

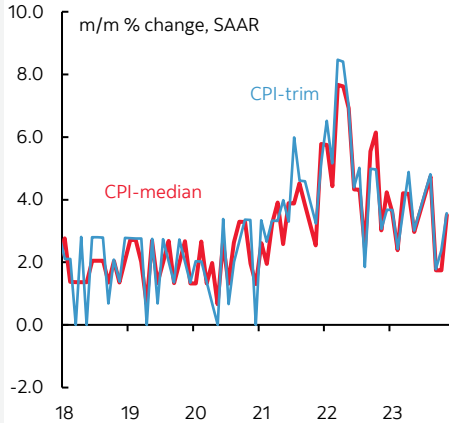
Contributors

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Chart 1

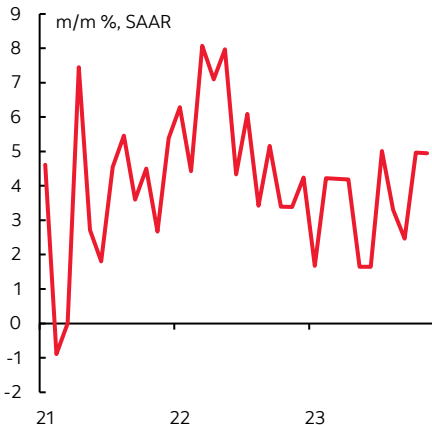
Canadian CPI-Trimmed Mean and CPI-Weighted Median



Sources: Scotiabank Economics, Statistics Canada.

Chart 2

Canadian Core Inflation



Sources: Scotiabank Economics, Haver.

Canadian Inflation Leans More Toward a Hike Than a Cut

- Core inflation measures lit up again, thwarting a short-lived soft patch
- Varied forward-looking risks still point to upside risks to inflation
- The debate should be more about hike risk than the mistake of prematurely easing
- The BoC will require a lot more data before deciding on what to do next
- Canada's torrid rate of population growth is adding to inflationary pressures

Canadian CPI m/m % NSA // y/y %, November:

Actual: 0.1 / 3.1
 Scotia: -0.2 / 2.8
 Consensus: -0.1 / 2.9
 Prior: 0.1 / 3.1
 Trimmed mean CPI: 3.6% m/m SAAR // 3.5% y/y
 Weighted median CPI: 3.5% m/m SAAR // 3.4% y/y

Sorry but I just can't hop on the bandwagon. In my professional opinion, November's core inflation readings leaned more toward continued hike risk than toward market pricing for a cut by March/April that would be a major policy error right into the thick of the Spring housing market and Winter government budget season. For now, however, this is short-term data noise for a central bank that is saying it wants a lot of data before doing much of anything.

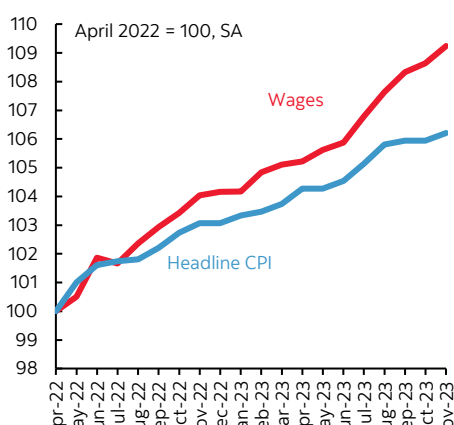
Markets reacted by driving a half penny appreciation in the C\$ relative to the USD, pushing the Canada 2-year yield up 5bps post data to reverse the earlier BoJ-induced rally, and trimming March cut pricing by about 5bps and shaving a little off April cut pricing. Markets are still attaching significant probability to a March cut and are fully pricing a cut by April.

Key are the core measures that all lit up again as shown in chart 1 for trimmed mean and weighted median CPI and chart 2 for traditional core CPI ex-food and energy. Here is a broader set of figures for core inflation:

- Trimmed mean CPI was up by 3.6% m/m SAAR in November;
- Weighted median CPI was up by 3.5% m/m SAAR in November;
- Traditional core CPI ex-food and energy was up by 4.9% m/m SAAR;

Chart 3

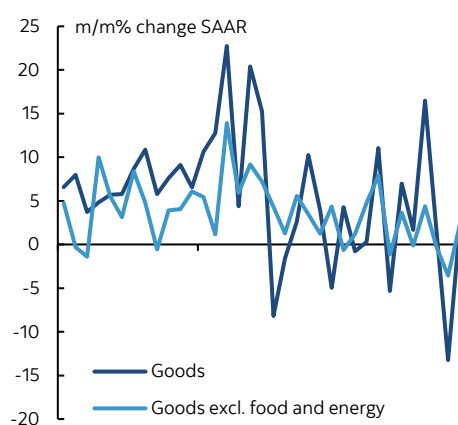
Wages Outpacing Inflation in Canada



Sources: Scotiabank Economics, Statistics Canada.

Chart 4

Canadian Goods Inflation



Sources: Scotiabank Economics, Statistics Canada.

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- CPI excluding the 8 most volatile items was up 4% m/m SAAR;
- CPIX was up 4% m/m SAAR.

These are all far too warm for the BoC's liking. The readings are volatile. While one or two months of a soft patch don't determine a trend, neither does a month of renewed acceleration in November.

Nevertheless, at the margin, the latest inflation data suggests that the prior couple of months might have simply been yet another false dawn for sustainably getting inflation toward the 2% target.

