

### THE GLOBAL WEEK AHEAD

January 7, 2022

#### Contributors

##### Derek Holt

VP & Head of Capital Markets Economics  
Scotiabank Economics  
416.863.7707  
[derek.holt@scotiabank.com](mailto:derek.holt@scotiabank.com)

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Marc Ercolao.*

#### Next Week's Risk Dashboard

- US inflation: a near-term peak?
- Powell, Brainard hearings to freshen Fed guidance
- Weak Chinese inflation
- PBOC watch
- BoK expected to hike
- Other inflation: India, Brazil, Norway, Spain, Sweden

### Has Omicron Altered Powell's Swagger?

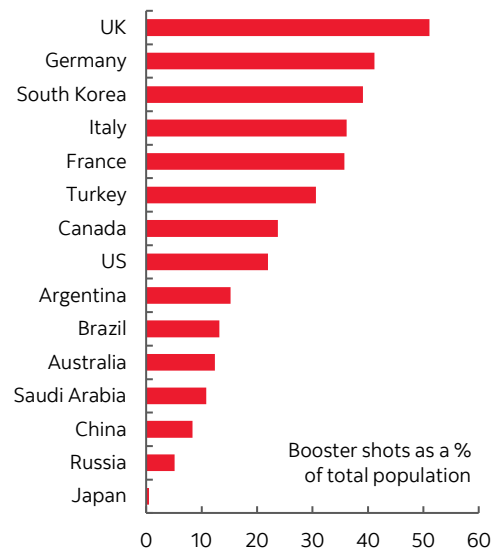
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#### Chart of the Week

##### Vaccine Races—Who Needs a Boost?



Sources: Scotiabank Economics, Our World in Data.

Chart of the Week: Prepared by: Marc Ercolao, Economic Analyst.

## Has Omicron Altered Powell’s Swagger?

### FRESHENED GUIDANCE FROM THE FEDERAL RESERVE

Markets will be on close watch for fresh indications of whether key Federal Reserve officials are leaning toward lift-off as soon as the March FOMC meeting, updated perspectives on reinvestment plans, and how new information since the last meeting (recapped [here](#)) may have affected current thinking around the outlook for the economy and the Fed’s dual mandate objectives.

Federal Reserve Chair Powell’s confirmation hearing will be held on Tuesday at 10amET before the Senate Banking Committee. There is high potential for fresh policy guidance being delivered during his testimony that will start with brief written remarks and then plunge into grilling on the full range of issues including monetary policy, diversity at the Fed, and more politicized angles. You can watch it live [here](#). In terms of content, anything is fair game which was also the case at Powell’s confirmation hearing on November 28<sup>th</sup> 2017 when he was nominated to his first term as Chair. During that testimony, for instance, Powell strengthened the odds of a hike at the December meeting, though the Fed was already in the midst of a tightening campaign.

Governor Brainard’s confirmation hearing before the Senate Banking Committee will be held two days later at the same time and may be a bumpier ride than what is expected to be given by way of bipartisan support for Powell. Brainard will be grilled on the same issues as Powell but a wedge issue between Brainard and Powell could emerge in the form of slightly different stances toward deregulation to date and future potential policy measures that could be of relevance to policy matters affecting the financial system such as capital and liquidity management. For whatever it’s worth (perhaps not much!) the PredictIt crowd places high odds on a squeaker of an outcome (or failure) when Brainard’s nomination subsequently goes to a vote before the full Senate (chart 1).

A key issue is the extent to which developments since the FOMC meeting on December 14<sup>th</sup> – 15<sup>th</sup> may have affected their thinking. On that note:

The Fed’s preferred PCE inflation readings increased to 5.7% y/y (headline) and 4.7% y/y in terms of core with the latter exceeding expectations. The next CPI estimates arrive on Wednesday and hence after Powell’s testimony but before Brainard’s.

Wage growth was strong in December and the unemployment rate fell back to its lowest since before the pandemic (recap [here](#)). Watch for further strengthening of remarks around how close the Fed thinks it is to maximum employment.

