thus entering a two-week stretch of elevated China risks facing world markets. The A$ will also face elevated data risk with retail sales on tap for Sunday evening along with new home sales. Our international economists are expecting the Bank of Korea to take a pass on any policy move at next week's meeting, and the same applies to Bank Indonesia as noted in our central bank watch tables. Finally, several Asia-Pacific economies also update trade figures including New Zealand, Taiwan, Philippines, Malaysia and Japan.

US markets could influence the global tone on multiple counts. Next week will be a massive week for Fed speak that carries speeches on the economic outlook by a variety of influential Governors and regional bank presidents. Key to watch for will be possible early tip-offs on their outlook for the Fed Funds Target rate as per the movement toward publishing the rate forecasts of Fed policymakers at the January 25th FOMC meeting (see the article on page # for our thoughts on whether this policy is likely to be successful or not). A related risk to these forecasts could carry implications for the Bank of Canada in that markets may alter their pricing of BoC moves should the Fed come in even more dovish than current Fed funds futures pricing that expects no real policy move over the next couple of years. The Fed's Beige Book on Wednesday may also carry more encouraging regional anecdotes that could favourably influence markets. Thursday brings out the final retail sales report of the year and consensus is moderately upbeat on the prospects for a mild gain in spending. This will leave open the debate over whether spending was brought forward at the expense of greater-than-usual seasonal downsides into Q1. Despite more encouraging jobs data, disposable income growth is what pays the bills especially after adjusting for inflation and hence what they have left over after paying for the rising cost of

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food and energy. To this point, inflation-adjusted y/y personal disposable income growth has been sharply waning throughout the year and is now essentially zero. I think US consumers may have brought forward some consumption, and financed it out of liquidity stockpiles by running down the saving rate from 5.8% in June 2010 to 3.5% now since spending more than income growth over this time has to mean they're getting cash flow from somewhere else. It's the drop in the personal saving rate that is a concern given social security challenges and depleted housing. A further risk is the February payroll tax extension. We're cautiously hoping that cooler heads will prevail and extend it, but the risk is an abrupt decline in nominal personal disposable income of up to 2%. The Philly Fed's annual revisions to seasonal adjustment factors on Thursday may be influential; recall the large downward revisions to many recent months in the last set of annual revisions. Revisions may therefore influence the debate over the true extent of the manufacturing acceleration — either up or down. That hands off to an expected deterioration in the US trade account on Friday, and a largely flat expected print for UofM Confidence. Rounding out the risks are a visit to China and Japan by US Treasury Secretary Tim Geithner to discuss Iran and global growth policies, as well as auctions for 3s, 10s and 30s with the latter two being reopenings.

Europe will be front and centre in world markets next week following varied rumours to end this past week relating to possible pending sovereign downgrades and intensified concerns over Greece's euro membership. No policy change is anticipated by the ECB or by the BoE in their rate decisions on Thursday morning. Scotia Economics believes that while the BoE will likely leave the bank rate at 0.50% (where it has been since March 2009) until the second half of 2013 at the earliest, we expect an expansion of the bond purchase program to be initiated at the bank's next meeting in February. As for the ECB, despite having moderated from 3.0% y/y in November to 2.8% in December, inflation in the euro zone remains elevated, and the ongoing deceleration will likely be more gradual than previously anticipated — thus likely keeping the ECB on hold for now before we then expect additional easing in coming months. European auctions return again and while there are numerous countries on tap, the focal points are likely to be auctions in Spain, Italy, France and Austria. They will occur against a backdrop of renewed event risk including speeches and meetings. First up will be Monday's meeting between German Chancellor Angela Merkel and French President Nicolas Sarkozy. EU Economic and Monetary Affairs Commissioner Olli Rehn will speak on euro bonds on Tuesday, although there are no real signs that Germany is flexing on the issue. Merkel then meets with Italian Prime Minister Mario Monti on Wednesday for talks on the economy. Data risk across the euro zone will also be elevated throughout the week including reports for key economies on trade, manufacturing, and CPI that are likely to showcase cooling inflation but reinforce concerns about Europe slipping into recession.

Canadian markets may be influenced by up to four factors that go beyond surfing the global tone. An indirect influence could stem from a wave of Fed speak that we cited above and that could have markets pondering BoC pricing. The Bank of Canada's marquee Business Outlook Survey is on tap for Monday and consensus is expecting it to halt the deteriorating trend that has been in place since late 2009 in the key business expectations toward future sales index. The BoC also releases its Senior Loan Officer Survey that has been marked by easing terms on loans to businesses for much of the past two years. Permits figures on Monday are likely to flatten or give back some of the enormous gain of the prior month, and housing starts will be closely watched for evidence on whether the sharp cooling in November has legs to it. But the key release of the week for economy watchers will be Friday's trade figures for November after October figures got the quarter off to a very poor start following unsustainable trade gains that were booked over the prior quarter and that reflected the dissipation of shock effects that occurred in the second quarter. There are no Canadian auctions or notable scheduled events on tap.

Latam markets will probably follow the broad global tone next week. Rate decisions will be worth watching given Chile's expected rate cut and an expected policy hold in Peru.

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New Year, New Elections/Meetings Calendar

Most forecasts, including Scotia Economics, project global output growth to slip a bit further in 2012 from last year's uninspiring performance, notwithstanding some better-than-expected year-end reports from around the world, and the U.S. in particular. Many countries are or will be moving more aggressively to reduce their high levels of household and/or government debt. And there are downside risks to the outlook. Oil prices, for example, have again jumped above US$100/bbl in response to renewed geopolitical tensions in the Middle East.

The deleveraging underway is unprecedented in our lifetimes, since it involves most of the developed nations. The massive restructuring is responsible for the slow-paced recovery. Debt-heavy households are paying down debt and saving more. Outside of Canada and Australia, financial institutions with problematic balance sheets are rebuilding capital bases. Governments are battling bloated deficits with increasing fiscal retrenchment. Every nation around the world is feeling the inevitable impact of increasing austerity on growth through reduced trade and more volatile capital flows, though countries with smaller debt burdens are being impacted much less.

The world needs more, not less growth, if it is to rectify the myriad of problems affecting the global economy, let alone deal with the demographic, environmental and infrastructural priorities of the future. Critical to the outlook is the need to resuscitate global activity. The challenge for policymakers is to implement the longer-term structural reforms needed to improve competitiveness without further compromising near-term growth. Businesses are capable of doing more. Balance sheets are generally in good financial shape, enabling firms to support expanded growth opportunities. And creditor nations, particularly among the developing economies, must do more to encourage stronger growth, domestically and internationally.

Resolving these issues is tough at the best of times. But it is more difficult when many countries are adjusting simultaneously, and the electoral calendar is filled as well. While this week's Iowa Republican caucus kicked off the U.S. Presidential election campaign that culminates on Nov. 6, virtually every region will experience an electoral event that could delay or potentially reshape co-operative efforts. Presidential elections are on tap in April/March for France, which along with Germany bears a leadership role in resolving the euro zone's sovereign debt crisis. Mexico will host its Presidential election in July, while Venezuela, a large oil exporter, has its election pegged for October. Among the influential BRIC nations, Presidential elections are set for Russia in March and for India in July, with China's leadership transition targeted for the fall.

This year's G8 meetings in May, the broader G20 meetings in June, and the IMF/World Bank meetings in the spring and the fall, cannot help but to take on added importance. The stakes are high because of the inability of the global economy to sustain its stronger post-recession momentum, the steady rise in government debt burdens in the euro zone and the U.S., and the slow pace of rebalancing growth among the creditor and debtor nations.

Key Elections & International Meetings - 2012

	TYPE OF ELECTION	DATE
EGYPT	Parliamentary (Stage Three) Legislative (First Round) Presidential	January 3 January 22 March
TAIWAN	Presidential Legislative	January 14 January 14
GREECE	Parliamentary (Tentative)	February 19
RUSSIA	Presidential	March 4
IRAN	Parliamentary	March 29
IMF/World Bank Spring Meetings	Washington, D.C	April 20-22
FRANCE	Presidential (First Round) *Presidential (Second Round)* Legislative (First Round) *Legislative (Second Round)*	April 22 May 6 June 10 June 17
SOUTH KOREA	Parliamentary Presidential	April 11 December
G-8 Summit	Chicago	May 15-22
G-20 Summit	Los Cabos, Mexico	June
ICELAND	Presidential	June 30
INDIA	Presidential	July
MEXICO	Presidential Legislative	July 1 July 1
HONG KONG	Legislative	September
CHINA	Leadership Transition / 18th CCP National Congress	Fall
VENEZUELA	Presidential	October 7
IMF/World Bank Annual Meetings	Tokyo, Japan	October 12-14
UNITED STATES	Presidential Legislative	November 6 November 6
TURKEY	Presidential	TBA

Source: www.electionguide.org.

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The Federal Reserve's Step Toward Published Rate Forecasts Carries Concerns

- **International experience and domestic limits to the powers of monetary policy limit the effectiveness of the Fed's upcoming move toward publishing forecasts for the fed funds target rate as a stimulus tool.**

The Fed's Motivation — And Our Related Concerns

The minutes to the FOMC meeting on December 13th stated that, following the January 25th FOMC meeting, the FOMC will begin publishing forecasts for when the first hike in the fed funds target rate will occur, and year-end rates over a number of years within its Summary of Economic Projections. This will entail affording each of the governors and regional Federal Reserve District Board members the opportunity to provide their own rate forecasts. The Fed will become the first truly major central bank to adopt this approach.

There are three main policy aims here. One is to improve transparency, which will be achieved for better or for worse. The second is to perhaps exert further downward influence and control further up the yield curve. A third aim is to lower market uncertainty and rate volatility.

There are, however, five main caveats that could well limit the success of this policy. For one, the risk to the US Treasury curve may be more skewed toward pushing rates higher rather than lower. That's because the starting point on yields is already remarkably low. For instance, Fed funds futures are pointing toward a rate pause until late 2013 and into early 2014 which is already somewhat longer than the Fed's commitment to leaves rates on hold "likely" until the middle of 2013. The latest Primary Dealer survey (which includes Scotia) by the NY Federal Reserve indicates that economists are also convinced that the risk is toward later hikes with 45% of respondents saying the first hike will occur later than or during the second quarter of 2014. Finally, although there are many factors that determine bond yields further up the curve, among them are monetary policy expectations. Yet with three year notes yielding only about 0.4% and five year notes about 0.85%, the market is signaling little if any capacity to be surprised by a potentially longer policy hold than previously communicated.

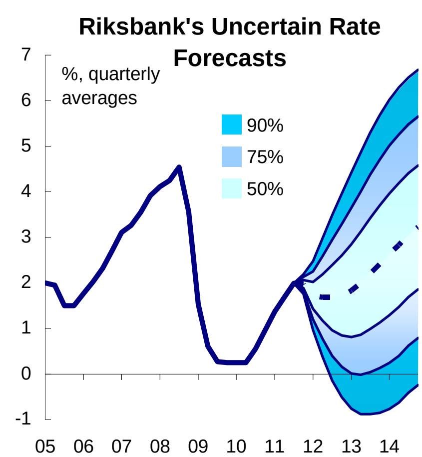
Second, the evidence that such a policy has lessened rate volatility where it has been applied elsewhere is wanting. Global rate volatility went up following the adoption of published rate forecasts by the Riksbank and Norges Bank; clearly this was due to myriad factors during the crisis, but it makes the point that there is no obvious proof that published rate forecasts lessen rate volatility and market uncertainty. Indeed, as chart 1 demonstrates, 90% confidence intervals surrounding the rates forecast published by Sweden's Riksbank are massive and currently point to a repo rate anywhere between 0 and 6.5 percentage points by the end of 2014. How this reduces rate uncertainty is somewhat beyond us.

Third, the US challenge is that money demand is proving to be interest inelastic and it's not clear that any hypothesized greater rate clarity would fix this. As evidence, household credit remains very soft excluding student loans. The US economy is arguably stuck in a liquidity trap in which money demand is relatively insensitive to changes in interest rates.

Fourth, what's different about the Fed's plans in contrast to what we'll note about the international experience is that instead of one published profile, the Fed will publish rate forecasts from each of the Governors and regional Federal Reserve District Bank Presidents. This could well amplify market uncertainty, and will not weight views toward the more powerful influences.

Finally, there could be a case to be made for concern about a central bank so publicly committing itself to even a central tendency rate view that could represent a straight jacket particularly given the Fed's history of missing so many inflation turning points – both up and down.