And why would you expect anything but persistent upside risk to inflation Canada?

- Wages are absurdly hot in relation to inflation (chart 3) and tumbling labour productivity with one-third of the workforce that is unionized cementing strong wage gains for years to come.
- 430k jobs have been created so far this year despite all of the gloom.
- Will there be mass job shedding going forward? One out of two of the jobs created since the start of the pandemic are not going away because they're all in the public sector absent austerity measures. Labour hoarding is a common theme in the private sector.
- Immigration is excessive full stop. Canada just added about 431k people in Q3 alone ([here](#)). That's like presto, here's a new city of London, Ontario created in one quarter. Or almost a new City of Hamilton. A 1.1% q/q nonannualized increase in population in one quarter. Statcan noted that even just the first 9 months of this year exceeded population growth for any other year since Confederation in 1867. In percentage terms, q/q population growth of 1.1% was the fastest since 1957. Population growth is now at 3.2% y/y and the fastest of any peer group major industrialized nation by far. Population has increased by 1.25 million people in just one year and population is 2.29 million higher than two years ago in a country that started with just 38.2 million folks at the time and now has 40.5.
- The problem remains that there is little to no housing available for them and it's only going to get worse. Ditto for N.A. auto inventories and with the retail inventories to sales ratio having come off the depressed bottom during the pandemic to a still lean pre-pandemic level. Ditto for inadequate infrastructure in transportation, in health care services, etc. That connotes capacity pressures upon infrastructure and concomitant funding and price pressures over time.
- Surveys of inflation expectations remain above the BoC's inflation target for years to come pending January's updated surveys.
- CAD is undervalued.
- Fiscal stimulus is ongoing and ages past any such requirements with the threat of more to come as governments re-issue forecasts that tamp down interest expense projections. Why? Because financial market conditions are prematurely easing in my view with the 5-year GoC yield at 3.25% down 115bps since Fall and pricing a full cycle's worth of rate cuts down to little term premium over neutral rate assumptions. With an election looming by October 2025 and the current government down in the polls, it's probably rather unlikely they'll tuck aside any reduced projections for interest expense instead of spending it on other things.

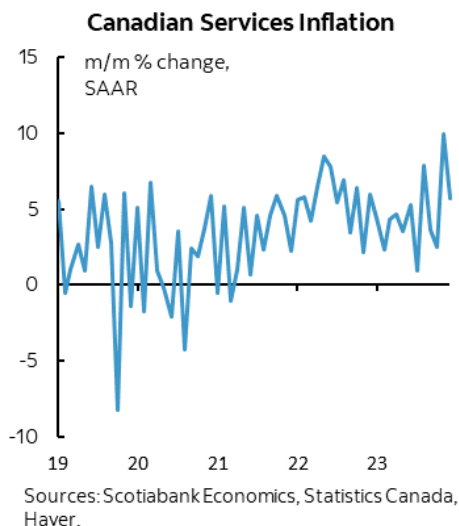
Yeah. Throw rate cuts on top of that at a central bank that can't forecast inflation to save itself despite its bold commitment to its forecasts. You'll never cut again afterward or you'll have to chase inflation higher all over again and lose further credibility as a central bank if cuts are delivered too early and too powerfully. The key message here is to cast aside past cycles and understand the idiosyncratic risks to Canada.

DETAILS

What drove it? As in the US, the source of the pressure is on the services side of the picture. Goods price inflation played a role as less of a drag as shown in chart 4, but it was services inflation that lit things up last month (chart 5).

Service prices were up by 5.7% m/m SAAR in November following a 10% m/m SAAR gain in October and with a 3-month moving average of 6.1% m/m SAAR. This continues to reflect the rotation of the drivers of inflation toward the services economy. If that doesn't cool down, then it could be joined by renewed goods inflation over the coming year as recent softness in goods price inflation stabilizes in the wake of coming off the boil from the goods shortages earlier in the pandemic.

Chart 5



There was also high breadth to the readings. Among the major categories were the following m/m seasonally adjusted gains:

- Recreation, education/reading 0.7%
- Shelter 0.5%
- Clothing and footwear 0.4%
- Food 0.2%
- household ops/furnishings/equip 0%
- Transportation 0.2%
- Health and personal care 0.1%

What drove services higher?

- Rent +0.41% m/m NSA, normally 0.24% in Nov in recent years
- Airfare was up 1.1% m/m NSA, normally -1.2%;
- Auto insurance was up another 0.94% m/m NSA, normally 0.5%;
- Health care 0.14%, normally 0.07%;
- Electricity 0.7%, normally 0.2.

Recall that while mortgage interest was up by 1.9% m/m NSA and remains hot, it isn't even captured in the trimmed mean and weighted median measures that the BoC uses to operationalize achievement of its 2% headline target. Mortgage interest is included in total CPI, but not the measures the BoC focuses upon as gauges of underlying price pressures. In fact, mortgage interest has never been included in trimmed mean and weighted median CPI throughout the entire rate hike cycle. Chart 6 provides the latest evidence on this matter.

Charts 7–14 break down select components. Charts 15–16 break down the CPI basket in y/y % change terms and in terms of weighted contributions to y/y CPI inflation.

Charts 17–18 show the same things in m/m terms.

The table on the final page shows a detailed table by component including micro charts and z-score measures of deviations from norms by component.