Most of the macro readings since the December meeting are nevertheless lacking freshness given the speed at which omicron cases have been piling up. There have been about 8½ million new cases of COVID-19 reported since the December FOMC meeting concluded. Since this is very likely an underestimation of the actual number and because omicron is thought to result in generally milder outcomes for most people, we also need to look at hospitalizations and deaths. Chart 2 shows the changes in both; hospitalizations are rapidly moving toward the prior pandemic peak. I would expect Powell to be careful and somewhat circumspect in his remarks, but to err on the side of medium-term optimism in terms of how the US emerges from this wave.

Other Fed speakers will include a heavy line-up of regional Presidents (Barkin, Bostic, Bullard, Evans, George, Mester, Williams). It’s unclear whether to expect nominations for three remaining vacancies including Vice Chair of regs and two Governors despite guidance that announcements will “soon” be made; the Biden Administration is likely to have enough on its hands watching how the hearings go and the tone of support.

Chart 1

How Many Votes to Confirm Lael Brainard as Fed Vice Chair by March 31

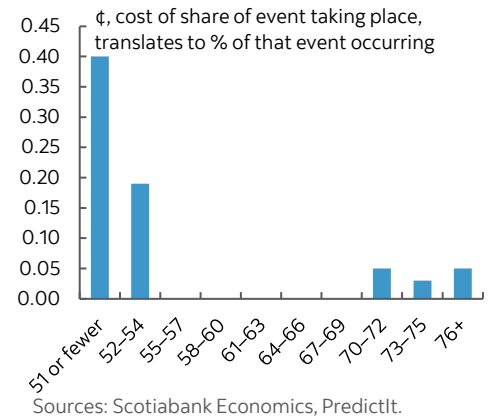
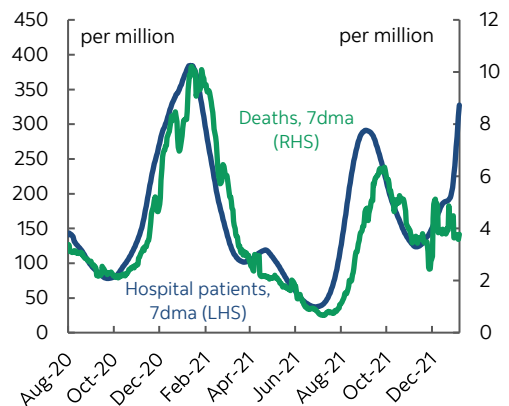


Chart 2

US: Hospitalizations vs Deaths



**US INFLATION—WHERE WERE YOU IN 1982?**

US CPI for December lands on Wednesday at 8:30amET. It therefore arrives after Chair Powell’s confirmation hearing on Tuesday, but before Governor Brainard’s on Thursday. Powell’s army of Fed economists will give him a pretty good idea of what to expect and Brainard will have the numbers in hand that are expected to continue to run rather hot and provoke additional grilling.

My estimate is for headline CPI inflation to be up by 0.5% m/m SA and 7.2% y/y (from 6.8% prior) with core CPI up by 0.4% m/m and 5.3% y/y (from 4.9% prior). The last time that headline inflation crossed 7% was in June 1982. I readily admit that my interests at the time had little to do with CPI!

The readings might, however, give us a stale perspective on near-term inflation risk. The general pattern to date has been such that when COVID-19 cases are rising, inflation tends to ebb, and vice versa as shown in chart 3. Since cases are exploding now, this rough relationship could give rise to significant nearer-term downside pressure on inflation while pushing forward a renewed surge when cases eventually subside. A challenge to this relationship, however, is that the supply side is tighter and the US economy has closed spare capacity.

In terms of drivers for the December reading, one source of uncertainty is that there will be two forms of methodological updates in this release and the next one. CPI spending weights will be updated and based on consumer expenditure data from 2019–2020 instead of 2017–18. Current weights are shown in chart 4 for the biggest items, but a fuller breakdown is available [here](#). This is likely to dampen contributions from high-contact services and raise relative contributions from categories like housing and several categories of goods. Unlike Canada that updated CPI weights this past summer based on 2020 spending, the BLS is using spending patterns from both 2019 and 2020 and hence is mixing pre-pandemic and a part of pandemic-era patterns. The next month’s release for January CPI will then involve updating seasonal adjustment factors for price movements in 2021 with potential revisions stretching back over the past five years.