Chart 1



Source: Riksbank.

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International Experience

The Fed will not be alone in publishing a projection for the future path of the policy rate. At least three other developed economies (Sweden, Norway and New Zealand) already do so.

The Swedish Central Bank (the Riksbank) began publishing its own projection starting in early-2007. The rationale for publishing a profile was primarily because the Riksbank's growth and inflation projections needed to be based on an assumption for future interest rates. Prior to 2007, that assumption for interest rates relied on market expectations. These expectations were not always based on the sort of considerations that were factored into monetary policy decisions. Hence the MPC didn't necessarily agree with these interest rate expectations. In turn, this would result in GDP and inflation projections that were potentially misleading.

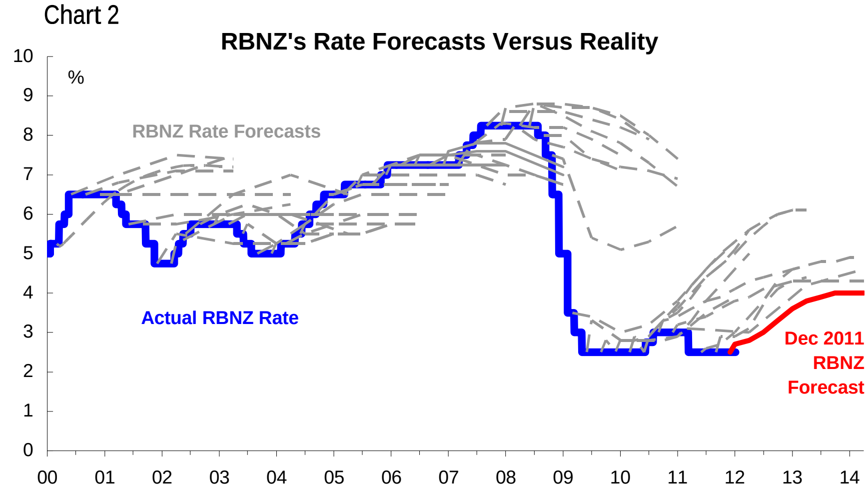
For similar reasons, the Norwegian Central Bank (Norges Bank) has published its own interest rate forecast since the end of 2005. The Norges Bank goes into some considerable detail to explain its approach to constructing its interest rate projection (see Criteria for an appropriate interest rate path http://www.norges-bank.no/Upload/80627/EN/MPR_2_10.pdf). Its approach is equivalent to an augmented Taylor Rule approach. In other words, interest rates are based on the deviation of inflation from target and the output gap but also on minimizing abrupt movements. Interest rates should also not stray far from the Norges Bank's simple monetary policy rules. The deviation of inflation from target carries the most weight in this approach.

One difficulty in assessing the relative success of providing guidance on the future path of interest rates is the short period over which the Scandinavian central banks have been producing forecasts. In the particular case of the Riksbank, this was introduced just ahead of the credit crunch when there were considerable gyrations in interest rates. At one point in 2008, the Riksbank abruptly slashed its policy rate by 175bp. Hence it is very hard to gauge whether the Riksbank's inflation forecast helped to reduce the volatility in interest rate expectations compared to before the forecasts were introduced, because we are not comparing like with like.

The Reserve Bank of New Zealand (RBNZ) is the Central Bank with the longest track record in forecasting the path of its policy rate (dating back to 1997). Given such a long track record, this does provide greater opportunities to assess the relative successes/failures of such a scheme. Chart 2 shows the actual RBNZ policy rate path and dotted lines that represent guidance provided along the way. The experience of the RBNZ has shown (see: http://www.ijcb.org/journal/ijcb11q2a5.pdf):

- A tendency to under-predict the pace of hiking when interest rates are rising;
- A tendency to under-predict the pace of cutting when interest rates are falling;
- A tendency to over-predict the peak in interest rates at the top of the cycle (at least in the early phase of this approach).
- A tendency to prematurely signal the first interest rate hike at the bottom of the cycle.

Chart 2



Source: Scotia Economics, RBNZ.

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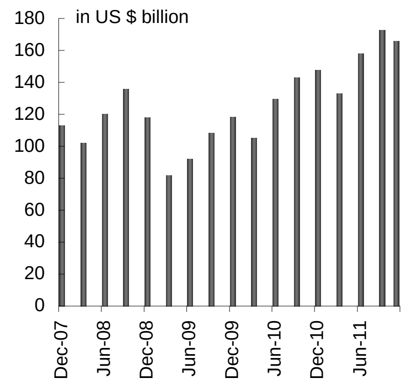
U.S. & Asian Resilience Limit The Fall In China's Exports

- **The contraction in the value of China's foreign sales remains bounded as the European recession finds little echo in the U.S. and the rest of Asia.**

The fall in China's exports will be limited by resilient sales to both the rest of Asia and the U.S. While shipments to Europe have contracted significantly, the data so far display little evidence of a similar drop in other regions. The persistent expansion of the U.S. manufacturing sector bodes well for future performance.

The value of China's foreign shipments peaked in the third quarter of 2011 at US$173 billion (adjacent chart). Data through November point to a contraction in average foreign sales values during the final quarter of the year, with December data to be reported in the coming week likely to confirm the trend. We expect a 12.9% y/y expansion in overall export values for the month, which would bring the quarterly average to $167 billion, a modest 3% sequential contraction. The main drivers of the relative resilience in Chinese foreign sales so far are revealed by looking at aggregated foreign shipment observations.

China's Exports

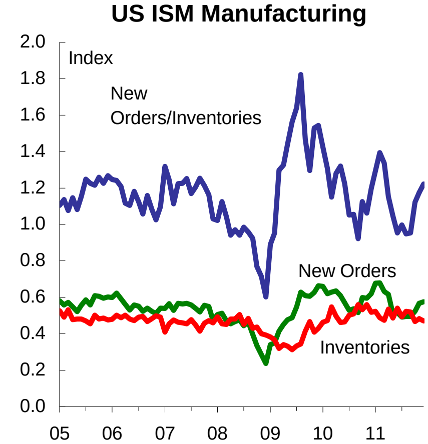


Quarterly averages in value terms.
Source: Customs Administration, China

Chinese exports to the rest of Asia, North America (U.S. and Canada) and Europe all peaked in the third quarter of 2011. The quarterly fall in the value of shipments during the final three months of 2011 will likely corroborate widespread differences. Data through November indicate that the contraction in foreign sales to Asia and North America has remained contained within the low single digits —0.7% q/q and 1.8%, respectively. European sales, however, registered a striking 17.3% quarterly fall (data through November), a double-digit fall that remains even after accounting for the 4.7% average weakening of the euro between the third and fourth quarters of last year. Given that the value of sales to Europe accounts for about 25% of China's total exports, this squares adequately with the retrenchment in overall sales seen so far. As stated above, we expect these trends to have continued through the end of last year, which implies that China's exports are certainly contracting, but far from falling off a cliff.

Looking ahead, questions remain regarding the outlook for Asian industrial output given expectations of Europe having entered into recession in the fourth quarter of 2011. A widely used leading indicator of industrial activity in Asia is the ratio of new orders to inventories from the U.S. Institute of Supply Management (ISM) monthly survey. Working under the assumption that the behaviour of Asia's industrial production has remained tight to this metric — which would explain in part why overall sales to Asia have followed the U.S. pattern, as well as the pickup in the region's manufacturing PMI surveys for December— one would conclude that the resilience portrayed in recent months is about to be extended at least into the first months of 2012. Indeed, the ratio of new orders to inventories from the U.S. ISM index has broken into an upward trend after bottoming last September (please refer to adjacent chart). This is a repetition of last year's experience, as activity in the U.S. manufacturing sector accelerated then on the back of a weaker dollar and the affordable credit conditions brought about by the U.S. Fed's extension of its quantitative easing program. The pickup in activity last year was interrupted by the March 2011 earthquake/ tsunami in Japan. Baring any similarly devastating natural disasters, the outlook for Asia's manufacturing sector, and for China's overall exports, does not look so bad at the turn of the year.

US ISM Manufacturing



Source: US Institute of Supply Management

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New Year — Old Story

Slower global growth again. Global economic activity is forecast to increase a moderate 3.6% in 2012, reflecting the compounding effect of increased fiscal belt-tightening in many advanced nations, prior credit restraint in some key developing countries, and the cascading effect on international trade, credit, and financial conditions associated with the euro zone's lingering sovereign debt crisis. Virtually every nation and region is affected, though post-crisis rebuilding is bolstering Japan temporarily. The euro zone has tilted into recession, while activity in the U.S. and Canada should average less than 2%. More moderate growth in Mexico and other parts of Latin America is likely. China's output growth should slip under 9% this year alongside the slowing in international trade and a cooling off in its hot real estate market

Downside risks to the outlook. Euro zone prospects require its leaders to stabilize its weakened banking sector, and implement far-reaching structural reforms to contain, and eventually reverse, the debt-led contagion. The U.S. economy is susceptible to chronic housing sector woes that are being magnified by oversupply conditions, while its mega-deficits leave it vulnerable to credit risks that are shaking Europe. A sharper moderation in growth among the developing world's powerhouses would have negative implications for commodity markets and many resource-dependent exporting countries. Credit conditions are expected to firm in many jurisdictions as tighter regulatory guidelines and capital raising initiatives are implemented.

Inflation pressures turning down, for now. The renewed moderation in price pressures should persist in the slower global growth environment. Many key commodity prices have turned lower, with added relief from the end to much of last year's weather-related disruptions. Core inflation pressures are expected to remain subdued in countries still confronted with excess capacity, though skilled labour shortages in certain sectors and regions will limit the amount of compression underway.

Ultra-low short-term interest rates to persist. Monetary policy will remain very accommodative in the advanced nations where growth and inflation pressures are moderating, and more countries are moving towards fiscal restraint. Further interest rate cuts are likely in the euro zone. The large developing nations of China and Brazil will continue, and in the case of India begin, the easing of domestic credit conditions.

Longer-term interest rates to stay low for longer. Notwithstanding rising deficits and debt burdens in the advanced economies, government bond yields in most of these countries have plunged to record lows amid the turbulence surrounding the euro zone's sovereign debt problems. Even so, longer-term bond yields are now being differentiated by credit risk. Deficits and debt burdens matter, but the U.S., Canada and Germany have the added fiscal flexibility afforded by continuing, albeit modest, growth. Government bond yields should remain on the historically low side well into 2012.

Safety in troubled times. The U.S. dollar is expected to stay stronger for longer in these unsettled times, as even moderate U.S. growth is outperforming many economies. Euro weakness should persist until more substantive policies and financial support are forthcoming. Current yen strength will eventually dissipate as repatriation flows and rebuilding efforts in Japan slow. The Canadian dollar is likely to remain below parity through the first half of the year, reflecting increased risk aversion and generally softer commodity prices.

Developing economies helping to rebalance global growth. The ongoing stronger economic performance in emerging nations will continue to support global activity, with car sales expected to surpass purchases in the developed world in 2012 for the first time on record. These nations have also become the key drivers to global trade, with imports to developing nations expanding at double the pace of overall global trade.

Investment spending supportive of global growth. Business caution is being reinforced by global uncertainty, while many governments are trimming investments to meet deficit reduction targets. Even so, corporate profitability, particularly in North America, retains favourable momentum, and balance sheets are relatively sound. Developing economies will continue to boost investment in infrastructure and commodity-related projects.

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U.S. Exporters Focus On Emerging Markets

- **U.S. exports to emerging markets, particularly China, are expanding at an impressive pace.**

With budget conscious U.S. consumers on a moderate spending path, exports and business investment have become key growth leaders. Emerging markets — which now account for close to half of world output, and whose economies have been averaging annual growth of roughly 6% over the past decade, three times the pace of their advanced counterparts — have become increasingly important export destinations.

U.S. exports to developing markets have been expanding at a stepped-up pace. From under a third in the 1990s, these destinations now account for nearly half of all U.S. foreign sales, offsetting some of the demand erosion witnessed by their industrialized counterparts (chart 1). China has become the principal destination (chart 2). Until recently, many emerging nations tended to rely on exports — particularly to advanced economies — to fuel economic growth, but the uneven pace of the global recovery has encouraged policymakers to shift their focus to boosting domestic demand.

