

Global Auto Sales Decline in 2018

- World vehicle sales fell in 2018 owing mainly to a sharp contraction in auto purchases in China in the second half of the year amid a Government-led crackdown on non-bank lending.
- Sales in Western Europe also dropped sharply in the final months of 2018 owing to a shortage of qualifying vehicles under new emission test procedures introduced in the European Union in September, but still managed a slight increase for the year when excluding the UK.
- Despite posting a decline relative to 2017, the Canadian auto market posted its second best year on record. We forecast Canadian vehicle sales to fall again in 2019 and 2020 toward the 1.90 mn units per year mark.

CANADA: SALES DECLINE TO SECOND BEST YEAR ON RECORD

Canadian vehicle sales closed 2018 with a 2.9% m/m December decline to 1.82 mn units delivered, their lowest one-month total since early-2015, in seasonally-adjusted annualised rate (saar) terms. Compared to last December, purchases fell by 8%.

Following 2017's all-time record of 2.04 mn autos sold, sales in 2018 contracted by 2.6% with 1.98 mn units driven off dealers' lots. The second half of the year saw a significant weakening of activity in the new autos market which has been impacted by slowing employment growth and rising interest rates. As purchases move toward a long-term equilibrium of around 1.9 mn units sold per annum, we forecast vehicle sales in Canada to total 1.93 mn units delivered in 2019.

Light trucks sales ticked up by 0.6% last year and continued to gain market share in 2018 against a 9.7% drop in car sales. The light trucks segment now commands a 71% share of total purchases, up from 69% the previous year and 55% as recently as 2012. Total auto deliveries in 2018 were pulled down by sales to individuals as retail vehicle purchases fell by 3–4% for the year compared to an over 3% rise in fleet sales.

CANADIAN PROVINCES: SALES IN ONTARIO STAY FLAT, DECLINES IN THE WEST

Vehicle purchases in Central Canada held relatively steady, recording a 1% reduction for the year compared to contractions of 10% and 5% in Atlantic and Western Canada, respectively (chart 1). While we estimate that economic growth slowed across all provinces in 2018, the retracement of gains in 2017 was relatively less pronounced in Ontario; auto sales edged down only slightly by 0.2%. Purchases in Quebec fell by 2.2% last year, as GDP growth in the province cooled to a forecast 2.1% in 2018 from 2017's pace of 2.8%—its fastest pace of expansion since 2000.

In Alberta, auto sales contracted by 6% in 2018 after an 11% surge the prior year on the back of a strong economic expansion. We estimate that GDP growth in Alberta nearly halved in 2018 to 2.3% and will moderate further in 2019 amid provincially-mandated oil-production cuts. Auto sales also fell by 6% in BC—

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Motor Vehicle Sales		
	Dec '18	Jan-Dec '18
	(y/y % change)	
World	-7.2	-0.7
North America		
Canada	-8.0	-2.6
US	1.5	0.4
Mexico	-10.6	-7.1
South America		
Argentina	-46.4	-22.9
Brazil	9.8	13.8
Chile	0.6	15.6
Colombia	32.8	9.2
Peru	-30.1	-8.6
Western Europe		
France	-14.5	3.0
Germany	-6.7	-0.2
Italy	2.1	-3.2
Spain	-3.5	5.9
UK	-5.5	-6.8
Eastern Europe		
Russia	5.6	12.8
Turkey	-19.7	-29.9
Asia Pacific		
Australia	-15.4	-3.5
China	-13.8	-3.1
India	0.3	8.3
Japan	-1.7	0.7
Korea	2.5	1.0

Sources: Scotiabank Economics, Wards Auto National Automotive Associations.

after averaging 6% annual growth since the 08–09 financial crisis—owing to a pronounced deceleration in employment growth which, alongside rising debt repayment outlays, has depressed household spending in the province. Labour-market weakness in Saskatchewan impacted the market’s performance in the province: vehicle purchases contracted by 11%, the most out of all the provinces. An irregular surge in purchase volumes in the first half of 2018, which was partly offset later by a sharp year-on-year contraction in the final quarter, led to a 7% spike in sales Manitoba in 2018.

Coming off solid gains in 2017, vehicle purchases plunged by 10% in the Atlantic provinces last year though remained around their post-financial crisis long-term average. With population levels steadily declining in the region as a whole, sales remain on a downward trajectory amid stagnant output and employment growth.