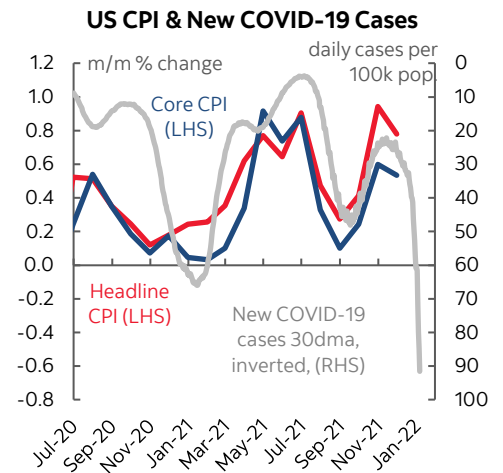
Year-ago base effects could push inflation a touch lower if nothing else were to change. December is usually a light month for seasonal price pressures. Gasoline prices fell in seasonally unadjusted terms, but seasonal adjustments are likely to result in a mild positive contribution to the overall month-over-month change in CPI. Natural gas prices fell sharply from late November through December and even at a modest weight on utility gas service of 0.82% this should be a significant drag effect on headline CPI of around -0.1 to -0.2% m/m (chart 5). New vehicle prices were up by about 3–4% which at a 3.9% weight should add 0.1–0.2% to overall CPI as another rise in used vehicle prices should add up to 0.1% to CPI. Watch for greater housing contributions through owners’ equivalent rent. As usual, the dominant swing factor is focused upon estimating idiosyncratic and pandemic-related effects.

**OTHER DEVELOPMENTS—ON CHINA WATCH**

The rest of the week’s global line-up of calendar-based risks will be relatively light. That probably means that beyond Fed communications and US inflation, global markets will be more sensitive toward off-calendar risk such as monitoring omicron developments and perhaps geopolitical factors.

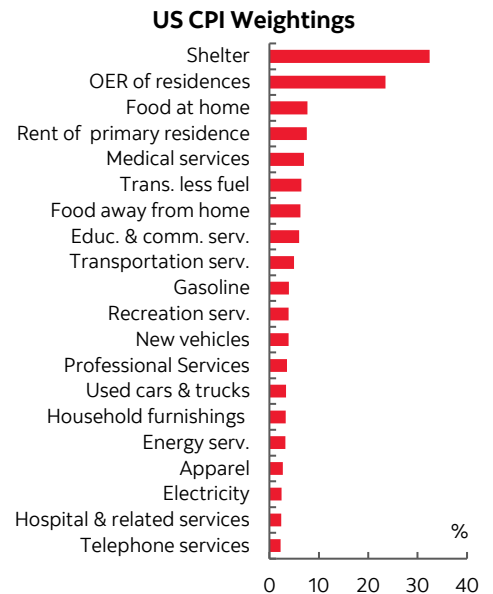
Other US developments will focus upon a handful of releases. Retail sales face downside risk (-0.1% m/m) because we know that vehicle sales volumes fell last month with a partial

Chart 3



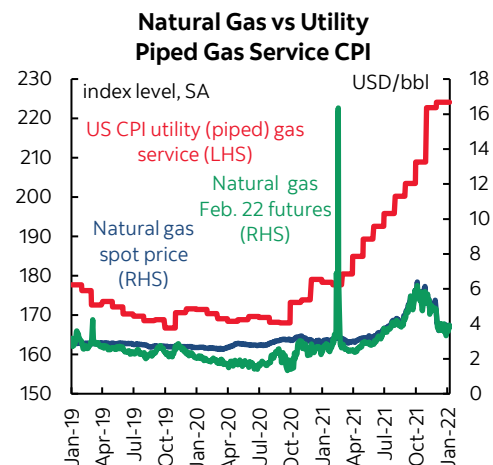
Sources: Scotiabank Economics, Bloomberg.

Chart 4



Sources: Scotiabank Economics, BLS.