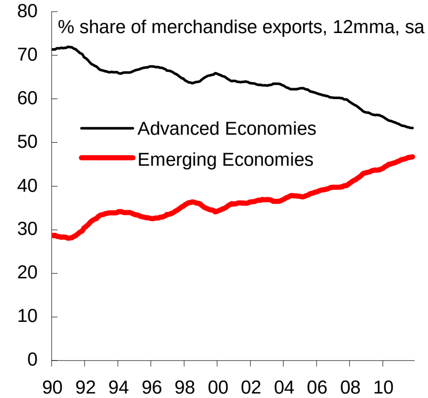
Mainland China (Hong Kong excluded) has become a top trade partner of many countries, not just among the neighbouring economies. It overtook Japan in 2007 as the third-largest U.S. export partner, and it continues to expand at a brisk clip. Sales to this market represent 7% (US$92 billion) of overall U.S. exports, and have jumped nearly five-fold (468%) over the past decade. Receipts from the rest of the world expanded by a much more modest 55%. For small- and medium-size enterprises (SMEs), Mainland China and Hong Kong represented a US$30 billion market in 2008 in the midst of the recession.

Regionally, California, Washington, Texas, and Louisiana are benefitting the most from the rapid expansion in China's domestic demand. They jointly accounted for over 45% of exports to China. According to the U.S. China Business Council, 30 states saw triple-digit growth from 2000 through 2010, while another 17 posted quadruple-digit gains. Major export products include soybeans, semiconductors, civilian aircraft & parts, industrial machinery, plastic materials and passenger cars.

Alongside stronger demand from abroad, American goods have also become more affordable. The U.S. dollar has been on a downward trajectory for a better part of the past decade, falling by nearly 35% since 2002. This is good news for U.S. manufacturers, as the export share of manufacturing shipments experienced a steep gain over the same period, from 13.8% to a record high of 18% (chart 3).

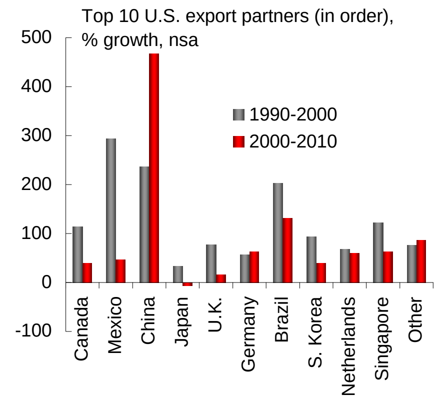
Seeking to capitalize on recent trends, President Obama's Trade Policy Agenda has a goal of doubling exports over the next five years, targeting SMEs and more free-trade agreements with emerging nations. Businesses appear to be focusing on China's rapidly developing inland regions — cities such as Shenyang, Wuhan, and Chengdu — which have been growing faster than those along the coast.

U.S. Steps Up Exports To Emerging Markets



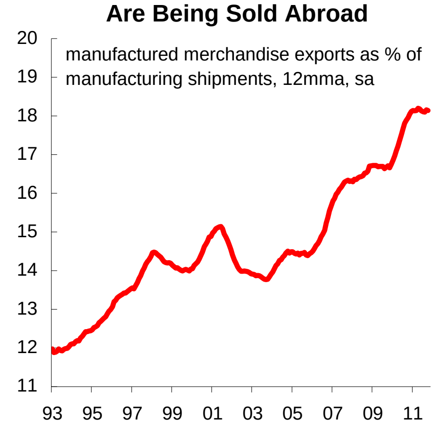
Source: Census Bureau, Scotia Economics.

Growth In U.S. Exports To China Beats All Other Destinations



Source: Census Bureau, Scotia Economics.

More U.S.-Manufactured Goods Are Being Sold Abroad



Source: Census Bureau, Scotia Economics.

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Canadian Exporters To See Positive Growth Despite Challenges

- **Exports are projected to rise at a slightly slower pace in 2012 than last year's estimated 11% advance, on moderate price and volume gains.**

Canadian exporters face a number of challenges entering 2012, including increased public sector restraint and consumer deleveraging in many advanced nations, weakened consumer and business confidence, and the competitive pressures of a persistently strong domestic currency. Nonetheless, with support from firm commodity prices and continuing solid emerging market demand, there is enough underlying strength in a number of key sectors to maintain some positive momentum.

The **agri-food** industry should remain a solid performer in 2012, with rising global food demand and historically high agricultural commodity prices supporting continued export expansion. Agricultural goods and food products have risen to roughly a 10% share of Canada's export basket, and account for almost one-quarter of shipments to Asia. Extreme weather events can significantly impact growing conditions and yields, but early industry expectations for 2012 are optimistic.

Exporters of **energy and industrial goods** can expect relatively favourable market conditions to persist in 2012. WTI oil prices are projected to remain around US$100/bbl this year despite an uncertain global economic outlook, supported in part by ongoing geopolitical risk. In addition, industry estimates point to higher production volumes, primarily of unconventional oil. Material markets are expected to strengthen by the spring alongside a pickup in Chinese industrial activity.

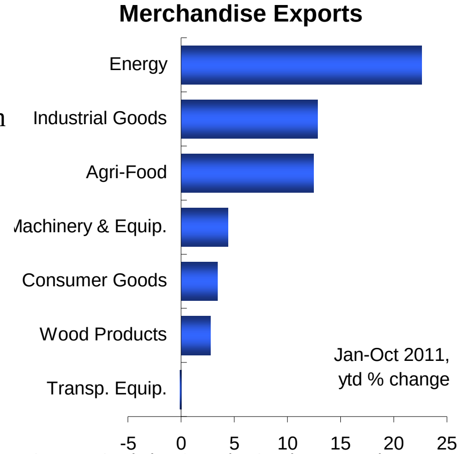
Forest product exports should strengthen modestly in 2012. While the U.S. housing market remains depressed, construction is edging up, with tightening rental markets lifting multi-unit starts. We expect U.S. housing starts to total 680,000 this year, up from 610,000 in 2011. The industry is also benefiting from growing demand from Asia, China in particular. While China's hot housing market has begun to cool, the construction of an estimated 7 million affordable social housing units in 2012 should more than offset a downturn in private sector starts. Ongoing reconstruction efforts in Japan are also supporting shipments.

Motor vehicle & parts shipments should rebound solidly in 2012 alongside rising U.S. vehicle replacement demand and improving employment conditions. Domestic vehicle assemblies are fully back on line after the severe global supply chain disruptions that weighed on industry performance in 2011. We also anticipate a modest recovery in **aerospace** exports this year given a rising backlog of aircraft orders, especially in the large business jet category.

The outlook for exporters of **industrial machinery and equipment** remains positive despite increased business caution. Healthy corporate profits and sound balance sheets will underpin further U.S. capital investment increases. Spending on infrastructure and commodity-related projects in emerging markets also will benefit the sector, though these regions represent a relatively small share of shipments. In contrast, sales of **consumer goods** such as textiles and footwear will remain constrained by muted U.S. discretionary spending and housing activity, stiff competition from lower-cost overseas producers, and a strong Canadian dollar.

The outlook for exporters of less cyclically sensitive services is mixed. While some **commercial services** such as engineering will benefit from global infrastructure and resource development, other industries such as business and leisure **travel** will remain constrained by weak confidence in the United States and Europe and a less competitive currency.

Merchandise Exports



Source: Statistics Canada, Scotia Economics

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U.S. State Governments' Extended Recovery Constraints

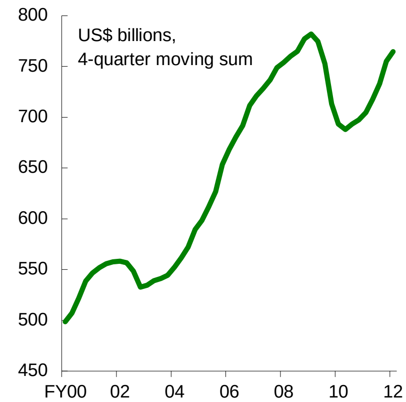
- **U.S. State government restructuring will continue with ongoing challenges.**

For State governments, the intense squeeze to balance their operating budgets is easing, as the latest survey of the National Association of State Budget Officers confirms. State tax collections, after five quarters of y/y declines ending in Q4 2009, have posted y/y gains for the seven quarters to Q3 2011, and are finally approaching pre-recession peaks (*top chart)*. In aggregate, the State *Budgets* for fiscal 2012 (FY12)[1] enacted a modest $0.6 billion cut in taxes and fees *(middle chart)*, with a balance of 18 States introducing net decreases, 13 States implementing net increases and the expiry of several temporary sales tax hikes. Only seven States late in 2011 indicated lower-than-projected revenues for FY12, while 22 reported on-target receipts and 15 suggested better-than-expected results.

Yet significant near-term issues remain. For FY13, 17 States are already expecting a combined budget gap of roughly $40 billion, after addressing an aggregate $95 billion budget gap preparing their *Budgets* for FY12. The moderate, not robust recovery forecast for the U.S. economy will continue to dampen the rebound in aggregate State tax receipts and fewer States are expecting upside revenue surprises for FY12. State property tax collections, which typically lag other revenues, have fallen 5.3% y/y for the four quarters to Q3 2011, and in many jurisdictions, further declines are anticipated, exacerbating strains among municipal governments. The withdrawal of federal stimulus funding, largely from the *American Recovery and Reinvestment Act (2009),* and the outlook for intensifying federal spending restraint represent a significant hurdle for State governments, particularly those witnessing soft recoveries and high unemployment. Federal funding climbed from 26% of States' general fund outlays in FY08 to an estimated 34% in FY10.

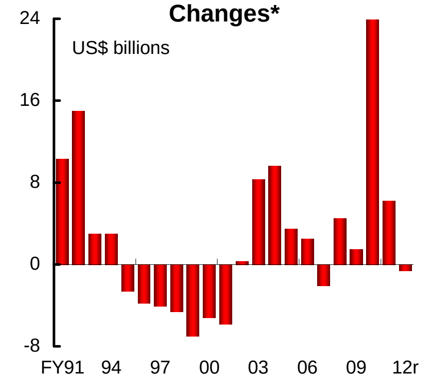
State governments' spending plans reflect their combined caution, with only a 2.9% nominal increase outlined for FY12 *(bottom chart)* and a 1.2% decrease in full-time positions. When the aggregate $19½ billion jump in general fund spending for Medicaid in the FY12 State *Budgets* is removed, FY12 outlays for higher education are lower and cuts to K-12 education outlays and public assistance are planned by 12 and 19 States, respectively. With elevated economic and federal fiscal policy uncertainty, State governments plan to maintain their year-end balances for FY12 at just over 6% of their general fund expenditures, supplemented by their Rainy Day Funds which, excluding the Texas and Alaska reserves, are targetted at 2.1% of their planned outlays. Longer term, the extended period of historically low interest rates will hamper the reduction of States' sizeable unfunded pension and benefit liabilities. As well, containing Medicaid costs remains a top priority, regardless of the eventual fate of Obama's *Affordable Care Act,* as underscored by the U.S. Government Accountability Office's status quo forecast of widening State/Local operating deficits through 2050. In FY11, virtually every State adopted at least one measure to restrain rising Medicaid costs.

U.S. State Tax Revenues Revive



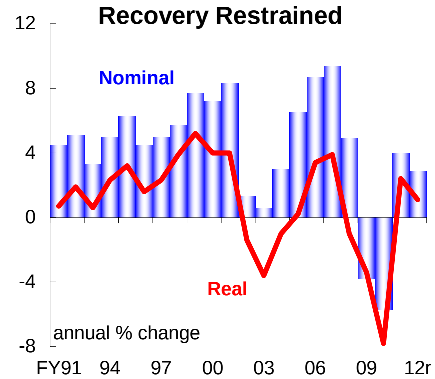
Source: U.S. Census Bureau.

U.S. Enacted State Revenue Changes*



* Positive data indicate a net tax and fee increase. Source: National Association of State Budget Officers.

U.S. State Spending* Recovery Restrained



* General fund. FY12 appropriated versus FY11 preliminary actual. Source: National Assn of State Budget Officers, Scotia Economics.

[1] Forty-six States have a June 30th fiscal year-end. Data in US dollars.

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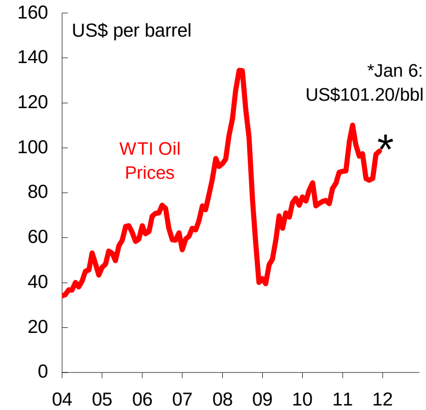
Oil Prices Boosted In Early 2012 By 'Geopolitical Risks'

- **Oil flows through the Strait of Hormuz represent 17% of world demand**

Oil Prices



Source: Scotiabank Commodity Price Index.