US: FLEET LIFTS ANNUAL SALES TOTAL ON THE BACK OF TAX REFORM

US vehicle sales ended 2018 on a strong note with 17.51 mn annualised units delivered in December, with increases of 1.5% y/y and 0.6% m/m. The twelve-month total of 17.2 mn units purchased marked the third best year on record against expectations for a decline from 2017’s figure of 17.1 mn autos sold.

Last year’s increase in purchases was squarely driven by a solid rise in fleet sales which offset a slump in consumer purchases amid slowing job gains and rising interest rates. While Federal tax reform had a negligible impact on individual income tax payments, the reduction in corporate tax rates freed up a significant amount of cash for businesses. Corporate income tax receipts fell by 29% on a 12-month rolling basis in November 2018, the most recent month for which data is available (chart 2). **We anticipate that vehicle sales will tick down to 16.8 mn units purchased in 2019 as the impact of fiscal reform fades and the US economy cools to a more sustainable pace.**

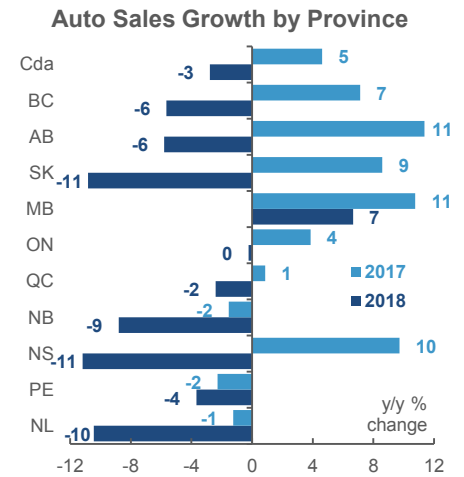
MEXICO: SECOND CONSECUTIVE ANNUAL DECREASE IN SALES

Vehicle purchases fell by 7.1% in Mexico last year to 1.42 mn units delivered, nearly 200k units below 2016’s all-time high of 1.60 mn units. Auto sales dropped by 11% y/y in December for a nineteenth consecutive month of annual declines. Last month’s fall marked the steepest year-on-year decline since March’s 13.4% y/y contraction and stymied hopes of more muted annual retracements. Economic prospects in Mexico have worsened of late owing to various factors such as a leadership transition at the Federal government level—with a concomitant high degree of turnover of public sector employees—and a continuation of Banco de Mexico’s rate-hiking cycle (chart 3). Furthermore, severe gasoline shortages materialised in December in certain parts of Mexico as a result of theft at pipelines. The new administration has responded by suspending the supply of gasoline through certain at-risk pipelines, thus worsening shortages across the country. Vehicle sales are expected to decline further in the early months of 2019 as alternative means of gasoline transportation fail to keep up with demand for petrol, and thus impact the shipment of goods. **In light of a deceleration of economic growth, we expect vehicle sales in 2019 to fall again, this time to 1.39 mn units delivered.**

ASIA-PACIFIC: STEEP DECLINES IN CHINA AND SLOWING SALES IN INDIA

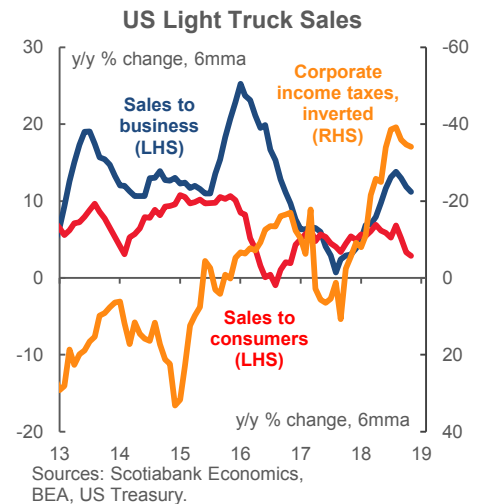
In 2018, Chinese vehicle sales fell for the first time in two decades owing to a pronounced slowdown in economic activity, particularly in the latter half of the

Chart 1



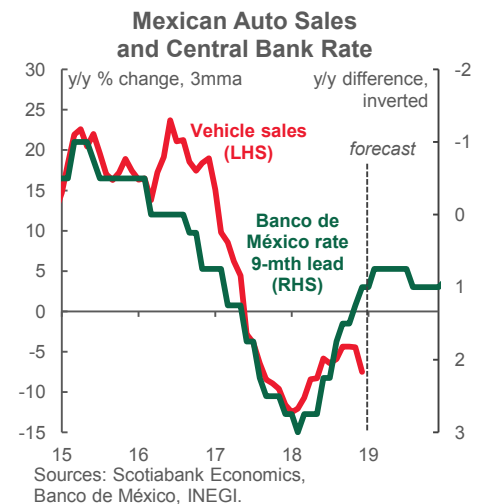
Sources: Scotiabank Economics, GAC.