Chart 6

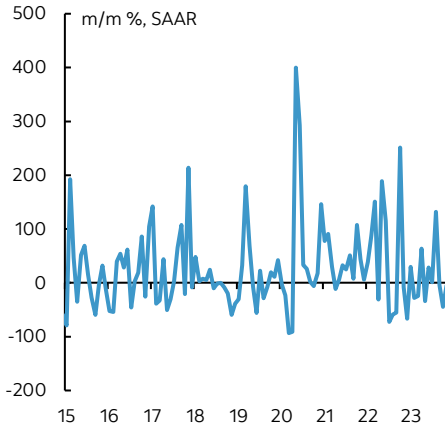
November Single-Month Components Included and Excluded from Bank of Canada Trim Core CPI Measure



Sources: Scotiabank Economics, Statistics Canada.

Chart 7

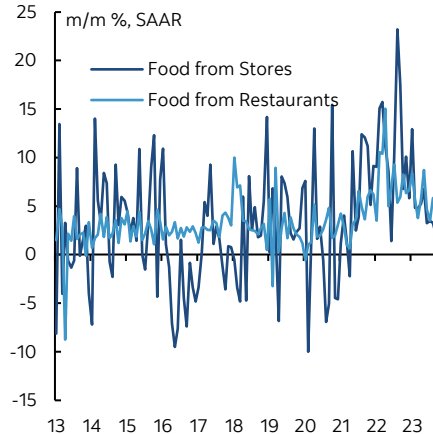
Canada CPI: Gasoline



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 8

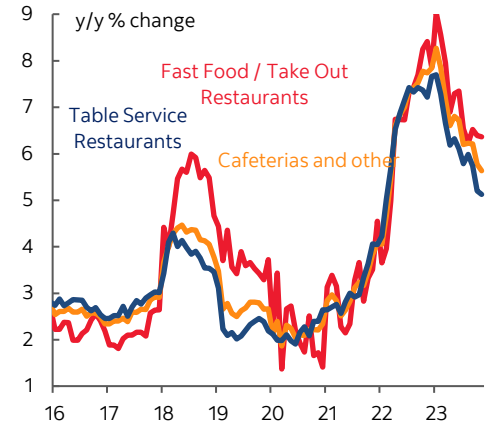
Canada CPI: Food Prices



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 9

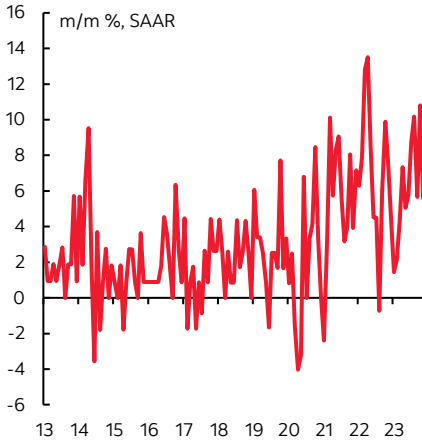
Food Purchased from Restaurants Inflation



Sources: Scotiabank Economics, Statistics Canada.

Chart 10

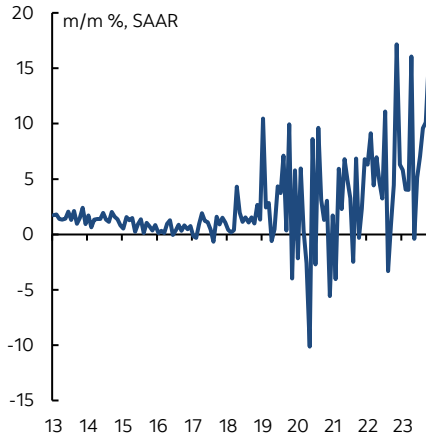
Shelter Cost Soaring High in Canada



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 11

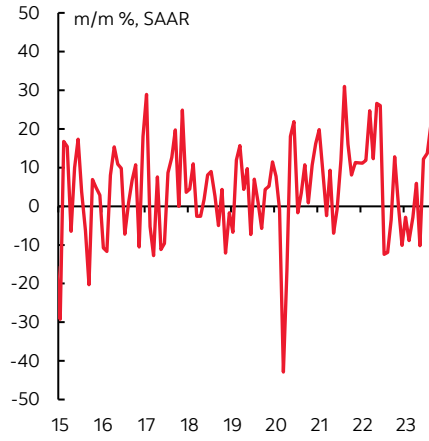
Rents Soaring in Canada



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 12

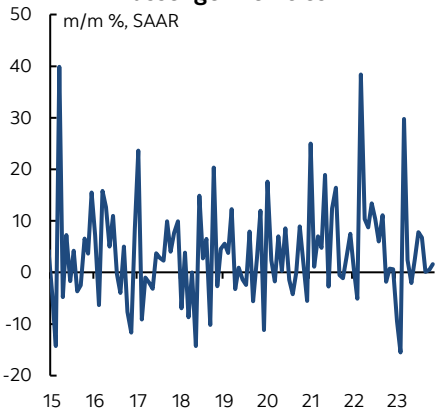
Canada CPI: Transportation



Sources: Scotiabank Economics, Statistics Canada.