World oil prices have increased to high levels in early 2012 — pushed up by sanctions against Iran and the threat of closure of the Strait of Hormuz, a narrow strait through which more than 15 mb/d of Persian Gulf oil is shipped as well as large volumes of LNG & petroleum products. Iran is OPEC's second-largest producer, with recent output at 3.55 mb/d. Spot prices for Brent have averaged over US$113 per barrel and WTI oil US$102 to date in January.

On December 31, President Obama signed into law a measure prohibiting foreign banks operating in the United States from dealing with Iran's central bank, making it difficult to pay for Iranian oil. Stepped-up sanctions are intended to curb Iran's nuclear programme. The European Union also agreed in principle this week to impose an embargo on Iranian oil, though no timetable was set. Italy (249,000 b/d), Spain (149,000 b/d), Greece (111,000 b/d) and France (78,000 b/d) are significant buyers of Iranian oil. Crude from Iran accounts for 30.6% of Turkey's imports (not an EU member), 22.6% of imports into Greece and 13.3% of imports into Italy. While the immediate reaction in world oil markets to the proposed embargo was muted, any actual embargo would hugely lift prices (not advisable at a time of fragile economic and financial market conditions in Europe).

Saudi Arabia and the other Gulf countries stand ready to offset any shortfall of Iranian crude, though most of the increase must flow through the Strait of Hormuz (between Iran and Oman). Shipments through the pipeline across Saudi Arabia to the Red Sea port of Yanbu could be stepped up by about 2-2.5 mb/d, but the vast bulk of Saudi shipments must transit the Strait. The U.S. Fifth Fleet can be expected to take action in the event of any threatened closure by Iran. However, international banking sanctions could well inhibit Iranian oil exports, tightening global supply and demand conditions, even with the Strait open. (Analysts watch Saudi Arabia's excess capability as well as actual crude flows and this metric will tighten.) Oil prices will remain high in 2012.

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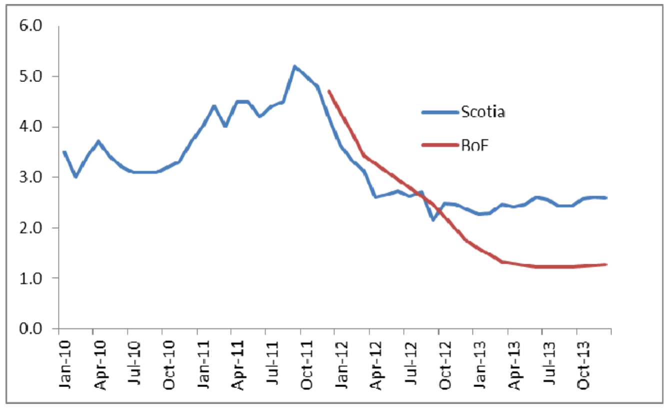
UK — Year Ahead Inflation Outlook

- **UK Inflation has peaked and is likely to slow sharply over the coming year. However, we doubt that UK inflation will slow by as much as the BoE has projected. We look at the key influences on CPI inflation over the coming year.**

UK Year-Ahead Inflation Outlook

Headline UK CPI inflation peaked at 5.2% y/y in September 2011 and has since slowed to 4.8% y/y in November, and likely to end the year just above 4% y/y. We forecast that inflation will continue to slow over the bulk of 2012, down to a trough of 2.1% y/y in September 2012, before stabilising a small margin above the 2% y/y target. That is rather at odds with the latest Bank of England forecast that foresees inflation slowing to 1.7% y/y by end 2012 before slowing further to 1.2% y/y by mid-2013.

Chart 1: BoE vs Scotia Capital Forecast CPI



In order to gauge the extent of the likely fall in inflation this year it is worth breaking down headline inflation into 4-5 major categories: Energy, Food, Alcohol & Tobacco, Indirect taxes and Core. The table below highlights the contribution of each of these sub-categories to overall inflation currently, and how this is likely to evolve over the coming year.

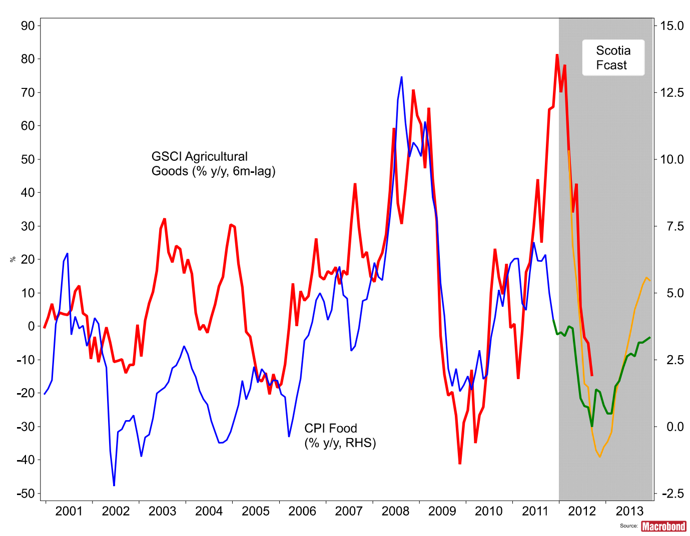
Table 1: Key Contributions to Headline CPI Inflation

	Now		End -year	
	% y/y	Contributions	% y/y	Contributions
Food	4	0.5	1	0.1
Energy	17.1	1.5	2	0.2
Alcohol & Tobacco	9.7	0.4	5.8	0.2
Indirect Taxes		1.0		0.3
Sum non-core		**3.4**		**0.8**

More specifically:

Food price inflation appears to have peaked lower and earlier than we had previously assumed. Given the slump in agricultural commodities price inflation (with more downside likely) we expect the CPI component for food to continue to decelerate down to just above zero by end-2012 (Chart 2). With a weight of 12% in the CPI basket that should subtract around 0.4% points from headline inflation.

Chart 2: CPI Food vs Agricultural Commodities



Energy price inflation surged during 2011 owing to a combination of higher transport energy and housing utility prices. On the assumption of flat oil prices and no further utility price movements, we expect base effects to push energy price inflation down to around 2% y/y by end-year. Given its weight

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in the basket this will be the biggest drag on overall inflation this year — subtracting around 1.3 percentage points from the latest reading.

Alcohol & tobacco inflation is currently extremely elevated at close to 10% y/y. Although this has been exacerbated by tax increases (RPI +2%) this isn't the only influence. We expect tobacco price inflation to roughly halve from its current pace of 13% y/y as wholesale tobacco prices stop rising as fast. However, given the multi-year tax hikes that are already in the pipeline, the downside is likely to be limited. We expect the pace of alcohol and tobacco to have slowed to below 6% y/y by end-year.

Indirect tax increases — if fully passed on — would account for 1.77% of headline CPI inflation (with VAT accounting for 1.47% points). However, we suspect that the VAT hike was only partly passed on to end customers — only around ½ to ¾. As such we suspect that these currently account for around 1% of headline inflation. Since the VAT hike which was a one-off, the contribution of indirect taxes to headline inflation is likely to shrink to only ¼% by end-year.

Overall, this means that the contribution to headline inflation from non-core and taxes should fall by around 2.6 percentage points from the latest reading. Other things equal, that should drag headline inflation down to 2.2% y/y. One could also argue that in an environment of subdued growth, a persistent output gap and unemployment above the NAIRU, core inflation should also slow. We will revisit this issue in more detail in the not too distant future. Even so, it is questionable whether the contribution from core inflation can fall by a further 0.5 percentage points in order to achieve the Bank of England's end-year forecast of 1.7% y/y.

Moreover, as we have highlighted before, the upcoming university tuition fee hikes (scheduled for October) will add between 0.2 and 0.4% points to headline inflation. Similarly, the Olympics are likely to exert upward pressure on several components of inflation including hotels, restaurants and other food.

All told, we believe that a slowdown in headline CPI inflation to around 2.2% y/y is a reasonable middle-of-the-road estimate for where inflation will trough towards the end of this year. Slowing core inflation argues to a aim a little lower. Meanwhile, pre-announced price hikes such as university tuition fees argue for a higher print.

Beyond 2012

The drag on headline inflation from food and energy is unlikely to last forever. Agricultural commodity prices are currently normalising lower from the extreme weather-induced spike over the last 18 months. Once this is complete (later this year) food prices are likely to continue to resume an elevated trajectory from 2013 onwards. Similarly energy price inflation is normalising downwards helped by base effects this year. However, as the government and energy suppliers have warned, the cost of renewables etc means that energy prices are more likely to go up than down over the next 5 years. Last but not least, the Bank of England is aggressively conducting quantitative easing, with plenty more likely in the pipeline. The precise impact of this is impossible to gauge. However, it argues to aim higher, not lower.

The bottom line is that we remain confident that inflation will surprise on the high side of the Bank of England's near 1% y/y inflation forecast for mid-2013.

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A Look At 2012 & Beyond

2012 will be the year of risk aversion. Changing regulations and government actions are distorting prices and making it more difficult to determine an asset's fundamental value. The capital structure needs to widen to compensate an investor appropriately for any incremental increase in risk. Geopolitical strife requires extra yield compensation for international exposure. The probability of "left tail" risk events is rising. Safe haven assets will stay expensive, especially the U.S. Treasury market which is the only market deep enough to absorb frightened capital. Yes, this time it really is different.

Portfolio construction practitioners must toss aside old models in 2012. Correlation, liquidity, counterparty, and operational risks should not be underestimated. "Buy the dip" is now a dead motto for equity traders, because the "Greenspan Put" has run out of reasonable ammunition. This means that the ebb in the typical business cycle has no self-correcting mechanism; thus the downside is greater. Concurrently, the deleveraging cycle still has a long way to go, thereby worsening economic activity in the broader economy. Distressed sellers will continue to emerge giving those with cash a great opportunity to purchase assets at uneconomic prices, resulting in immediate windfall mark-to-market returns.

The success of a protest movement in one area empowers others, and therefore, they are gaining in scope and frequency. Depending on how they evolve, various pockets of social unrest could become destabilizing to markets. Numerous elections across the globe will be influenced by wide-spread disquiet among voters.

Banks are under attack from all sides. Officials are determined to end "too-big-to-fail" and eradicate systemic risk. Burdensome regulations and increased capital requirements are limiting credit availability and putting downward pressure on profitability. Extreme austerity measures across Europe and elsewhere are retarding aggregate demand and sapping consumer confidence. Lowering deficits when interest expenses exceed nominal growth for an extended period is mathematically impossible. Now that Europe looks to be falling into a second recession, the situation is becoming calamitous.

China is not in a position to provide the global economic stimulus that it did in 2009. Many banks and property developers are in serious trouble and will likely need some level of state support. The ramifications on global capital markets from a "hard landing" are real, and the risks of such are increasing. China and the Eurozone have seen massive capital outflow which has found its way to the safety of the U.S. dollar. Dollar-denominated assets have thus outperformed. This flow of capital will likely continue. It is time to stay nimble, liquid and tactical.

This material has been prepared by a member of the sales and trading desk, and does not constitute investment research.

This note is a brief summary of the paper entitled, "A Look at 2012 and Beyond", published on January 4, 2012.