Chart 5



Sources: Scotiabank Economics, Bloomberg.

offset from higher prices. Gasoline prices also fell and the later month decline in mobility readings could weight on gasoline volumes. The Fed's Beige Book of regional conditions (Wednesday), producer prices for December (Thursday), industrial output during December (Friday) and the University of Michigan's consumer sentiment figure (Friday) round out the line-up. If any of that matters, it might be updates to consumers' inflation expectations (chart 6).

Various countries will update inflation readings. At the top of the list outside of the US will be China's figures on Tuesday night (eastern time). Headline inflation is likely to fall back below 2% y/y and hence well beneath the 3% policy goal (chart 7), while core inflation remains stuck at just over 1% y/y. The PBOC is expected to update the one-year Medium-Term Lending Facility Rate sometime by next weekend; even though the Loan Prime Rate is the official policy tool, tweaks to other rates can signal intent and policymakers have slowly been acknowledging mounting downside risks to China's economy through a variety of channels. China might also update financing figures this week and trade figures for December arrive toward the end of the week.

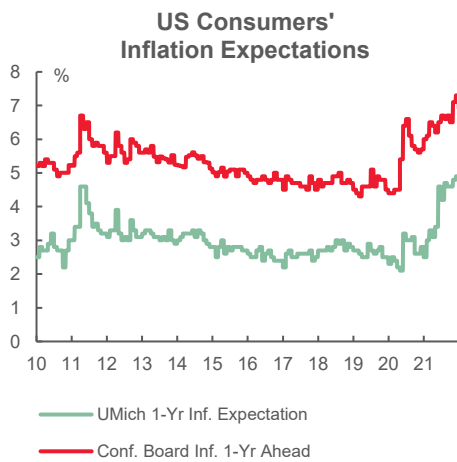
Canada will be dead quiet with nothing of consequence on tap this week.

The lone central bank on the agenda will be the Bank of Korea. Consensus is almost universally expecting another quarter point hike to a 7-day repo rate of 1.25%. Inflation landed at 3.7% y/y in December for the highest reading in 10 years (chart 8). On December 16<sup>th</sup>, Governor Lee Ju-yeol indicated that another rate hike was being considered in Q1 which would mean either this meeting or the one in February.

Other countries updating inflation will include Norway (Monday), Brazil (Tuesday), India (Wednesday), Argentina (Thursday) and Sweden (Friday).

The UK will consider modest and stale updates including industrial output, services activity and trade—all for November pre-omicron.

Chart 6



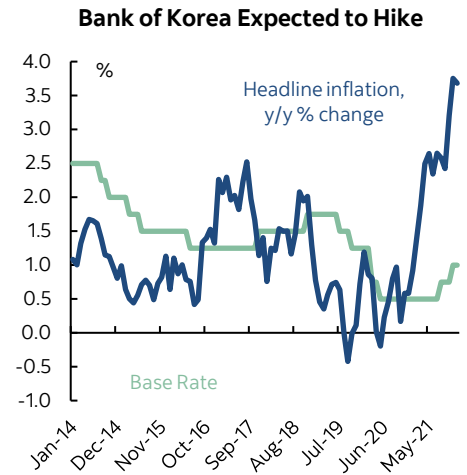
Sources: Scotiabank Economics, Bloomberg.

Chart 7



Sources: Scotiabank Economics, Bloomberg.

Chart 8



Sources: Scotiabank Economics, Bank of Korea.