Chart 13

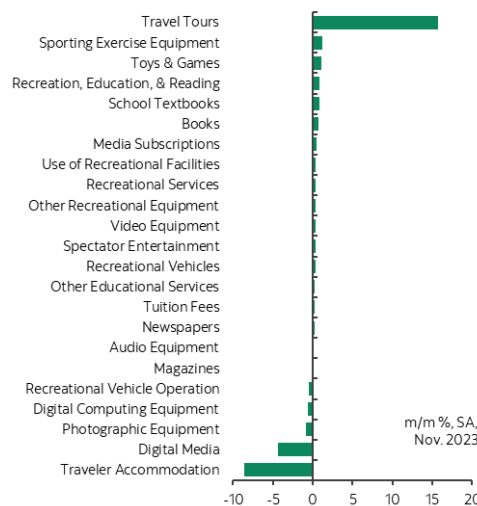
Canada CPI: Private Purchase of Passenger Vehicles



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 14

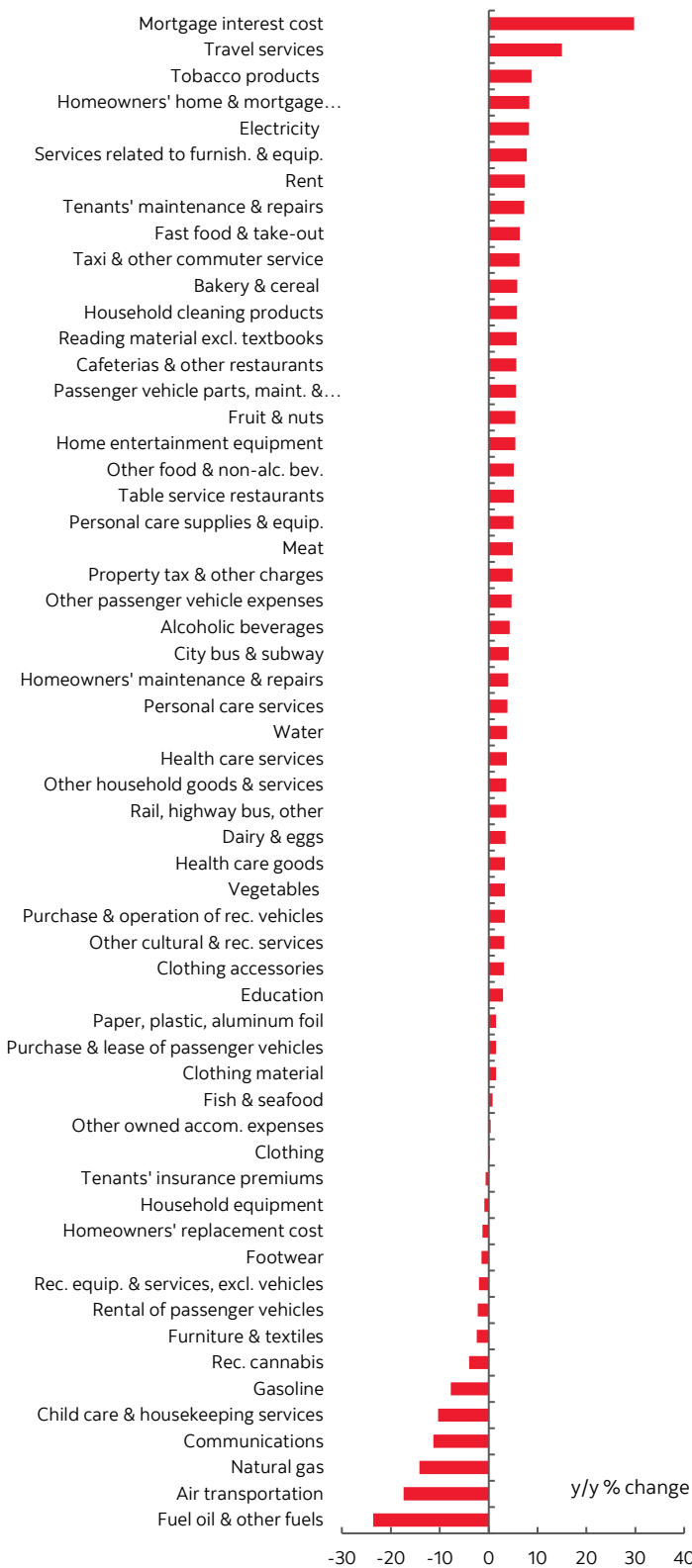
Breakdown of Monthly Changes within Recreation Education and Reading CPI Category



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 15

November Detailed Category 12-Month Change in Canadian CPI



Sources: Scotiabank Economics, Statistics Canada.