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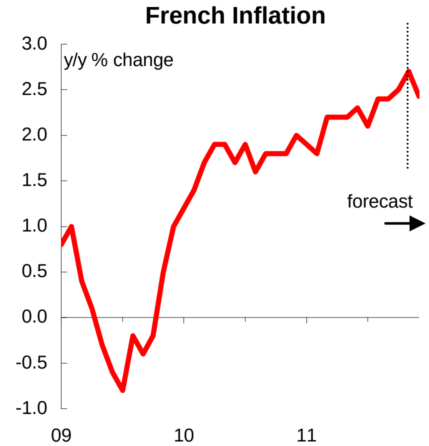
Key Data Preview

EUROPE

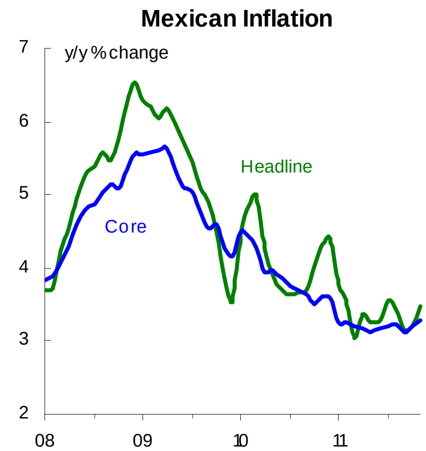
Next week's CPI report for France (Thursday) will likely show a slight moderation in the pace of inflation in December, in line with the regional trend. We are looking for a yearly print of 2.4% y/y (0.2% m/m), down from November's 2.7% y/y reading. Although we expect the month of December to mark the start of a sustained — though gradual — downtrend in inflation in the euro zone overall, we note that for certain member states this year will again be marked by temporary shocks to the consumer price index. In the case of France, the headline inflation rate will be boosted by a traditional value-added tax (VAT) increase as of January 1st from 5.5% to 7% (the revenue from which will be used to address the fiscal deficit as France seeks to preserve its AAA status), as well as a possible "social" VAT hike ahead of the presidential election in April-May. The social VAT is intended to lower corporate labour costs and increase the competitiveness of domestic products relative to imports by shifting the burden of social welfare outlays from employers to consumers. Together, the two measures could temporarily add as much as one percentage point to headline inflation. A weaker euro through the turn of the year will also augment price pressures in the coming months.



Source: Bloomberg, Scotia Economics.

LATIN AMERICA

Despite high international food and energy prices during 2011, Mexican inflation has remained relatively stable. With both core and headline inflation close to the mid-point of the central bank's inflation target range (2-4%), the monetary policy interest rate has been left unchanged at 4.5%. Next Monday (January 9th) annual inflation for 2011 will be released and we do not expect any major changes to the current trend. In the last three months core inflation has accelerated; however, the shift remains to be confirmed in the coming months. We anticipate that annual headline inflation closed 2011 at 3.55% y/y with the core rate having reached 3.3% y/y. We expect both measures to accelerate to 4% y/y in 2012.



Source: INEGI

ASIA

China's trade figures for December will be reported next week. The yearly expansion in export values has been trending down lately, from between 20-30% y/y growth in the middle of 2011, to the more recent sub-15% growth. While part of the slowdown is attributable to lower shipments to Europe as that region's activity continues to decline, base effects have also played a role as export values experienced an acceleration during the second half of 2010. An upward trend on a sequential basis was registered through the first three quarters of 2011, with export values rising each subsequent quarter. We expect foreign sales to have registered a small quarter-on-quarter contraction during the final quarter of last year, as falling shipments to Europe were compensated by steady performance in the U.S. and the rest of Asia. This observation would be consistent with a 12.9% y/y expansion during December.

Source: National Bureau of Statistics, China

Key Indicators for the week of January 9 - 13

North America

Country	Date	Time	Event	Period	BNS	Consensus	Latest
CA	01/09	08:30	Building Permits (MoM)	NOV	0.0	-3.0	11.9
MX	01/09	09:00	Consumer Prices Core (MoM)	DEC	0.5	0.5	0.3
MX	01/09	09:00	Consumer Prices (MoM)	DEC	0.6	0.7	1.1
MX	01/09	09:00	Consumer Prices (YoY)	DEC	3.55	3.74	3.48
CA	01/09	10:30	Business Outlook Future Sales	4Q	5.0	8.0	6.0
CA	01/09	10:30	BoC Senior Loan Officer Survey	4Q	- -	--	-26.9
US	01/09	15:00	Consumer Credit (US$ bns)	NOV	- -	7.0	7.6
CA	01/10	08:15	Housing Starts (000s)	DEC	180.0	188.0	181.2
MX	01/10	09:00	Global Economic Indicator IGAE (YoY)	OCT	3.48	3.8	4.5
MX	01/10	09:00	Gross Fixed Investment (YoY)	OCT	- -	6.0	6.8
US	01/11	07:00	MBA Mortgage Applications (WoW)	6-Jan	- -	--	-4.1
MX	01/11	09:00	Industrial Production (YoY)	NOV	3.18	3.7	3.3
MX	01/11	09:00	Industrial Production (MoM)	NOV	- -	--	-0.5
MX	01/11	10:00	Vehicle Domestic Sales (AMIA)	DEC	- -	--	83107
MX	01/11	10:00	Vehicle Production (AMIA)	DEC	- -	--	231080
US	01/11	14:00	Fed's Beige Book				
CA	01/12	08:30	New Housing Price Index (MoM)	NOV	- -	0.2	0.2
CA	01/12	08:30	New Housing Price Index (YoY)	NOV	- -	--	2.5
US	01/12	08:30	Advance Retail Sales (MoM)	DEC	0.3	0.2	0.2
US	01/12	08:30	Retail Sales Less Autos (MoM)	DEC	0.2	0.3	0.2
US	01/12	08:30	Retail Sales Ex Auto & Gas (MoM)	DEC	- -	0.3	0.2
US	01/12	08:30	Initial Jobless Claims (000s)	7-Jan	380	375	372
US	01/12	08:30	Continuing Claims (000s)	31-Dec	3560	--	3595
US	01/12	10:00	Revisions: Philadelphia Fed Business Outlook Survey				
US	01/12	10:00	Business Inventories (MoM)	NOV	- -	0.4	0.8
US	01/12	14:00	Monthly Budget Statement (US$ bns)	DEC	- -	-79.0	-137.3
CA	01/13	08:30	Int'l Merchandise Trade (C$ bns)	NOV	-0.5	-0.4	-0.9
US	01/13	08:30	Import Price Index (MoM)	DEC	- -	-0.1	0.7
US	01/13	08:30	Trade Balance (US$ bns)	NOV	-45.5	-44.6	-43.5
US	01/13	09:55	U. of Michigan Confidence	JAN P	71.0	70.5	69.9

Europe

Country	Date	Time	Event	Period	BNS	Consensus	Latest
IR	JAN 6-13		Consumer Confidence	DEC	- -	–	60.1
UK	01/08	19:01	Lloyds Employment Confidence	DEC	- -	–	-75.0
GE	01/09	02:00	Exports SA (MoM)	NOV	- -	0.5	-3.5
GE	01/09	02:00	Imports SA (MoM)	NOV	- -	0.5	-0.7
GE	01/09	02:00	Current Account (€ bns)	NOV	- -	11.5	10.3
GE	01/09	02:00	Trade Balance (€ bns)	NOV	- -	12.0	11.6
FR	01/09	02:45	Trade Balance (€ mns)	NOV	- -	-6000	-6248
SW	01/09	03:30	Service Production (YoY) WDA	NOV	- -	2.8	2.9
NO	01/09	04:00	Credit Indicator Growth (YoY)	NOV	- -	6.8	6.8
EC	01/09	04:30	Sentix Investor Confidence	JAN	- -	–	-24.0
GE	01/09	06:00	Industrial Production SA (MoM)	NOV	2.0	-0.5	0.8
UK	01/09	19:01	BRC Sales Like-For-Like (YoY)	DEC	- -	0.5	-1.6
UK	01/09	19:01	RICS House Price Balance (%)	DEC	-12.0	-18.5	-17.0
PO	01/09		Trade Balance (€ mns)	NOV	- -	–	-932.0

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

Key Indicators for the week of January 9 - 13

Europe *(continued from previous page)*

Country	Date	Time	Event	Period	BNS	Consensus	Latest
FR	01/10	02:45	Bank of France Bus. Sentiment	DEC	- -	95.0	95.3
FR	01/10	02:45	Manufacturing Production (MoM)	NOV	- -	-0.4	0.0
FR	01/10	02:45	Industrial Production (MoM)	NOV	-0.4	-0.1	0.0
SP	01/10	03:00	House transactions (YoY)	NOV	- -	--	-18.0
SW	01/10	03:30	Budget Balance (SEK bns)	DEC	- -	--	5.5
SW	01/10	03:30	Industrial Prod. s.a. (MoM)	NOV	- -	-0.6	0.4
SW	01/10	03:30	Industrial Orders s.a. (MoM)	NOV	- -	--	-1.8
NO	01/10	04:00	CPI (YoY)	DEC	- -	0.4	1.2
NO	01/10	04:00	CPI Underlying (YoY)	DEC	- -	1.0	1.0
NO	01/10	04:00	Producer Prices incl.Oil (YoY)	DEC	- -	--	12.9
IR	01/10	06:00	Industrial Production sa (MoM)	NOV	- -	--	6.6
UK	01/10	19:01	BRC Shop Price Index (YoY)	DEC	- -	--	2.0
GE	01/11	03:00	Budget (Maastricht) (% of GDP)	2011	- -	--	3.3
GE	01/11	03:00	GDP (Annual Growth Rate)	2011	- -	3.0	3.6
SP	01/11	03:00	Industrial Output NSA (YoY)	NOV	- -	--	-4.2
IT	01/11	04:00	Deficit to GDP (year to date)	3Q	- -	--	5.3
UK	01/11	04:30	Visible Trade Balance (GBP/Mn)	NOV	-8600	-8350	-7557
UK	01/11	04:30	Trade Balance Non EU (GBP/Mn)	NOV	-5000	-5000	-4554
UK	01/11	04:30	Total Trade Balance (GBP/Mln)	NOV	- -	-2350	-1552
PO	01/11	05:00	Consumer Price Index (YoY)	DEC	- -	--	4.0
PO	01/11	05:00	CPI - EU Harmonised (YoY)	DEC	- -	--	3.8
PO	01/11		Construction Works Index	NOV	- -	--	65.2
FR	01/12	01:30	CPI - EU Harmonised (MoM)	DEC	0.2	0.3	0.3
FR	01/12	01:30	CPI - EU Harmonised (YoY)	DEC	2.4	2.5	2.7
FR	01/12	01:30	Consumer Price Index (MoM)	DEC	0.2	0.2	0.3
FR	01/12	01:30	Consumer Price Index (YoY)	DEC	2.2	2.3	2.5
FR	01/12	01:30	CPI Ex Tobacco Index	DEC	123.27	123.3	123.0
GE	01/12	02:00	Consumer Price Index (MoM)	DEC F	- -	0.7	0.7
GE	01/12	02:00	Consumer Price Index (YoY)	DEC F	- -	2.1	2.1
GE	01/12	02:00	CPI - EU Harmonised (MoM)	DEC F	0.8	0.8	0.8
GE	01/12	02:00	CPI - EU Harmonised (YoY)	DEC F	2.4	2.4	2.4
FR	01/12	02:45	Current Account (€ bns)	NOV	- -	--	-4.5
FR	01/12	02:45	Central Govt. Balance (€ bns)	NOV	- -	--	-99.4
SW	01/12	03:30	SW CPI - CPIF (YoY)	DEC	- -	0.6	1.1
SW	01/12	03:30	CPI - Headline Rate (YoY)	DEC	- -	2.3	2.8
SW	01/12	03:30	Average House Prices (SEK mns)	DEC	- -	--	1.9
IT	01/12	04:00	Industrial Production sa (MoM)	NOV	- -	-0.1	-0.9
UK	01/12	04:30	Industrial Production (MoM)	NOV	0	-0.1	-0.7
UK	01/12	04:30	Industrial Production (YoY)	NOV	-2.1	-2.2	-1.7
UK	01/12	04:30	Manufacturing Production (MoM)	NOV	-0.3	-0.2	-0.6
UK	01/12	04:30	Manufacturing Production (YoY)	NOV	-0.6	-0.5	0.3
EC	01/12	05:00	Euro-Zone Ind. Prod. sa (MoM)	NOV	- -	-0.2	-0.1
UK	01/12	07:00	**BOE Asset Purchase Target**	JAN	**275.0**	**275.0**	**275.0**
UK	01/12	07:00	**BOE ANNOUNCES RATES**	12-Jan	**0.50**	**0.50**	**0.50**
EC	01/12	07:45	**ECB Announces Interest Rates**	12-Jan	**1.00**	**1.00**	**1.00**
UK	01/12	10:00	NIESR GDP Estimate (QoQ)	DEC	- -	--	0.3
GE	JAN 12-17		Wholesale price Index (YoY)	DEC	- -	--	4.9
SP	01/13	03:00	CPI (EU Harmonised) (MoM)	DEC	0.0	0.0	0.2
SP	01/13	03:00	CPI (EU Harmonised) (YoY)	DEC F	2.3	2.3	2.3
SP	01/13	03:00	CPI (Core Index) (YoY)	DEC	- -	1.4	1.7
SP	01/13	03:00	Consumer Price Index (YoY)	DEC F	2.4	2.4	2.4
NO	01/13	04:00	Existing Homes (QoQ)	4Q	- -	--	0.3
UK	01/13	04:30	PPI Input NSA (MoM)	DEC	0.0	-0.1	0.1
UK	01/13	04:30	PPI Input NSA (YoY)	DEC	9.2	9.1	13.4
UK	01/13	04:30	PPI Output n.s.a. (MoM)	DEC	0.0	0.1	0.2
UK	01/13	04:30	PPI Output n.s.a. (YoY)	DEC	4.9	5.0	5.4
UK	01/13	04:30	PPI Output Core NSA (MoM)	DEC	-0.2	0.0	0.0
UK	01/13	04:30	PPI Output Core NSA (YoY)	DEC	3.0	3.2	3.2
EC	01/13	05:00	Euro-Zone Trade Balance (€ mns)	NOV	- -	--	1081.0
IR	JAN 13-20		New Vehicle Licences	DEC	- -	--	2311.0
IR	JAN 13-20		CPI (EU Harmonised) (YoY)	DEC	- -	--	1.7
IR	JAN 13-20		CPI (YoY)	DEC	- -	--	2.9