Chart 2



Sources: Scotiabank Economics, BEA, US Treasury.

Chart 3



Sources: Scotiabank Economics, Banco de México, INEGI.

year. Total sales for the year sat three percentage points below 2017’s record high, and recorded a sharp year-on-year decline of 14% in December. Several factors contributed to a weak sales performance in 2018: an increase in the tax rate applied on small vehicles, a government crackdown on excessive lending, and trade frictions with the US.

A reduction in the sales tax rate from 10% to 5% in late-2015 on small vehicles led to a surge in sales of these autos prior to a step-wise sales-tax increment of 2.5% at the beginning of each of 2017 and 2018. As such, the strong gain in sales in 2016 was mainly supported by the auto tax cuts and was broadly exceeding economic fundamentals. Furthermore, purchases growth in recent years had been driven by smaller cities where buyers had benefitted the most from the cut in taxes on smaller, cheaper, vehicles.

The downward pressure on auto sales post-tax-cuts was further exacerbated by a sharp deceleration in credit growth, as the Chinese government tightened its reins on non-traditional lending, known as ‘shadow’ banking (chart 5). Among the types of loans that comprise China’s shadow banking sector, the little-regulated peer to peer (P2P) lending system—which pools funds from private individuals to provide loans to other individuals or small companies—ballooned from CNY 0.1 tn in January 2015 to a June 2018 peak of CNY 1.37 tn in outstanding loans, or USD 17bn and USD 220 bn respectively. Upon a government crackdown, P2P outstanding balances have fallen to CNY 790 bn (USD 115 bn) as of December 2018. The massive scale-back in these and other types of informal credit is likely behind most of the decline in auto sales in 2018 outside of that explained by the increase in tax rates.

While the impacts of the China-US trade war may prove much more significant if the Trump administration expands the imposition of tariffs to all Chinese goods, the impact so far to consumer and business confidence has been limited and may only have slightly dampened sales in the latter part of 2018. We look for vehicle sales in China to remain flat in 2019 around current levels as the Government relaxes its controls on credit flows and fosters an expansion of traditional lending in light of weakening economic growth. All things considered, vehicle sales remain relatively strong in China and are expected to resume their upward trajectory in 2020 as underlying economic fundamentals stabilise.

In India, auto purchases decelerated in the second half of the year, though still managed to record a strong increase of 8.3% in 2018 after averaging 17% y/y growth in the first half of the year. Weak sales in the latter part of 2018 were driven by a combination of factors such as destructive floods in the southern state of Kerala, weaker-than-anticipated demand around the Diwali holiday season, and rising insurance and fuel costs. We forecast vehicle sales in India to continue rising through 2019, though at a decelerating pace given softening economic growth and the possibility of political uncertainty leading into General elections in the spring.

Vehicle sales rose slightly by 1% in each of Japan and Korea in 2018, though reflecting opposing dynamics. While the gains in Japan are a welcome development in a country where long-term GDP growth is around 1% per year, vehicle