## Key Indicators for the week of January 10 – 14

## NORTH AMERICA

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	01/10	10:00	Wholesale Inventories (m/m)	Nov F	--	1.2	1.2
MX	01/11	07:00	Industrial Production (m/m)	Nov	--	--	0.6
MX	01/11	07:00	Industrial Production (y/y)	Nov	--	--	0.7
US	01/12	07:00	MBA Mortgage Applications (w/w)	Jan 7	--	--	-5.6
US	01/12	08:30	CPI (m/m)	Dec	0.5	0.4	0.8
US	01/12	08:30	CPI (y/y)	Dec	7.2	7.1	6.8
US	01/12	08:30	CPI (index)	Dec	--	278.8	277.9
US	01/12	08:30	CPI ex. Food & Energy (m/m)	Dec	0.4	0.5	0.5
US	01/12	08:30	CPI ex. Food & Energy (y/y)	Dec	5.3	5.4	4.9
US	01/12	14:00	Treasury Budget (US\$ bn)	Dec	--	--	-191.3
US	01/13	08:30	Initial Jobless Claims (000s)	Jan 8	215	205	207
US	01/13	08:30	Continuing Claims (000s)	Jan 1	1,780	1,766	1,754
US	01/13	08:30	PPI (m/m)	Dec	0.4	0.4	0.8
US	01/13	08:30	PPI ex. Food & Energy (m/m)	Dec	0.4	0.5	0.7
US	01/14	08:30	Export Prices (m/m)	Dec	--	0.4	1.0
US	01/14	08:30	Import Prices (m/m)	Dec	--	0.3	0.7
US	01/14	08:30	Retail Sales (m/m)	Dec	-0.1	0.0	0.3
US	01/14	08:30	Retail Sales ex. Autos (m/m)	Dec	0.1	0.2	0.3
US	01/14	09:15	Capacity Utilization (%)	Dec	77.0	77.0	76.8
US	01/14	09:15	Industrial Production (m/m)	Dec	0.3	0.3	0.5
US	01/14	10:00	Business Inventories (m/m)	Nov	--	1.2	1.2
US	01/14	10:00	U. of Michigan Consumer Sentiment	Jan P	70.0	70.0	70.6

## EUROPE

Country	Date	Time	Indicator	Period	onsensi	Latest
EC	01/10	05:00	Unemployment Rate (%)	Nov	--	7.3
SP	01/11	03:00	Industrial Output NSA (y/y)	Nov	--	-3.3
EC	01/12	05:00	Industrial Production (m/m)	Nov	--	1.1
EC	01/12	05:00	Industrial Production (y/y)	Nov	--	3.3
IT	01/13	04:00	Industrial Production (m/m)	Nov	--	-0.6
UK	01/14	02:00	Index of Services (m/m)	Nov	--	0.4
UK	01/14	02:00	Industrial Production (m/m)	Nov	--	-0.6
UK	01/14	02:00	Manufacturing Production (m/m)	Nov	--	0.0
UK	01/14	02:00	Visible Trade Balance (£ mn)	Nov	--	-13,934
FR	01/14	02:45	Central Government Balance (€ bn)	Nov	--	-171.6
SP	01/14	03:00	CPI (m/m)	Dec F	--	1.3
SP	01/14	03:00	CPI (y/y)	Dec F	--	6.7
SP	01/14	03:00	CPI - EU Harmonized (m/m)	Dec F	--	1.2
SP	01/14	03:00	CPI - EU Harmonized (y/y)	Dec F	--	6.7
GE	01/14	04:00	Real GDP NSA (y/y)	2021	--	-4.6
GE	01/14	04:00	Budget (Maastricht) (% of GDP)	2021	--	-4.3
EC	01/14	05:00	Trade Balance (€ mn)	Nov	--	3.6

Forecasts at time of publication.

Sources: Bloomberg, Scotiabank Economics.