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

Key Indicators for the week of January 9 - 13

Asia Pacific

Country	Date	Time	Event	Period	BNS	Consensus	Latest
SK	01/08	16:00	Producer Price Index (YoY)	DEC	- -	--	5.1
NZ	01/08	16:45	Trade Balance (NZ$ mns)	NOV	- -	-300.0	-282.1
NZ	01/08	16:45	Exports (NZ$ mns)	NOV	- -	3900.0	3878.2
NZ	01/08	16:45	Imports (NZ$ mns)	NOV	- -	4200.0	4160.3
NZ	01/08	16:45	Trade Balance 12 Mth YTD (NZ$ mns)	NOV	- -	538.5	627.0
AU	01/08	17:30	AiG Perf of Construction Index	DEC	- -	--	39.6
AU	01/08	19:00	HIA New Home Sales (MoM)	NOV	- -	--	5.5
AU	01/08	19:30	Retail Sales s.a. (MoM)	NOV	- -	0.4	0.2
HK	JAN 8-9		Foreign Currency Reserves (US$ bns)	DEC	- -	--	282.5
IN	JAN 8-10		India Local Car Sales	DEC	- -	--	171131
AU	01/09	00:30	Foreign Reserves (AU$ bns)	DEC	- -	--	44.8
TA	01/09	03:00	Total Trade Balance (US$ bns)	DEC	- -	2.7	3.2
TA	01/09	03:00	Total Exports (YoY)	DEC	- -	3.7	1.3
TA	01/09	03:00	Total Imports (YoY)	DEC	- -	-1.0	-10.4
NZ	01/09	16:45	Building Permits (MoM)	NOV	- -	3.3	11.2
NZ	01/09	18:00	QV House Prices (YoY)	DEC	- -	--	1.7
AU	01/09	19:30	Building Approvals (MoM)	NOV	- -	6.0	-10.7
AU	01/09	19:30	Building Approvals (YoY)	NOV	- -	-19.8	-29.8
PH	01/09	20:00	Total Monthly Exports (US$ mns)	NOV	- -	--	4088.0
PH	01/09	20:00	Total Exports (YoY)	NOV	- -	-10.0	-14.6
MA	01/09	23:01	Industrial Production (YoY)	NOV	- -	3.8	2.8
MA	01/09	23:01	Manufacturing Sales Value (YoY)	NOV	- -	--	11.4
CH	JAN 9-10		Trade Balance (US$ bns)	DEC	7.8	8.8	14.5
CH	JAN 9-10		Exports (YoY)	DEC	12.9	13.4	13.8
CH	JAN 9-10		Imports (YoY)	DEC	18.5	18.0	22.1
PH	JAN 9-10		M3 Money Supply (YoY)	NOV	- -	--	6.9
SK	01/10	18:00	Unemployment Rate (SA)	DEC	- -	3.2	3.1
AU	01/10	18:30	Westpac Consumer Confidence s.a. (MoM)	JAN	- -	--	-8.3
AU	01/10	18:30	Westpac Consumer Confidence Index	JAN	- -	--	94.8
JN	01/10	18:50	Official Reserve Assets (US$ bns)	DEC	- -	--	1304.8
AU	01/10	19:30	Job vacancies (%)	NOV	- -	--	3.3
MA	01/10	23:01	Exports (YoY)	NOV	- -	13.5	15.8
MA	01/10	23:01	Imports (YoY)	NOV	- -	9.8	4.6
MA	01/10	23:01	Trade Balance (MYR bns)	NOV	- -	12.0	13.2
CH	JAN 10-15		Foreign Exchange Reserves (US$ bns)	DEC	3200.0	3150.0	3201.7
CH	JAN 10-15		New Yuan Loans	DEC	561.0	575.0	562.2
CH	JAN 10-15		Money Supply - M0 (YoY)	DEC	- -	--	11.9
CH	JAN 10-15		Money Supply - M1 (YoY)	DEC	- -	7.9	7.8
CH	JAN 10-15		Money Supply - M2 (YoY)	DEC	- -	12.9	12.7
JN	01/11	00:00	Coincident Index CI	NOV P	- -	90.3	91.4
JN	01/11	00:00	Leading Index CI	NOV P	- -	92.9	92.0
JN	01/11	18:50	Bank Lending Ex-Trusts (YoY)	DEC	- -	--	0.2
JN	01/11	18:50	Bank Lending incl Trusts (YoY)	DEC	- -	--	0.2
JN	01/11	18:50	Current Account Total (¥ bns)	NOV	- -	246.8	562.4
JN	01/11	18:50	Adjusted Current Account Total (¥ bns)	NOV	- -	446.0	518.6
JN	01/11	18:50	Current Account Balance (YoY)	NOV	- -	-74.8	-62.4
JN	01/11	18:50	Trade Balance - BOP Basis (¥ bns)	NOV	- -	-599.4	-206.1
NZ	01/11	19:00	ANZ Commodity Price (MoM)	DEC	- -	--	-1.0
CH	01/11	20:30	Producer Price Index (YoY)	DEC	1.9	1.6	2.7
CH	01/11	20:30	Consumer Price Index (YoY)	DEC	4	4.0	4.2
SK	01/11	21:00	South Korea FDI (YoY)	4Q	- -	--	-24.6
SK	01/11	22:00	South Korea Money Supply L (YoY)	NOV	- -	--	8.9
SK	01/11	22:00	South Korea Money Supply M2 (YoY0	NOV	- -	--	4.4
ID	JAN 11-12		**Bank Indonesia Reference Rate**	12-Jan	**6.00**	**6.00**	**6.00**

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

Key Indicators for the week of January 9 - 13

Asia Pacific *(continued from previous page)*

Country	Date	Time	Event	Period	BNS	Consensus	Latest
JN	01/12	00:00	Eco Watchers Survey: Current	DEC	- -	--	45.0
JN	01/12	00:00	Eco Watchers Survey: Outlook	DEC	- -	--	44.7
IN	01/12	00:30	Industrial Production (YoY)	NOV	- -	2.2	-5.1
JN	01/12	01:00	Machine Tool Orders (YoY)	DEC P	- -	--	15.8
IN	01/12	01:30	Food Articles WPI (YoY)	31-Dec	- -	--	-3.4
IN	01/12	01:30	Fuel Power Light WPI (YoY)	31-Dec	14.7	--	14.6
IN	01/12	01:30	Primary Articles WPI (YoY)	31-Dec	2.5	--	0.1
SK	01/12	16:00	Export Price Index (MoM)	DEC	- -	--	-2.3
SK	01/12	16:00	Export Price Index (YoY)	DEC	- -	--	5.4
SK	01/12	16:00	Import Price Index (MoM)	DEC	- -	--	-1.6
SK	01/12	16:00	Import Price Index (YoY)	DEC	- -	--	11.8
JN	01/12	18:50	Japan Money Stock M2 (YoY)	DEC	- -	3.0	3.0
JN	01/12	18:50	Japan Money Stock M3 (YoY)	DEC	- -	2.5	2.5
JN	01/12	18:50	Japan Buying Foreign Bonds (¥ bns)	6-Jan	- -	--	146.4
JN	01/12	18:50	Japan Buying Foreign Stocks (¥ bns)	6-Jan	- -	--	5.7
JN	01/12	18:50	Foreign Buying Japan Bonds (¥ bns)	6-Jan	- -	--	-567.9
JN	01/12	18:50	Foreign Buying Japan Stocks (¥ bns)	6-Jan	- -	--	-210.6
SK	01/12	20:00	**South Korea 7-Day Repo Rate**	13-Jan	**3.25**	**3.25**	**3.25**
JN	01/12	23:00	Bankruptcies (YoY)	DEC	- -	--	3.2
CH	JAN 12-20		Industrial Production YTD (YoY)	DEC	13.6	13.8	14.0
CH	JAN 12-20		Industrial Production (YoY)	DEC	12	12.3	12.4
CH	JAN 12-20		Fixed Assets Inv Excl. Rural YTD (YoY)	DEC	24	24.1	24.5
CH	JAN 12-20		Real GDP YTD (YoY)	4Q	- -	9.2	9.4
CH	JAN 12-20		Real GDP (QoQ)	4Q	2.2	--	2.3
CH	JAN 12-20		Real GDP (YoY)	4Q	8.5	8.6	9.1
CH	JAN 12-20		Retail Sales YTD (YoY)	DEC		17.0	17.0
CH	JAN 12-20		Retail Sales (YoY)	DEC	17	17.3	17.3
NZ	JAN 12-15		REINZ Housing Price Index	DEC	- -	--	3304.3
NZ	JAN 12-15		REINZ Housing Price Index (MoM)	DEC	- -	--	1.1
NZ	JAN 12-15		REINZ House Sales (YoY)	DEC	- -	--	16.9
IN	01/13	01:30	Monthly Wholesale Prices (YoY)	DEC	8.9	7.7	9.1

Latin America

Country	Date	Time	Event	Period	BNS	Consensus	Latest
CL	01/09	06:30	Trade Balance (US$ mns)	DEC	- -	750.0	657.0
CL	01/09	06:30	Total Exports (US$ mns)	DEC	- -	--	6769.0
CL	01/09	06:30	Total Imports (US$ mns)	DEC	- -	--	6112.0
CL	01/09	06:30	Copper Exports	DEC	- -	--	3702.0
BZ	01/09	08:00	Trade Balance (FOB) - Weekly (US$ mns)	8-Jan	- -	--	740.0
PE	JAN 9-12		Trade Balance (PEN mns)	NOV	- -	--	672.0
CL	01/10	06:30	Central Bank Economist Survey				
BZ	01/12	06:00	Retail Sales (MoM)	NOV	- -	0.3	0.0
BZ	01/12	06:00	Retail Sales (YoY)	NOV	- -	5.2	4.3
BZ	01/12	06:00	Broad Retail Sales (YoY)	NOV	- -	--	1.6
CL	01/12	16:00	**Nominal Overnight Rate Target**	12-Jan	**5.25**	**5.00**	**5.25**
PE	01/12	18:00	**Reference Rate**	**JAN**	**4.25**	**4.25**	**4.25**

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

Global Auctions for the week of January 9 - 13

North America

Country	Date	Time	Event
US	01/09	11:30	U.S. to Sell 3-Month Bills
US	01/09	11:30	U.S. to Sell 6-Month Bills
US	01/10	11:00	U.S. Fed to Purchase USD 1-1.15 Bln Notes
US	01/10	11:30	U.S. to Sell 4-Week Bills
US	01/10	11:30	U.S. to Sell 52-Week Bills
US	01/10	13:00	U.S. to Sell 3-Year Notes
CA	01/11	12:00	Canada to Sell 2-Year Notes
US	01/11	13:00	U.S. to Sell 10-Year Notes Reopening
US	01/12	13:00	U.S. to Sell 30-Year Bonds Reopening