Chart 4

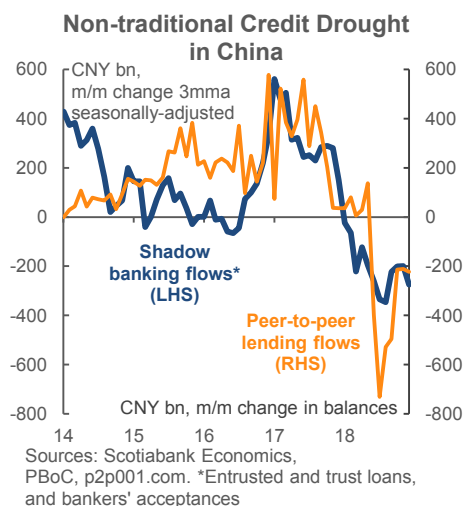
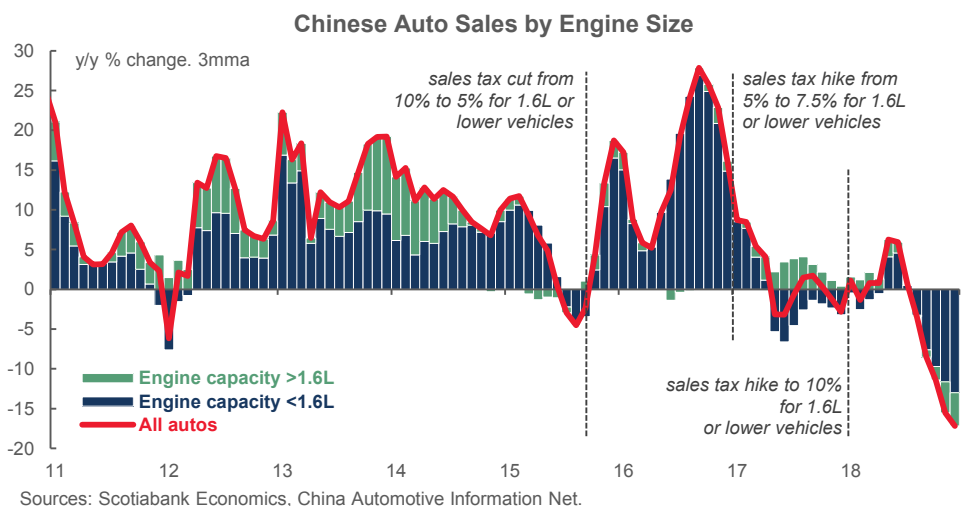


Chart 5



sales growth remains relatively muted in Korea after recording two years of consecutive declines. Furthermore, after a weak start to the year, auto purchases in Korea received a one-off boost from a temporary decrease in the tax rate applied on new vehicles until the end of 2018. Aside from unspectacular growth domestically, a marked slowdown in economic activity in China poses a risk to the Korean economy and the outlook for auto sales, with China accounting for around a quarter of total Korean merchandise exports.

EUROPE: SLOW ROLL-OUT OF QUALIFYING VEHICLES AND ECONOMIC UNCERTAINTY DAMPEN SALES

New vehicle emission tests rules which entered into force in September in the EU led to a big swing in sales in the second half of 2018, though auto purchases in Western Europe excluding the UK managed to eke out a 0.3% increase in 2018. Following an August surge in sales as dealers cleared their lots of soon-to-be non-qualifying vehicles, automakers found themselves unable to match demand for new vehicles certified under the new emission standards. The EU's new Worldwide Harmonised Light Vehicle Test Procedure (WLTP) uses on-the-road driving data as opposed to the previous test which was based off laboratory simulations. Production at a number of factories was paused as automakers re-engineered their vehicles to meet the new emission standards. **Car production in Germany, which has averaged around 1.4 mn units per quarter since the financial crisis, fell to 1.1 mn and 1.2 mn units in the third and fourth quarter of 2018, respectively (chart 6).** Sales in the Western Europe fell by 9% y/y in December, mainly owing to a 14% y/y drop in purchases in France, while those in Germany fell by 7%. Further to a backlog in vehicles certified under the new emissions test, social unrest in France, the lack of substantial progress in Brexit talks, and the spectre of heightened trade frictions with the US—in addition to the risks that the China-US trade dispute poses on the global economy—depressed sales into year-end. With these factors likely to dampen sales in 2019, we forecast another lacklustre rise in auto purchases in the region matching last year's pace.

SOUTH AMERICA: STRONG AUTO SALES IN BRAZIL OFFSET ARGENTINEAN CRASH

A surge in sales of 14% and 16% in Brazil and Chile, respectively, helped to offset a sharp contraction of 23% in Argentinean auto purchases in 2018. The bulk of last year's 4.2% rise in South American auto sales was driven by a potent start to the year which was later unwound by weak activity in Argentina (chart 7). Sales fell by 4.9% y/y in December across the region due to a halving of purchases in Argentina compared to December 2017, in contrast to a 10% y/y rise in deliveries in Brazil. The Argentinean economy has contracted by 7.2% y/y—based on the most recent figures, from November—alongside a steep increase in the central bank's policy target rate, which has massively increased financing costs for vehicles. Further to higher borrowing rates, a 50%+ depreciation of the Argentinean peso over the last year has contributed to an 80% y/y rise in vehicle prices. We expect vehicle sales to contract by an additional 25% in Argentina in 2019 against a rise of 8% in Brazil and a 3.5% continent-wide increase.