Chart 16

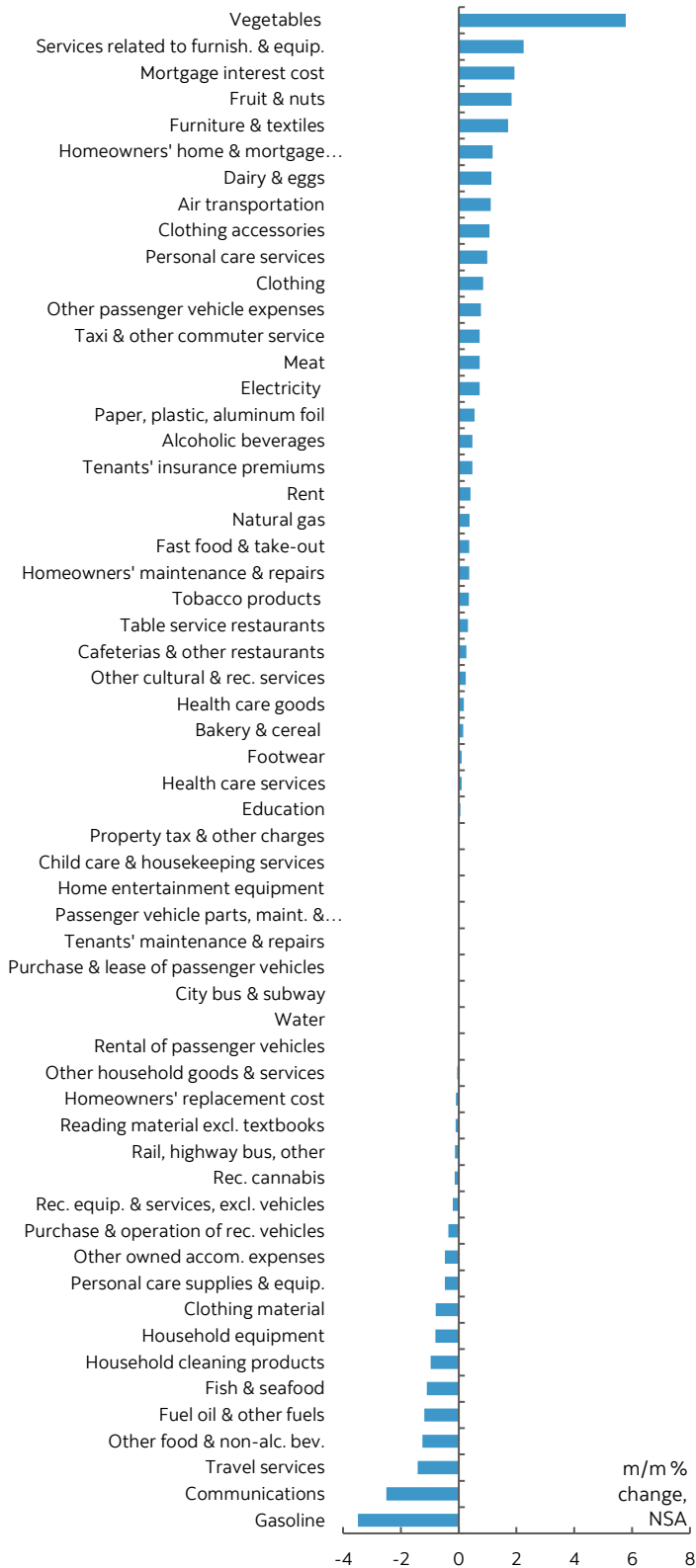
November Detailed Category Contributions to 12-Month Change in Canadian CPI



Sources: Scotiabank Economics, Statistics Canada.

Chart 17

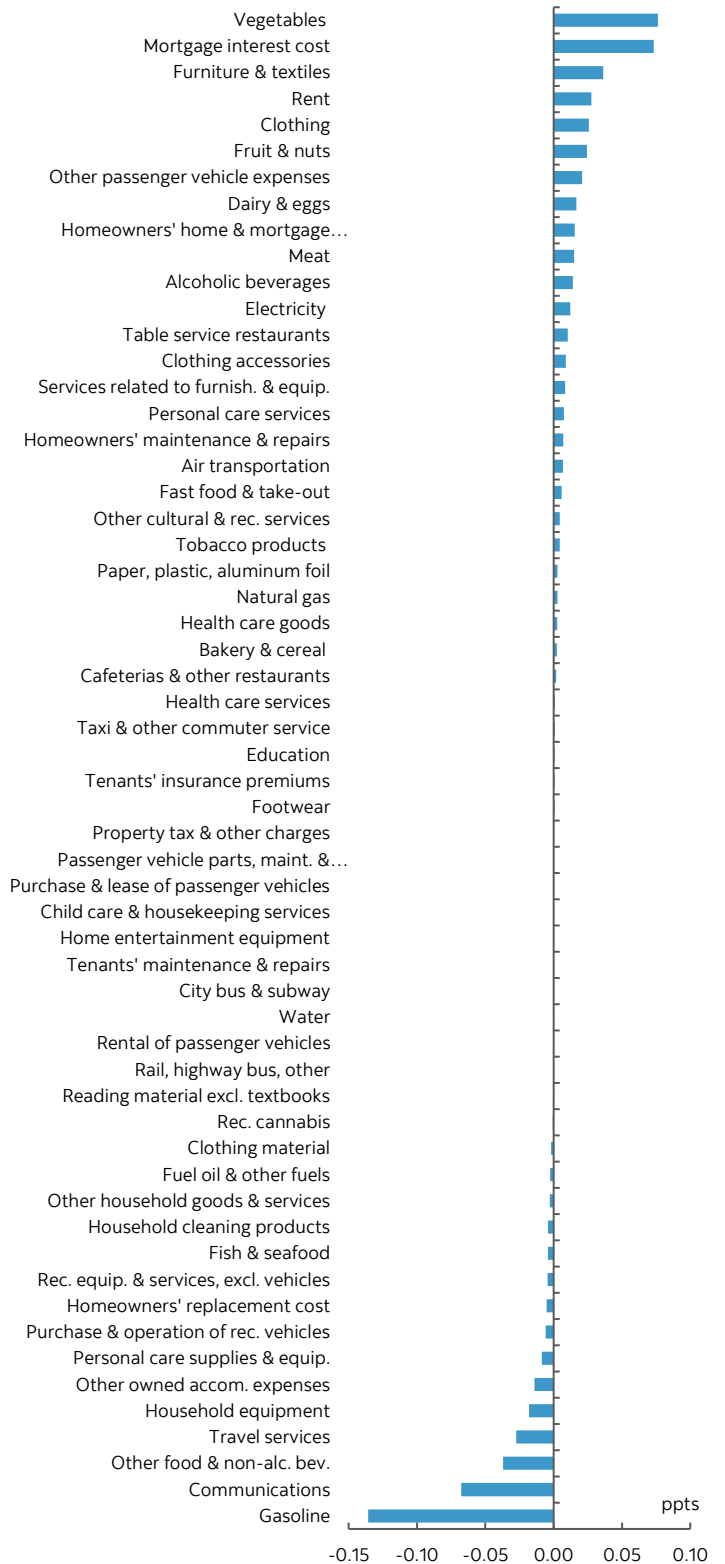
November Detailed Category Monthly Change in Canadian CPI