## Key Indicators for the week of January 10 – 14

## ASIA-PACIFIC

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CH	01/08	20:00	New Yuan Loans (bn)	Dec	1300	1250.0	1273.2
AU	01/09	19:30	Building Approvals (m/m)	Nov	--	3.0	-12.9
MA	01/09	23:00	Industrial Production (y/y)	Nov	--	11.5	5.5
AU	01/10	00:30	Foreign Reserves (AUD bn)	Dec	--	--	80.8
SK	01/10	18:00	Current Account (US\$ mn)	Nov	--	--	6945.5
AU	01/10	19:30	Retail Sales (m/m)	Nov	--	3.8	4.9
AU	01/10	19:30	Trade Balance (AUD mn)	Nov	--	10,700	11,220
PH	01/10	20:00	Exports (y/y)	Nov	--	5.2	6.4
PH	01/10	20:00	Imports (y/y)	Nov	--	27.8	24.9
PH	01/10	20:00	Trade Balance (US\$ mn)	Nov	--	-4,042	-4,017
ID	01/10		Consumer Confidence Index	Dec	--	--	118.5
JN	01/11	00:00	Coincident Index CI	Nov P	--	93.5	89.8
JN	01/11	00:00	Leading Index CI	Nov P	--	102.8	101.5
SK	01/11	18:00	Unemployment Rate (%)	Dec	--	3.2	3.1
JN	01/11	18:50	Bank Lending (y/y)	Dec	--	--	0.6
JN	01/11	18:50	Current Account (¥ bn)	Nov	--	586.3	1180.1
JN	01/11	18:50	Trade Balance - BOP Basis (¥ bn)	Nov	--	-650.0	166.7
CH	01/11	20:30	CPI (y/y)	Dec	2.3	1.7	2.3
CH	01/11	20:30	PPI (y/y)	Dec	--	11.3	12.9
IN	01/12	07:00	CPI (y/y)	Dec	5.60	5.80	4.91
IN	01/12	07:00	Industrial Production (y/y)	Nov	--	2.90	3.20
JN	01/12	18:50	Japan Money Stock M2 (y/y)	Dec	--	3.9	4.0
JN	01/12	18:50	Japan Money Stock M3 (y/y)	Dec	--	3.5	3.6
CH	01/13	20:00	Exports (y/y)	Dec	--	20.0	22.0
CH	01/13	20:00	Imports (y/y)	Dec	--	28.0	31.7
CH	01/13	20:00	Trade Balance (USD bn)	Dec	--	73.4	71.7
JN	01/13	01:00	Machine Tool Orders (y/y)	Dec P	--	--	64.0
IN	01/14	06:30	Exports (y/y)	Dec	--	--	27.2
IN	01/14	06:30	Imports (y/y)	Dec	--	--	56.6
IN	01/14	07:00	Monthly Wholesale Prices (y/y)	Dec	--	13.5	14.2
<b>SK</b>	<b>01/14</b>		<b>BoK Base Rate (%)</b>	<b>Jan 14</b>	<b>1.25</b>	<b>1.25</b>	<b>1.00</b>

## LATIN AMERICA

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
BZ	01/11	07:00	IBGE Inflation IPCA (m/m)	Dec	--	--	1.0
BZ	01/11	07:00	IBGE Inflation IPCA (y/y)	Dec	--	--	10.7
BZ	01/14	07:00	Retail Sales (m/m)	Nov	--	--	-0.1
BZ	01/14	07:00	Retail Sales (y/y)	Oct	--	--	-7.1

Forecasts at time of publication.

Sources: Bloomberg, Scotiabank Economics.

**Global Auctions for the week of January 10 – 14****NORTH AMERICA**

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	01/11	13:00	U.S. To Sell 3-Year Notes
US	01/12	13:00	U.S. To Sell 10-Year Notes Reopening
US	01/13	13:00	U.S. To Sell 30-Year Bonds Reopening

**EUROPE**

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
NE	01/11	04:00	Netherlands to Sell New 2026 Bonds
AS	01/11	05:15	Austria to Sell Bonds
NO	01/12	05:00	Norway to Sell Bonds
SZ	01/12	05:15	Switzerland to Sell Bonds
GE	01/12	05:30	Germany to Sell EUR 1.5 Bln of 2052 Bonds
IT	01/13	05:00	Italy to Sell Bonds

**ASIA-PACIFIC**

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
JN	01/11	22:35	Japan to Sell 5-Year Bonds
JN	01/13	22:35	Japan to Sell 20-Year Bonds

**LATIN AMERICA**

No Scheduled Auctions.