Europe

Country	Date	Time	Event
NO	01/09	05:10	Norway to Sell NOK6 Bln 6.5% 2013 Bonds
GE	01/09	05:15	Germany to Sell EU4 Bln 6-Mth Bills
HU	01/09	05:30	Hungary to Sell 6-Week Bills
PD	01/09	06:00	Poland to Sell Up to PLN2 Bln 49-Week Bills
FR	01/09	09:00	France to Sell Up to EUR1.7 Bln 364-Day Bills
FR	01/09	09:00	France to Sell Up to EUR1.8 Bln 182-Day Bills
FR	01/09	09:00	France to Sell Up to EUR4.2 Bln 91-Day Bills
NE	01/10	04:00	Netherlands to Sell Up to EUR3.5 Bln 0.75% 2015 Bonds
DE	01/10	04:30	Denmark to Sell Bonds
AS	01/10	05:00	Austria to Sell 3.65% 2022 Bonds on Jan. 10
AS	01/10	05:00	Austria to Sell 4% 2016 Bonds on Jan. 10
GR	01/10	05:00	Greece to Sell EUR1.25 Bln 182-Day Bills
UK	01/10	05:30	U.K. to Sell GBP700 Mln 0.75% I/L 2047 Bonds
SZ	01/10	05:30	Switzerland to Sell 12-Month Bills
HU	01/10	05:30	Hungary to Sell 3-Month Bills
HU	01/11	04:30	Hungary's Central Bank to Sell 2-Week Bills
SW	01/11	05:10	Sweden to Sell SEK2.5 Bln 3.5% 2022 Bonds
GE	01/11	05:15	Germany to Sell EU4 Bln 5-Year Notes
UK	01/11	05:30	U.K. to Sell GBP3 Bln 3.75% 2021 Bonds
SZ	01/11	05:30	Switzerland to Sell Bonds
SP	01/12	04:30	Spain to Sell 4.25% 2016 Bonds
EC	01/12	04:30	Spain to Sell 3.25% 2016 Bonds
SP	01/12	04:30	Spain to Sell 4% 2015 Bonds
IT	01/12	05:00	Italy to Sell Bills
HU	01/12	05:30	Hungary to Sell Bonds
PD	01/12	06:00	Poland to Sell Up to PLN4 Bln Bonds
IT	01/13	05:00	Italy to Sell Bonds/Floating Rate Notes
UK	01/13	06:10	U.K. to Sell GBP500 Mln 28-Day Bills
UK	01/13	06:10	U.K. to Sell GBP1.5 Bln 91-Day Bills
UK	01/13	06:10	U.K. to Sell GBP1.5 Bln 182-Day Bills

Asia Pacific

Country	Date	Time	Event
CH	01/09	22:00	China Development Bank to Sell CNY 20 Bln 10-Year Bonds
JN	01/09	22:35	Japan to Sell 6-Month Bills
CH	01/10	22:00	China to Sell 1-Year Bonds
JN	01/10	22:35	Japan to Sell 3-Month Bills
NZ	01/11	20:30	New Zealand Plans to Sell Government Bonds
JN	01/11	22:45	Japan to Sell 10-Year Bonds

Source: Bloomberg, Scotia Economics.

Events for the week of January 9 - 13

North America

Country	Date	Time	Event
US	01/07	11:15	World Bank President Zoellick Speaks at AEA in Chicago
US	01/07	12:40	Fed's Raskin Speaks on Mortgages in Washington
US	01/07	18:00	Fed's Bullard Speaks in Chicago
US	01/09	12:40	Fed's Lockhart to Speak on Economy in Atlanta
US	01/10	10:30	Fed's Williams to Speak on Economy in Vancouver, Washington
US	01/10	11:10	Fed's Pianalto Speaks on Labor Markets in Ohio
US	01/10	13:00	Fed's George Speaks on Economic Outlook in Kansas City
US	01/11	08:40	Fed's Evans Speaks on U.S. Economy in Illinois
US	01/11	09:00	Fed's Lockhart to Speak on Economy in Atlanta
US	01/11	12:30	Fed's Plosser Speaks on Economy in Rochester, NY
US	01/12	10:30	IMF Holds Regularly Scheduled News Briefing
US	01/13	11:10	Fed's Duke Speaks on Regulation in Santa Barbara, California
US	01/13	12:45	Fed's Lacker Speaks on Economy in Richmond
US	01/13	13:00	Chicago Fed President Charles Evans speaks in Indianapolis

Europe

Country	Date	Time	Event
GE	01/09	07:30	Merkel, Sarkozy Hold Talks in Berlin
GE	01/09	10:30	Merkel Holds Speech on Demographics at Cologne Congress
GE	01/09	13:00	Merkel Speaks on Euro Economy at IHK Trade Chamber, Dusseldorf
EC	01/10	09:00	EU's Rehn Speaks on Euro Bonds to European Parliament Group
UK	01/10		Parliament Reconvenes After Christmas/New Year Break
UK	01/11	07:00	Prime Minister's Question Time in House of Commons
GE	01/11	07:00	Merkel Hosts Italian Prime Minister Monti for Talks in Berlin
GE	01/11	10:00	Merkel Speaks at Closed Event in Berlin Held by Die Welt
EC	01/11	12:00	EU's Van Rompuy Speaks at Manager Conference in Brussels
IT	01/12	03:30	Monti Addresses Chamber of Deputies on Economy, EU Events
UK	01/12	07:00	BOE Asset Purchase Target
UK	01/12	07:00	BOE ANNOUNCES RATES
EC	01/12	07:45	ECB Announces Interest Rates
EC	01/12	08:30	ECB Monthly News Conference
EC	01/12	10:30	EU's Van Rompuy, Almunia, Hedegaard, Oettinger Speak
EC	01/13		EU's Barnier Meets With ECB's Noyer in Paris
GE	JAN 13-14		Merkel Attends Two-Day CDU Party Meeting in Kiel

Asia Pacific

Country	Date	Time	Event
IN	JAN 5-11		ACMA, CII and SIAM Hosts Auto Expo 2012
CH	JAN 9-12		U.S. Treasury Secretary Geithner Visits China, Japan
ID	JAN 11-12		Bank Indonesia Reference Rate

Latin America

Country	Date	Time	Event
BZ	01/07	21:00	Tombini attends central bankers' meeting in Basel, Switzerland
CL	01/10	06:30	Central Bank Economist Survey
CL	01/12	16:00	Nominal Overnight Rate Target
PE	01/12	18:00	Reference Rate

Source: Bloomberg, Scotia Economics.

Global Central Bank Watch

North America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Canada – Overnight Target Rate	1.00	January 17, 2012	1.00	--
Federal Reserve – Federal Funds Target Rate	0.25	January 25, 2012	0.25	--
Banco de México – Overnight Rate	4.50	January 20, 2012	4.50	--

Next week will be a massive week for Fed speak that carries speeches on the economic outlook by a variety of influential Governors and regional bank presidents. Key to watch for will be possible early tip-offs on their outlook for the Fed Funds Target rate as per the movement toward publishing the rate forecasts of Fed policymakers at the January 25th FOMC meeting. A related risk to these forecasts could carry implications for the Bank of Canada in that markets may alter their pricing of BoC moves should the Fed come in even more dovish than current Fed funds futures pricing which expects no real policy move over the next couple of years.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	1.00	January 12, 2012	1.00	1.00
Bank of England – Bank Rate	0.50	January 12, 2012	0.50	0.50
Swiss National Bank – Libor Target Rate	0.00	March 15, 2012	0.00	--
Central Bank of Russia – Refinancing Rate	8.00	January 27, 2012	8.00	--
Hungarian National Bank – Base Rate	7.00	January 22, 2012	7.00	7.50
Central Bank of the Republic of Turkey – 1 Week Repo Rate	5.75	January 24, 2012	5.75	--

We do not foresee any adjustment to monetary conditions by either the European Central Bank (ECB) or the Bank of England (BoE) at their respective meetings on January 12th. While the BoE will likely leave the bank rate at 0.50% (where it has been since March 2009) until the second half of 2013 at the earliest, we expect an expansion of the bond purchasing program to be initiated at the bank's meeting in February. Despite having moderated from 3.0% y/y in November to 2.8% in December, inflation in the euro zone remains elevated, and the ongoing deceleration will likely be more gradual than previously anticipated. We thus expect that the ECB will maintain the reference rate unchanged at 1.00% at this juncture, following two consecutive quarter-point cuts at the last two meetings. Nevertheless, we do look for further monetary easing in the coming months, with the refinancing rate to be reduced to 0.50% by the end of the first quarter.

Asia Pacific

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Japan – Target Rate	0.10	January 24, 2012	0.10	--
Reserve Bank of Australia – Cash Target Rate	4.25	February 6, 2012	4.25	4.00
Reserve Bank of New Zealand – Cash Rate	2.50	January 25, 2012	2.50	--
People's Bank of China – Lending Rate	6.56	TBA	--	--
Reserve Bank of India – Repo Rate	8.50	January 24, 2012	8.50	--
Hong Kong Monetary Authority – Base Rate	0.50	TBA	0.50	--
Central Bank of China Taiwan – Discount Rate	1.88	March 29, 2012	1.88	--
Bank Negara Malaysia – Overnight Policy Rate	3.00	January 31, 2012	3.00	--
Bank of Korea – Bank Rate	3.25	January 12, 2012	3.25	3.25
Bank of Thailand – Repo Rate	3.25	January 25, 2012	3.25	--
Bank Indonesia – Reference Interest Rate	6.00	January 12, 2012	6.00	6.00
Central Bank of the Philippines – Overnight Policy Rate	4.50	January 19, 2012	4.50	--

The central bank of South Korea will likely leave the benchmark bank rate unchanged after next week's monetary policy meeting. While the yearly advance in headline consumer prices remained constant in the latest reading, core price gains accelerated, leaving monetary authorities wary of further underlying price increases. Bank Indonesia is also likely to leave benchmark borrowing costs unchanged. Although the yearly inflation rate came down to 3.8% y/y in December (from 4.2%), core price gains barely diminished, standing at a still elevated 4.3% y/y rate.

Latin America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	11.00	January 18, 2012	10.50	10.50
Banco Central de Chile – Overnight Rate	5.25	January 12, 2012	5.25	5.00
Banco de la República de Colombia – Lending Rate	4.75	January 20, 2012	4.75	--
Banco Central de Reserva del Perú – Reference Rate	4.25	January 12, 2012	4.25	4.25

In the last monetary policy statement, the central bank of Chile highlighted that, due to the increasingly adverse international economic outlook, prospects for the Chilean economy had worsened, reducing 2011 GDP forecasts. Meanwhile, headline inflation accelerated from 3.9% y/y in November to 4.4% in December as a result of high food and energy costs. Therefore, we expect the central bank to maintain the reference rate unchanged at 5.25% at the next meeting on January 12; however, we maintain our expectation that authorities will start cutting rates in the first quarter of the year. We anticipate that the central bank of Peru will maintain its policy rate unchanged at 4.25% as uncertainty over the global economic slowdown and its impact on the Peruvian economy remains high. Food prices have been fueling inflationary pressures, with the headline rate reaching a peak of 4.6% y/y in November, a level that remains 160 basis points (bps) above the tolerance range. The central bank expects inflation to decelerate in the first half of 2012.

Africa

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
South African Reserve Bank – Repo Rate	5.50	January 19, 2012	5.50	--

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

Forecasts as at January 3, 2012*	2000-10	2011e	2012f	2013f	2000-10	2011e	2012f	2013f
Output and Inflation (annual % change)		**Real GDP**				**Consumer Prices[2]**		
World[1]	3.7	3.7	3.6	3.9				
Canada	2.2	2.3	1.8	2.4	2.1	2.9	1.8	2.0
United States	1.8	1.7	1.8	2.2	2.5	3.1	1.7	2.1
Mexico	2.1	3.9	3.0	3.7	4.9	3.6	4.0	4.1
United Kingdom	2.0	0.9	0.7	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	1.0	-0.4	3.3	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	4.7	4.5	4.3
India	7.5	7.2	7.5	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	2.8	3.8	4.5	6.6	6.5	5.5	5.0
Chile	3.8	6.2	3.9	5.5	3.3	3.8	2.8	3.5
Peru	5.5	6.9	5.5	5.6	2.4	4.8	3.0	2.5

Central Bank Rates (%, end of period)	11Q4	12Q1f	12Q2f	12Q3f	12Q4f	13Q1f	13Q2f	13Q3f
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	0.50	0.50	0.50	0.50	0.50	0.50	0.75
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
Exchange Rates (end of period)								
Canadian Dollar (USDCAD)	1.02	1.02	1.01	0.99	0.98	0.98	0.97	0.97
Canadian Dollar (CADUSD)	0.98	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)	77	78	80	80	82	83	83	84
Australian Dollar (AUDUSD)	1.02	1.02	1.04	1.06	1.08	1.09	1.09	1.10
Chinese Yuan (USDCNY)	6.3	6.2	6.2	6.1	6.1	6.0	6.0	5.9
Mexican Peso (USDMXN)	13.9	13.5	13.2	13.0	13.0	13.1	13.2	13.3
Brazilian Real (USDBRL)	1.87	1.84	1.81	1.78	1.75	1.77	1.80	1.82

Commodities (annual average)	2000-10	2011e	2012f	2013f
WTI Oil (US$/bbl)	54	95	100	105
Brent Oil (US$/bbl)	52	111	110	110
Nymex Natural Gas (US$/mmbtu)	5.81	4.05	3.50	4.25
Copper (US$/lb)	1.93	4.00	3.90	3.90
Zinc (US$/lb)	0.75	0.99	0.94	1.10
Nickel (US$/lb)	7.36	10.39	9.00	8.00
Gold, London PM Fix (US$/oz)	586	1,569	1,675	1,600
Pulp (US$/tonne)	694	977	912	950
Newsprint (US$/tonne)	575	640	680	725
Lumber (US$/mfbm)	273	255	260	300

[1] 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.
[2] CPI for Canada and the United States are annual averages. For other countries, CPI are year-end rates.