Sources: Scotiabank Economics, Statistics Canada.

Chart 18

November Detailed Category Contributions to Monthly Change in Canadian CPI



Sources: Scotiabank Economics, Statistics Canada.

December 19, 2023

Nov 2023					Weighted Contributions (ppts)*			5-Year Pre-Pandemic			10-Year Pre-Pandemic			
CA INFLATION COMPONENT BREAKDOWN	y/y % change	10-year trend	Pandemic trend (Jan 2019–Present)	m/m % change, NSA	m/m % change, SA**	Weights (%)	y/y	m/m	2015–2019 avg. y/y	Std. Dev.	Z-Score	2011–2019 avg. y/y	Std. Dev.	Z-Score
Food	5.0			0.6	0.2	16.65	0.84	0.11	2.1	1.7	1.7	2.2	1.5	2.0
Food, stores	4.7			0.8		11.04	0.52	0.09	1.7	2.4	1.2	2.0	2.0	1.3
Meat	5.0			0.7	0.0	2.07	0.10	0.02	2.5	3.6	0.7	3.4	3.6	0.4
Fish & seafood	0.8			-1.1	0.0	0.39	0.00	0.00	2.9	1.4	-1.5	2.8	2.5	-0.8
Dairy products & eggs	3.5			1.1	0.0	1.47	0.05	0.02	0.2	1.5	2.1	0.6	1.5	1.9
Bakery & cereal products	5.9			0.2	0.0	1.52	0.09	0.00	0.5	2.1	2.6	1.2	2.3	2.0
Fruit, fruit prep. & nuts	5.5			1.8	0.0	1.33	0.07	0.02	1.8	4.4	0.8	2.0	3.5	1.0
Vegetables & vegetable prep.	3.3			5.8	0.0	1.32	0.04	0.08	4.9	6.4	-0.3	3.6	5.8	0.0
Other food & non-alcoholic beverages	5.2			-1.3	0.0	2.95	0.15	-0.04	1.0	1.5	2.7	1.3	1.7	2.2
Food, restaurants	5.5			0.3		5.61	0.31	0.01	3.0	0.7	3.8	2.6	0.7	4.0
Table service restaurants	5.1			0.3		3.29	0.17	0.01	2.9	0.6	4.1	2.6	0.6	4.0
Fast food & take-out	6.4			0.4		1.57	0.10	0.01	3.2	1.2	2.6	2.6	1.2	3.2
Cafeterias & other restaurants	5.6			0.3		0.76	0.04	0.00	3.0	0.6	4.2	2.6	0.7	4.3
Shelter	5.9			0.5	0.5	28.34	1.68	0.13	1.8	0.6	7.0	1.7	0.8	5.3
Rented accommodation	7.3			0.4	0.0	7.03	0.51	0.03	1.3	0.8	7.4	1.3	0.6	10.1
Rent	7.4			0.4		6.79	0.50	0.03	1.3	0.8	7.5	1.3	0.6	10.2
Tenants' insurance premiums	-0.6			0.5		0.15	0.00	0.00	1.1	1.6	-1.1	0.3	1.6	-0.6
Tenants' maintenance & repairs	7.3			0.0		0.09	0.01	0.00	2.2	1.0	4.9	2.6	2.2	2.2
Owned accommodation	6.8			0.5		17.96	1.23	0.09	2.3	0.4	10.7	1.7	0.8	6.2
Mortgage interest cost	29.8			1.9	0.0	3.80	1.13	0.07	2.1	3.6	7.7	-0.1	3.6	8.3
Homeowners' replacement cost	-1.3			-0.1	0.0	5.47	-0.07	-0.01	1.9	1.7	-1.9	2.1	1.5	-2.3
Property tax & other charges	4.9			0.0	0.0	2.51	0.12	0.00	2.4	0.6	4.4	2.8	0.7	3.1
Homeowners' home & mortgage insurance	8.3			1.2	0.0	1.31	0.11	0.02	5.2	2.3	1.4	4.5	2.6	1.5
Homeowners' maintenance & repairs	4.0			0.4	0.0	1.93	0.08	0.01	2.0	1.1	1.8	2.0	1.4	1.3
Other owned accommodation expenses	0.4			-0.5	0.0	2.93	0.01	-0.01	2.0	1.2	-1.3	2.4	2.0	-1.0
Water, fuel, & elec.	-1.6			0.4		3.35	-0.05	0.01	0.8	2.1	-1.1	2.5	3.4	-1.2
Electricity	8.2			0.7	0.0	1.67	0.14	0.01	1.2	4.4	1.6	2.5	3.8	1.5
Water	3.8			0.0	0.0	0.73	0.03	0.00	3.7	0.9	0.1	4.9	1.4	-0.8
Natural gas	-14.1			0.4	0.0	0.74	-0.10	0.00	-1.3	9.0	-1.4	0.4	10.6	-1.4
Fuel oil & other fuels	-23.6			-1.2	0.0	0.21	-0.05	0.00	-0.1	15.5	-1.5	5.1	14.2	-2.0
Household operations, furniture & equipment	-1.5			-0.3	0.0	14.36	-0.22	-0.04	1.2	1.0	-2.6	1.4	0.9	-3.3
Household ops.	-1.7			-0.7		9.48	-0.16	-0.07	1.3	1.1	-2.7	2.1	1.3	-3.0
Communications	-11.3			-2.5	0.0	2.71	-0.31	-0.07	0.0	2.8	-4.0	1.5	2.9	-4.5
Child care & housekeeping services	-10.3			0.0	0.0	0.71	-0.07	0.00	3.4	1.4	-9.9	3.3	1.3	-10.3
Household cleaning products	5.8			-1.0	0.0	0.42	0.02	0.00	1.3	1.9	2.4	0.8	1.9	2.6
Paper, plastic, aluminum foil	1.5			0.6	0.0	0.51	0.01	0.00	2.2	2.2	-0.3	2.0	2.0	-0.2
Other household goods & services	3.6			-0.1	0.0	5.13	0.19	0.00	1.8	0.5	3.8	2.4	1.1	1.1
Household furnishings & equip.	-0.9			0.6		4.88	-0.04	0.03	0.8	1.7	-1.0	0.1	1.6	-0.6
Furniture & textiles	-2.4			1.7		2.12	-0.05	0.04	0.4	2.1	-1.4	-0.3	2.1	-1.0
Household equipment	-0.9			-0.8	0.0	2.25	-0.02	-0.02	0.9	1.7	-1.1	0.0	1.8	-0.5
Services related to furnishings & equipment	7.8			2.2	0.0	0.38	0.03	0.01	2.4	1.8	2.9	2.7	2.9	1.8
Clothing & footwear	0.6			0.7	0.4	4.7	0.03	0.03	0.6	1.2	0.0	0.3	1.4	0.2
Clothing	0.2			0.8	0.0	3.05	0.01	0.03	0.5	1.6	-0.1	-0.3	2.1	0.2
Footwear	-1.4			0.1	0.0	0.64	-0.01	0.00	0.4	1.2	-1.6	0.1	1.4	-1.1
Clothing accessories	3.1			1.1		0.83	0.03	0.01	1.0	1.8	1.2	2.3	2.6	0.3
Clothing material	1.5			-0.8		0.22	0.00	0.00	2.2	0.7	-1.0	2.7	1.2	-1.0