Chart 6

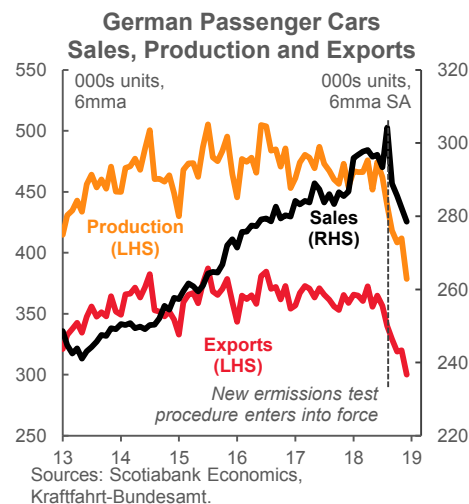


Chart 7

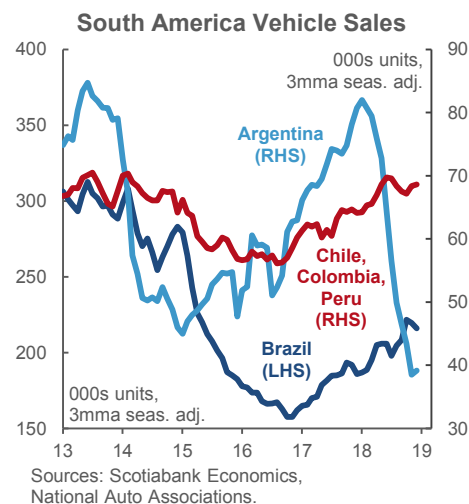


Table 1 — International Motor Vehicle Sales Outlook (mns units)

	2000–15	2016	2017	2018e	2019f
Total Sales	54.9	77.3	79.0	78.7	78.7
North America*	17.9	21.0	20.7	20.6	20.1
Canada	1.62	1.95	2.04	1.98	1.93
United States	15.24	17.46	17.13	17.21	16.80
Mexico	0.99	1.60	1.53	1.42	1.36
Western Europe	13.7	14.0	14.3	14.2	14.2
Germany	3.23	3.35	3.44	3.44	3.43
Eastern Europe	3.1	3.1	3.4	3.5	3.6
Russia	1.87	1.43	1.60	1.80	1.86
Asia	17.1	36.1	37.1	36.8	37.1
China**	7.31	23.57	24.20	23.48	23.50
India	1.23	2.09	2.19	2.37	2.49
South America	3.2	3.1	3.5	3.7	3.8
Brazil	1.94	1.39	1.50	1.71	1.84

*Includes light trucks. **Includes crossover utility vehicles from 2005.
Sources: Scotiabank Economics, Ward's Automotive Reports, Bloomberg.

Table 2 — Canada & US Motor Vehicle Sales and Production Outlook

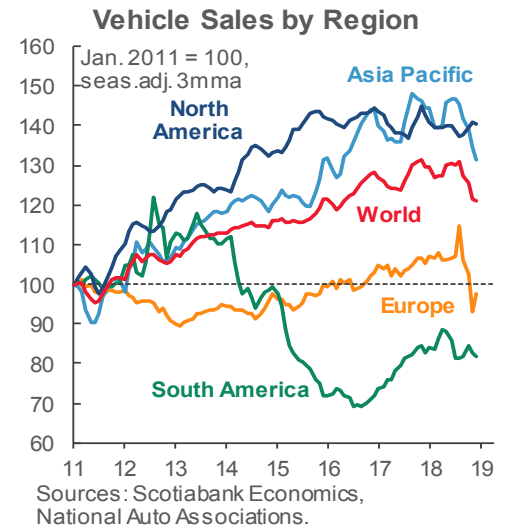
	2000–15	2016	2017	2018e	2019f
(thousands of units, annualised)					
Canada**	1,668	1,949	2,041	1,984	1,930
Cars	776	662	644	576	490
Domestic	490	439	438	378	325
Imports	286	223	206	197	165
Light trucks	892	1,287	1,397	1,408	1,440
(millions of units, annualised)					
United States	14.40	17.50	17.10	17.19	16.80
Cars	6.90	6.90	6.10	5.30	4.50
Light trucks	7.50	10.60	11.00	11.89	12.30
(millions of units, annualised)					
North American Production*	14.63	18.15	17.48	17.46	17.75
Canada	2.24	2.37	2.19	2.02	1.95
United States	9.80	12.18	11.23	11.32	11.60
Mexico	2.59	3.60	4.06	4.11	4.20

*Includes light, medium and heavy trucks. **Canadian sales are Scotiabank estimates.
Sources: Ward's Automotive Reports, Statistics Canada.