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

Canada	2010	11Q2	11Q3	Latest	
Real GDP (annual rates)	3.2	-0.5	3.5		
Current Acc. Bal. (C$B, ar)	-50.9	-64.5	-48.5		
Merch. Trade Bal. (C$B, ar)	-9.0	-13.9	1.8	-10.6	(Oct)
Industrial Production	4.9	2.3	3.5	4.6	(Oct)
Housing Starts (000s)	192	192	204	181	(Nov)
Employment	1.4	1.6	1.5	1.1	(Dec)
Unemployment Rate (%)	8.0	7.5	7.2	7.5	(Dec)
Retail Sales	5.5	4.1	4.1	4.4	(Oct)
Auto Sales (000s)	1561	1574	1604	1634	(Oct)
CPI	1.8	3.4	3.0	5.3	(Nov)
IPPI	1.0	5.1	5.3	-6.6	(Nov)
Pre-tax Corp. Profits	21.2	15.1	17.0		

United States	2010	11Q2	11Q3	Latest	
Real GDP (annual rates)	3.0	1.3	1.8		
Current Acc. Bal. (US$B, ar)	-471	-499	-441		
Merch. Trade Bal. (US$B, ar)	-646	-762	-727	-705	(Oct)
Industrial Production	5.3	3.8	3.7	8.5	(Nov)
Housing Starts (millions)	0.58	0.57	0.62	0.69	(Nov)
Employment	-0.8	0.9	1.1	1.3	(Dec)
Unemployment Rate (%)	9.6	9.0	9.1	8.5	(Dec)
Retail Sales	6.8	8.1	8.3	14.6	(Nov)
Auto Sales (millions)	11.6	12.1	12.4	13.5	(Dec)
CPI	1.6	3.4	3.8	4.8	(Nov)
PPI	4.2	6.9	6.8	9.1	(Nov)
Pre-tax Corp. Profits	25.0	1.3	3.7		

Mexico					
Real GDP	5.4	3.2	4.5		
Current Acc. Bal. (US$B, ar)	-5.7	-11.9	-15.0		
Merch. Trade Bal. (US$B, ar)	-3.0	5.7	-15.3	-2.8	(Nov)
Industrial Production	6.0	3.5	3.4	3.3	(Oct)
CPI	4.2	3.3	3.4	7.5	(Nov)

Brazil					
Real GDP	6.9	2.9	2.0		
Current Acc. Bal. (US$B, ar)	-47.4	-43.4	-42.0		
Merch. Trade Bal. (US$B, ar)	20.2	39.2	40.3	45.8	(Dec)
Industrial Production	10.5	0.6	0.1	2.1	(Nov)
CPI	5.1	6.5	7.1	12.5	(Nov)

Chile					
Real GDP	5.2	6.6	4.8		
Current Acc. Bal. (US$B, ar)	2.9	1.0	-11.6		
Merch. Trade Bal. (US$B, ar)	11.6	14.8	3.6	7.9	(Nov)
Industrial Production	0.5	7.8	2.4	3.6	(Nov)
CPI	1.4	3.3	3.1	4.4	(Dec)

Italy					
Real GDP	1.4	0.7	0.2		
Current Acc. Bal. (US$B, ar)	-0.07	-0.08	-0.04	-0.04	(Oct)
Merch. Trade Bal. (US$B, ar)	-40.1	-38.9	-18.3	-17.7	(Oct)
Industrial Production	6.5	1.6	-0.1	-3.2	(Oct)
CPI	1.6	2.7	2.9	5.0	(Nov)

Germany					
Real GDP	3.6	2.9	2.6		
Current Acc. Bal. (US$B, ar)	188.2	156.6	169.8	169.6	(Oct)
Merch. Trade Bal. (US$B, ar)	201.9	212.0	225.5	205.4	(Oct)
Industrial Production	10.1	8.1	8.1	4.0	(Oct)
Unemployment Rate (%)	7.7	7.1	7.0	6.8	(Dec)
CPI	1.1	2.3	2.5	2.1	(Dec)

France					
Real GDP	1.4	1.7	1.5		
Current Acc. Bal. (US$B, ar)	-44.5	-81.9	-48.6	-113.9	(Oct)
Merch. Trade Bal. (US$B, ar)	-39.0	-52.8	-50.1	-54.7	(Oct)
Industrial Production	4.6	1.9	2.8	1.8	(Oct)
Unemployment Rate (%)	9.8	9.6	9.6	9.8	(Nov)
CPI	1.5	2.1	2.1	3.9	(Nov)

Euro Zone					
Real GDP	1.8	1.6	1.4		
Current Acc. Bal. (US$B, ar)	-77	-120	-56	29	(Oct)
Merch. Trade Bal. (US$B, ar)	32.0	-15.3	9.5	22.2	(Oct)
Industrial Production	7.4	4.2	4.0	1.6	(Oct)
Unemployment Rate (%)	10.1	9.9	10.1	10.3	(Nov)
CPI	1.6	2.8	2.7	4.7	(Nov)

United Kingdom					
Real GDP	2.1	0.6	0.5		
Current Acc. Bal. (US$B, ar)	-75.2	-40.3	-113.3		
Merch. Trade Bal. (US$B, ar)	-152.5	-162.7	-177.3	-142.9	(Oct)
Industrial Production	1.9	-1.3	-1.3	-1.7	(Oct)
Unemployment Rate (%)	7.9	7.8	8.2	8.3	(Sep)
CPI	3.3	4.4	4.7	7.6	(Nov)

Japan					
Real GDP	4.5	-1.7	-0.8		
Current Acc. Bal. (US$B, ar)	195.9	75.4	153.5	87.9	(Oct)
Merch. Trade Bal. (US$B, ar)	74.6	-54.7	-31.5	-83.2	(Nov)
Industrial Production	16.6	-7.0	-2.0	-0.3	(Nov)
Unemployment Rate (%)	5.1	4.6	4.4	4.5	(Nov)
CPI	-0.7	-0.4	0.1	-0.6	(Nov)

Australia					
Real GDP	2.6	1.9	2.5		
Current Acc. Bal. (US$B, ar)	-35.2	-18.3	-33.8		
Merch. Trade Bal. (US$B, ar)	19.3	50.2	43.2	11.5	(Nov)
Industrial Production	4.3	-1.6	0.8		
Unemployment Rate (%)	5.2	4.9	5.2	5.3	(Nov)
CPI	2.8	3.6	3.5		

China					
Real GDP	10.4	9.5	9.1		
Current Acc. Bal. (US$B, ar)	305.4				
Merch. Trade Bal. (US$B, ar)	181.5	185.8	250.2	174.3	(Nov)
Industrial Production	13.5	15.1	13.8	12.4	(Nov)
CPI	4.6	6.4	6.1	4.2	(Nov)

South Korea					
Real GDP	6.2	3.4	3.5		
Current Acc. Bal. (US$B, ar)	29.4	22.0	27.6	60.6	(Nov)
Merch. Trade Bal. (US$B, ar)	41.2	33.4	25.2	47.9	(Dec)
Industrial Production	16.6	6.7	5.4	13.2	(Nov)
CPI	2.9	4.0	4.3	4.2	(Dec)

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

Source: Bloomberg, Scotia Economics.

Interest Rates (%, end of period)

Canada	11Q3	11Q4	Dec/30	Jan/06*	United States	11Q3	11Q4	Dec/30	Jan/06*
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	0.75	0.80	0.80	0.76	3-mo. T-bill	0.02	0.01	0.01	0.01
10-yr Gov't Bond	2.16	1.94	1.94	1.96	10-yr Gov't Bond	1.92	1.88	1.88	1.96
30-yr Gov't Bond	2.77	2.49	2.49	2.55	30-yr Gov't Bond	2.91	2.89	2.89	3.02
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US$B)	62.3	63.5	65.5	(Nov)	FX Reserves (US$B)	136.6	137.4	137.0	(Nov)
Germany					**France**				
3-mo. Interbank	1.51	1.35	1.35	1.27	3-mo. T-bill	0.38	-0.06	-0.07	0.14
10-yr Gov't Bond	1.89	1.83	1.83	1.86	10-yr Gov't Bond	2.60	3.15	3.15	3.37
FX Reserves (US$B)	66.0	66.9	66.2	(Nov)	FX Reserves (US$B)	60.3	51.8	48.7	(Nov)
Euro-Zone					**United Kingdom**				
Refinancing Rate	1.50	1.00	1.00	1.00	Repo Rate	0.50	0.50	0.50	0.50
Overnight Rate	1.46	0.63	0.40	0.37	3-mo. T-bill	4.85	4.85	4.85	4.85
FX Reserves (US$B)	317.2	311.0	311.3	(Nov)	10-yr Gov't Bond	2.43	1.98	1.98	2.02
					FX Reserves (US$B)	79.7	78.9	79.2	(Nov)
Japan					**Australia**				
Discount Rate	0.30	0.30	0.30	0.30	Cash Rate	4.75	4.75	4.50	4.25
3-mo. Libor	0.13	0.13	0.13	0.13	10-yr Gov't Bond	4.22	3.67	3.67	3.80
10-yr Gov't Bond	1.03	0.99	0.99	0.98	FX Reserves (US$B)	40.3	39.7	40.4	(Nov)
FX Reserves (US$B)	1100.8	1160.7	1261.8	(Nov)					

Exchange Rates (end of period)

USDCAD	1.05	1.02	1.02	1.02	¥/US$	77.06	76.91	76.91	77.10
CADUSD	0.95	0.98	0.98	0.98	US¢/Australian$	96.62	102.09	102.09	102.26
GBPUSD	1.558	1.554	1.554	1.541	Chinese Yuan/US$	6.38	6.29	6.29	6.31
EURUSD	1.339	1.296	1.296	1.272	South Korean Won/US$	1178	1152	1152	1163
JPYEUR	0.97	1.00	1.00	1.02	Mexican Peso/US$	13.897	13.936	13.936	13.743
USDCHF	0.91	0.94	0.94	0.96	Brazilian Real/US$	1.879	1.863	1.863	1.851

Equity Markets (index, end of period)

United States (DJIA)	10913	12218	12287	12364	U.K. (FT100)	5128	5572	5567	5648
United States (S&P500)	1131	1258	1263	1278	Germany (Dax)	5502	5898	5898	6048
Canada (S&P/TSX)	11624	11955	11842	12181	France (CAC40)	2982	3160	3160	3137
Mexico (Bolsa)	33503	37078	37078	36986	Japan (Nikkei)	8700	8455	8424	8390
Brazil (Bovespa)	52324	56754	56754	58618	Hong Kong (Hang Seng)	17592	18434	18398	18593
Italy (BCI)	796	806	798	808	South Korea (Composite)	1770	1826	1826	1843

Commodity Prices (end of period)

Pulp (US$/tonne)	970	920	920	920	Copper (US$/lb)	3.23	3.43	3.43	3.41
Newsprint (US$/tonne)	640	640	640	640	Zinc (US$/lb)	0.86	0.83	0.83	0.83
Lumber (US$/mfbm)	251	261	261	261	Gold (US$/oz)	1620.00	1531.00	1531.00	1616.50
WTI Oil (US$/bbl)	82.14	99.65	99.65	101.33	Silver (US$/oz)	30.45	28.18	28.18	29.40
Natural Gas (US$/mmbtu)	3.75	3.03	3.03	3.04	CRB (index)	298.15	305.30	305.30	308.65

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

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