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Transportation	-0.1			-0.6	0.2	16.4	-0.01	-0.10	1.7	3.1	-0.6	2.3	3.0	-0.8
Private trans.	0.4			-0.7		15.2	0.06	-0.10	1.3	3.2	-0.3	2.2	3.2	-0.6
Purchase, lease, rental of passenger vehicles	1.5			0.0		5.98	0.09	0.00	2.3	1.5	-0.6	1.9	1.6	-0.3
<u>Purchase & lease of passenger vehicles</u>	<u>1.5</u>			<u>0.0</u>		<u>5.95</u>	<u>0.09</u>	<u>0.00</u>	<u>2.3</u>	<u>1.5</u>	<u>-0.5</u>	<u>1.9</u>	<u>1.6</u>	<u>-0.2</u>
<u>Rental of passenger vehicles</u>	<u>-2.2</u>			<u>0.0</u>	<u>0.0</u>	<u>0.04</u>	<u>0.00</u>	<u>0.00</u>	<u>1.4</u>	<u>5.2</u>	<u>-0.7</u>	<u>1.2</u>	<u>4.1</u>	<u>-0.8</u>
Operation of passenger vehicles	-0.4			-1.2		9.25	-0.04	-0.11	0.7	5.7	-0.2	2.4	5.4	-0.5
<u>Gasoline</u>	<u>-7.7</u>			<u>-3.5</u>	<u>0.0</u>	<u>3.89</u>	<u>-0.30</u>	<u>-0.14</u>	<u>-0.6</u>	<u>13.5</u>	<u>-0.5</u>	<u>3.0</u>	<u>12.2</u>	<u>-0.9</u>
<u>Passenger vehicle parts, maintenance & repairs</u>	<u>5.6</u>			<u>0.0</u>	<u>0.0</u>	<u>2.66</u>	<u>0.15</u>	<u>0.00</u>	<u>1.9</u>	<u>0.3</u>	<u>10.7</u>	<u>1.6</u>	<u>0.8</u>	<u>5.1</u>
<u>Other passenger vehicle expenses</u>	<u>4.7</u>			<u>0.8</u>	<u>0.0</u>	<u>2.70</u>	<u>0.13</u>	<u>0.02</u>	<u>2.4</u>	<u>2.2</u>	<u>1.1</u>	<u>2.6</u>	<u>2.0</u>	<u>1.1</u>
Public trans.	-7.1			0.7		1.21	-0.09	0.01	4.8	3.9	-3.1	3.4	3.7	-2.9
Local & commuter transportation	5.0			0.2	0.0	0.35	0.02	0.00	1.5	0.5	7.2	2.2	1.2	2.4
<u>City bus & subway</u>	<u>4.1</u>			<u>0.0</u>		<u>0.23</u>	<u>0.01</u>	<u>0.00</u>	<u>2.1</u>	<u>0.7</u>	<u>2.7</u>	<u>2.8</u>	<u>1.4</u>	<u>0.9</u>
<u>Taxi & other commuter service</u>	<u>6.3</u>			<u>0.7</u>		<u>0.12</u>	<u>0.01</u>	<u>0.00</u>	<u>0.1</u>	<u>0.8</u>	<u>7.6</u>	<u>0.9</u>	<u>1.2</u>	<u>4.4</u>
Inter-city transportation	-14.2			0.9	0.0	0.72	-0.10	0.01	6.2	5.7	-3.6	3.9	5.8	-3.1
<u>Air transportation</u>	<u>-17.4</u>			<u>1.1</u>		<u>0.62</u>	<u>-0.11</u>	<u>0.01</u>	<u>6.5</u>	<u>6.2</u>	<u>-3.9</u>	<u>4.0</u>	<u>6.4</u>	<u>-3.3</u>
<u>Rail, highway bus, other</u>	<u>3.6</u>			<u>-0.1</u>		<u>0.10</u>	<u>0.00</u>	<u>0.00</u>	<u>2.7</u>	<u>1.8</u>	<u>0.5</u>	<u>2.0</u>	<u>4.2</u>	<u>0.4</u>