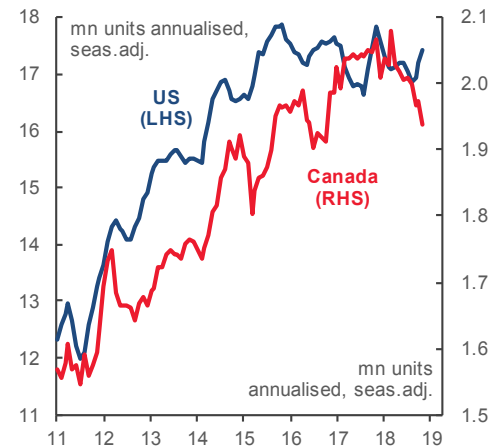
Table 3 — Provinces Motor Vehicle Sales Outlook (mns units ann.)* **

	2000–15	2016	2017	2018e	2019f
Canada	1,668.0	1,949.0	2,041.0	1,984.0	1,930.0
Atlantic	125.0	140.0	143.0	125.0	121.0
Central	1,034.0	1,265.0	1,300.0	1,302.0	1,256.0
Quebec	411.0	458.0	453.0	449.0	430.0
Ontario	623.0	807.0	847.0	853.0	826.0
West	509.0	544.0	598.0	557.0	553.0
Manitoba	49.0	55.0	62.0	67.0	60.0
Saskatchewan	49.0	51.0	56.0	47.0	48.0
Alberta	232.0	220.0	245.0	226.0	220.0
British Columbia	179.0	218.0	235.0	217.0	225.0

*Includes cars and light trucks. **Scotiabank estimates.
Sources: Statistics Canada, Canadian Vehicle Manufacturers' Association.



Canada and US Vehicle Sales



North American Vehicle Production

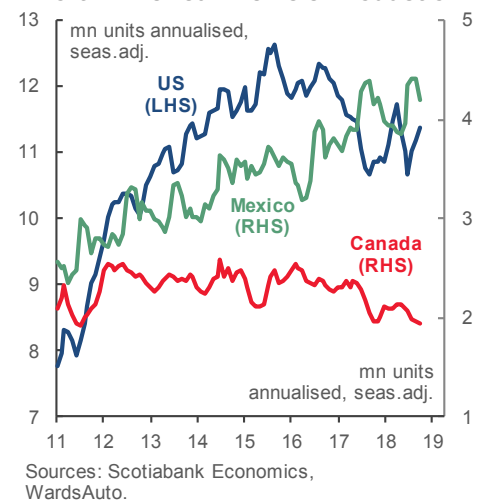


Table 4 — Canadian Car Sales Share By Manufacturer (000s units)*

	2017		2018		2017		2018	
	Jan to Dec		Jan to Dec		Dec		Dec	
	Units	% of total	Units	% of total	Units	% of total	Units	% of total
Total Sales	637.4	100.0	575.3	100.0	32.5	100.0	28.5	100.0
Big Three	119.6	18.8	100.2	17.4	6.5	20.0	3.3	11.4
Fiat-Chrysler	63.8	10.0	57.9	10.1	3.6	11.2	1.9	6.6
Ford	37.6	5.9	30.4	5.3	1.6	4.9	1.1	4.0
General Motors	18.2	2.9	11.9	2.1	1.3	4.0	0.2	0.8
Japanese	287.5	45.1	271.8	47.3	13.1	40.2	13.9	48.9
Honda	94.0	14.7	93.2	16.2	3.5	10.7	4.1	14.3
Toyota	88.0	13.8	86.6	15.1	4.1	12.6	5.2	18.2
Nissan	45.0	7.1	40.9	7.1	2.1	6.4	2.1	7.3
Mazda	33.8	5.3	30.5	5.3	1.9	5.8	1.5	5.3
Mitsubishi	8.3	1.3	4.4	0.8	0.4	1.3	0.2	0.6
Subaru	18.5	2.9	16.2	2.8	1.1	3.4	0.9	3.1
European	118.7	18.6	104.1	18.1	6.8	20.9	5.9	20.6
BMW	22.6	3.5	19.8	3.4	1.7	5.2	0.9	3.2
Mercedes-Benz	23.1	3.6	20.1	3.5	1.5	4.5	1.3	4.7
Volkswagen Group	68.8	10.8	60.7	10.6	3.4	10.4	3.3	11.7
Volvo	2.1	0.3	2.1	0.4	0.1	0.4	0.2	0.8
Other	2.0	0.3	1.3	0.2	0.1	0.4	0.1	0.2
Rest of the world	111.6	17.5	99.1	17.2	6.1	18.9	5.5	19.1
Hyundai	71.3	11.2	62.0	10.8	3.9	12.1	3.1	11.0
KIA	40.4	6.3	37.2	6.5	2.2	6.8	2.3	8.2
All other	-	0.0	-	0.0	-	0.0	-	0.0