## Events for the week of January 10 – 14

## NORTH AMERICA

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	01/08	12:15	Fed's Bostic on AEA Panel on Diversity, Equity and Inclusion
US	01/10	12:00	Fed's Bostic Discusses Economic Outlook
US	01/11	09:12	Fed's Mester speaks on Bloomberg Television
US	01/11	09:30	Fed's George Discusses the Economic and Policy Outlook
US	01/11	16:00	Fed's Bullard Discusses Economy and Monetary Policy
US	01/12	14:00	U.S. Federal Reserve Releases Beige Book
US	01/13	12:00	Fed's Barkin Discusses the Economic Outlook
US	01/13	13:00	Fed's Evans Discusses Economy and Monetary Policy
US	01/14	11:00	Fed's Williams Speaks at Council on Foreign Relations

## EUROPE

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
EC	01/08	09:00	ECB's Schnabel at American Economic Association
UK	01/08	10:00	BOE's Catherine Mann speaks on panel on Covid
UK	01/08	12:15	BOE's Catherine Mann speaks on world economy
SW	01/14	07:10	Ingves speech

## ASIA-PACIFIC

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
SK	01/14		BoK 7-Day Repo Rate

## LATIN AMERICA

No Scheduled Events.



## Global Central Bank Watch

## NORTH AMERICA

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
Bank of Canada – Overnight Target Rate	0.25	January 26, 2022	0.25	0.25
Federal Reserve – Federal Funds Target Rate	0.25	January 26, 2022	0.25	0.25
Banco de México – Overnight Rate	5.50	February 10, 2022	5.75	5.75

## EUROPE

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
European Central Bank – Refinancing Rate	0.00	February 3, 2022	0.00	0.00
European Central Bank – Marginal Lending Facility Rate	0.25	February 3, 2022	0.25	0.25
European Central Bank – Deposit Facility Rate	-0.50	February 3, 2022	-0.50	-0.50
Bank of England – Bank Rate	0.25	February 3, 2022	0.25	0.25
Swiss National Bank – Libor Target Rate	-0.75	March 24, 2022	-0.75	-0.75
Central Bank of Russia – One-Week Auction Rate	8.50	February 11, 2022	8.50	8.50
Sweden Riksbank – Repo Rate	0.00	February 10, 2022	0.00	0.00
Norges Bank – Deposit Rate	0.50	January 20, 2022	0.50	0.50
Central Bank of Turkey – Benchmark Repo Rate	14.00	January 20, 2022	14.00	14.00

## ASIA PACIFIC

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
Bank of Japan – Policy Rate	-0.10	January 18, 2022	-0.10	0.00
Reserve Bank of Australia – Cash Target Rate	0.10	January 31, 2022	0.10	0.10
Reserve Bank of New Zealand – Cash Rate	0.75	February 22, 2022	1.00	1.00
People's Bank of China – 1-Year Loan Prime Rate	3.80	January 19, 2022	3.80	3.80
Reserve Bank of India – Repo Rate	4.00	February 8, 2022	4.00	4.00
Bank of Korea – Bank Rate	1.00	January 14, 2022	1.25	1.25
Bank of Thailand – Repo Rate	0.50	February 9, 2022	0.50	0.50
Bank Negara Malaysia – Overnight Policy Rate	1.75	January 20, 2022	1.75	1.75
Bank Indonesia – 7-Day Reverse Repo Rate	3.50	January 20, 2022	3.50	3.50
Central Bank of Philippines – Overnight Borrowing Rate	2.00	February 17, 2022	2.00	2.00

**Bank of Korea (BoK):** South Korean monetary authorities will be making a policy decision on January 14, and we are expecting a 25bps hike to 1.25% on the back of accelerating core inflation and the US FED's approaching rate liftoff. South Korea's headline inflation has exceeded 3% y/y for three consecutive months, with consumer prices rising 3.7% y/y in December, well above the BoK's target of 2%. Meanwhile, core inflation accelerated to 2.7% y/y in December, with further price pressures expected over the coming months.

## LATIN AMERICA

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
Banco Central do Brasil – Selic Rate	9.25	February 2, 2022	10.75	10.75
Banco Central de Chile – Overnight Rate	4.00	January 26, 2022	5.00	5.25
Banco de la República de Colombia – Lending Rate	3.00	January 28, 2022	3.75	3.75
Banco Central de Reserva del Perú – Reference Rate	3.00	February 10, 2022	3.25	3.25

## AFRICA

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
South African Reserve Bank – Repo Rate	3.75	January 27, 2022	4.00	4.00

Forecasts at time of publication.

Sources: Bloomberg, Scotiabank Economics.

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