Health & personal care	4.2			0.1	0.1	5.03	0.2	0.00	1.4	0.4	7.0	1.3	0.9	3.4
Health care	3.5			0.1		2.46	0.1	0.00	1.3	0.6	3.7	1.1	0.8	3.0
Health care goods	3.4			0.2	0.0	1.44	0.0	0.00	0.5	0.7	4.1	-0.1	1.1	3.2
Health care services	3.7			0.1	0.0	1.02	0.0	0.00	2.5	0.6	2.2	2.9	0.8	1.1
Personal Care	4.9			0.0		2.58	0.1	0.00	1.5	0.5	6.3	1.5	1.2	2.9
Personal care supplies & equipment	5.1			-0.5	0.0	1.81	0.1	-0.01	0.4	0.9	5.0	0.5	1.6	2.8
Personal care services	3.9			1.0	0.0	0.76	0.0	0.01	2.9	0.7	1.4	2.7	1.4	0.8
Recreation, education & reading	3.8			-0.4	0.7	9.92	0.4	-0.04	1.7	0.8	2.7	1.3	0.9	3.0
Recreation	3.9			-0.53		8.29	0.32	-0.04	1.4	1.0	2.4	0.6	1.2	2.6
Recreational equipment & services, excl. vehicles	-2.0			-0.2	0.0	2.16	0.0	0.00	-0.8	1.6	-0.7	-2.2	2.0	0.1
Purchase & operation of recreational vehicles	3.3			-0.4	0.0	1.64	0.1	-0.01	2.6	1.8	0.4	1.9	2.0	0.7
Home entertainment equipment	5.5			0.0	0.0	0.69	0.0	0.00	-3.8	2.0	4.6	-4.9	2.2	4.7
Travel services	15.0			-1.4	0.0	1.94	0.3	-0.03	0.8	2.9	4.8	0.4	2.8	5.2
Other cultural & rec. services	3.2			0.2	0.0	1.87	0.1	0.00	3.5	1.1	-0.2	3.4	1.4	-0.1
Educ. & reading	3.3			0.00		1.63	0.05	0.00	2.5	1.4	0.6	3.0	1.1	0.3
Education				0.1	0.0	1.38	0.0	0.00	2.4	1.4	0.4	3.0	1.2	0.0
Reading material excl. textbooks	5.7			-0.1	0.0	0.25	0.0	0.00	3.8	2.8	0.7	3.2	2.9	0.9
Alcoholic beverages, tobacco & rec. cannabis	4.6			0.4	0.4	4.53	0.2	0.02	3.2	1.2	1.3	2.7	1.3	1.4
Alcoholic beverages	4.3			0.48		2.94	0.13	0.01	1.7	0.5	5.0	1.4	0.7	4.0
Alc. beverages served in licensed establishments	5.5			0.5	0.0	0.86	0.0	0.00	1.8	0.6	6.1	2.0	0.7	5.1
Alc. beverages purchased from stores	3.6			0.4	0.0	2.08	0.1	0.01	1.7	0.7	3.0	1.1	1.1	2.4
Tobacco products	8.7			0.36		1.23	0.11	0.00	5.6	2.1	1.5	4.8	2.8	1.4
Cigarettes	8.7			0.4		1.12	0.1	0.00	5.6	2.1	1.5	4.8	2.8	1.4
Other tobacco products & supplies	8.7			0.6		0.11	0.0	0.00	5.6	2.0	1.5	4.9	2.6	1.4
Rec. cannabis	-4.0			-0.14		0.50	-0.02	0.00						

*Number may not add due to rounding

** Only available for components that are tracked on a seasonally adjusted basis.

Sources: Scotiabank Economics, Statistics Canada.

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