*Sources: Scotiabank Economics, Global Automakers of Canada.

Table 5 — Canadian Truck Sales Share By Manufacturer (000s units)*

	2017		2018		2017		2018	
	Jan to Dec		Jan to Dec		Dec		Dec	
	Units	% of total	Units	% of total	Units	% of total	Units	% of total
Total Truck Sales	948.1	100.0	969.6	100.0	390.9	100.0	396.6	100.0
Total Light Truck Sales	948.1	100.0	969.6	100.0	390.9	100.0	396.6	100.0
Big Three	792.6	83.6	757.5	78.1	51.8	13.3	42.1	10.6
Fiat-Chrysler	239.3	25.2	230.7	23.8	16.2	4.1	12.0	3.0
Ford	271.0	28.6	267.2	27.6	16.0	4.1	14.9	3.8
General Motors	248.9	26.3	213.0	22.0	16.4	4.2	11.7	3.0
Other Domestic	33.4	3.5	46.6	4.8	3.3	0.9	3.5	0.9
Japanese	432.3	45.6	461.5	47.6	28.5	7.3	31.7	8.0
Honda	103.3	10.9	102.2	10.5	6.2	1.6	6.6	1.7
Toyota	136.6	14.4	145.1	15.0	8.5	2.2	10.7	2.7
Nissan	101.6	10.7	108.2	11.2	7.3	1.9	7.4	1.9
Mazda	40.3	4.2	43.4	4.5	2.8	0.7	2.5	0.6
Mitsubishi	14.4	1.5	20.9	2.2	0.9	0.2	1.5	0.4
Subaru	36.1	3.8	41.8	4.3	2.8	0.7	3.1	0.8
European	114.0	12.0	133.4	13.8	9.1	2.3	9.7	2.4
BMW	23.1	2.4	26.2	2.7	1.9	0.5	1.9	0.5
Mercedes-Benz	29.1	3.1	29.6	3.1	2.2	0.6	2.3	0.6
Volkswagen Group	45.1	4.8	57.3	5.9	3.6	0.9	3.9	1.0
Volvo	5.0	0.5	7.1	0.7	0.6	0.1	0.5	0.1
Other	11.8	1.2	13.2	1.4	0.9	0.2	1.0	0.3
Rest of the world	- 390.9	- 41.2	- 382.9	- 39.5	- 480.4	- 122.9	- 480.1	- 121.1
Hyundai	58.9	6.2	67.2	6.9	3.3	0.8	3.8	1.0
KIA	36.2	3.8	35.8	3.7	2.3	0.6	2.0	0.5
All other	- 485.9	- 51.3	- 485.9	- 50.1	- 485.9	- 124.3	- 485.9	- 122.5

*Sources: Scotiabank Economics, Global Automakers of Canada.

Table 6 — Car Sales By Province (000s units)

	2017	2018	2017	2018
	Jan to Nov	Jan to Nov	Nov	Nov
CANADA	612.9	549.8	45.6	38.7
ATLANTIC	43.7	36.4	2.7	2.1
Newfoundland and Labrador	8.6	7.3	0.5	0.4
Prince Edward Island	2.7	2.3	0.1	0.2
Nova Scotia	19.8	16.6	1.2	0.9
New Brunswick	12.6	10.3	0.8	0.6
CENTRAL	437.3	398.1	33.5	29.0
Quebec	179.1	159.3	13.5	11.5
Ontario	258.2	238.8	19.9	17.5
WEST	131.9	115.2	9.4	7.7
Manitoba	12.9	14.2	0.9	0.8
Saskatchewan	8.2	6.7	0.6	0.5
Alberta	44.1	35.9	3.2	2.4
British Columbia	66.7	58.4	4.8	4.0

Source: Statistics Canada.

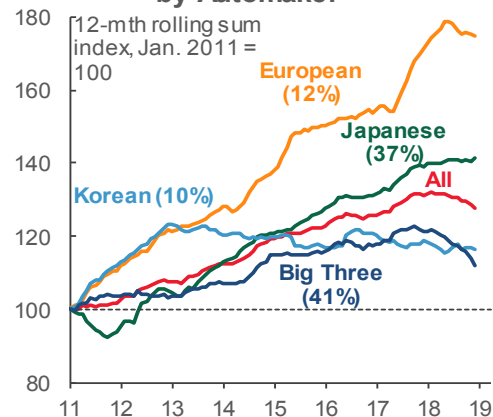
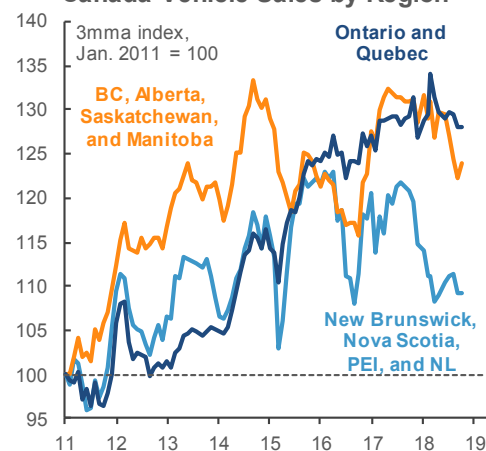
Canada Vehicle Sales by Automaker*

 Sources: Scotiabank Economics, GAC.
 *market share in parentheses.

Table 7 — Truck Sales By Province (000s units)*

	2017	2018	2017	2018
	Jan to Nov	Jan to Nov	Nov	Nov
CANADA	1,336.4	1,367.8	111.5	110.5
ATLANTIC	94.3	89.3	2.7	6.3
Newfoundland and Labrador	23.3	21.7	0.5	1.5
Prince Edward Island	5.4	5.1	0.1	0.3
Nova Scotia	36.0	33.6	1.2	2.4
New Brunswick	29.6	28.9	0.8	2.1
CENTRAL	809.2	849.0	71.3	69.1
Quebec	264.5	277.5	23.0	22.7
Ontario	544.7	571.4	48.3	46.4
WEST	432.8	429.5	37.5	35.1
Manitoba	46.0	50.4	4.1	3.6
Saskatchewan	44.3	40.3	3.8	3.3
Alberta	188.3	186.3	15.8	15.0
British Columbia	154.2	152.5	13.7	13.2

*Light, medium and heavy trucks. Source: Statistics Canada.

Canada Vehicle Sales by Region


Sources: Scotiabank Economics, Statistics Canada.

Table 8 — Canadian Motor Vehicle Dealers and Repair Shops Corporate Financial Performance

	Annual			Quarterly (annualised)		
	2015	2016	2017	2018Q1	2018Q2	2018Q3
Net Income after tax (CAD, mn)	2,930.0	2,940.0	3,660.0	2,260.0	3,644.0	3,724.0
Pre-tax corporate profit margin (%)	2.6	2.5	2.7	1.9	2.6	2.5
Inventory turnover ratio	5.2	5.1	4.9	4.7	4.7	4.8
Interest coverage ratio	7.5	7.5	8.0	5.7	7.4	6.8
Debt/equity ratio	1.9	1.9	1.9	1.9	1.9	1.8
Return on shareholders equity (%)	21.1	18.8	21.4	16.1	19.5	18.0

Definition of Ratios:

Pre-tax Profit Margin: pre-tax income/sales

Inventory Turnover Ratio: sales/inventory

Source: Statistics Canada.

Interest Coverage Ratio: (pre-tax income & interest payments)/(interest payments)

Debt/Equity Ratio: (short-term and long-term debt)/total equity

Return of Shareholders' Equity: after-tax income/total equity

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