

# Global Views

Weekly commentary on economic and financial market developments

November 10, 2011

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## Copper & Oil Prices Remain Resilient

- In the face of financial market volatility.

Base metal prices remain at quite profitable levels for mining companies in late 2011. However, prices have retreated from the high levels of early 2011, before financial market concerns over excessive eurozone sovereign debt and slow U.S. growth began to take a toll on confidence and prices. These concerns intensified in early October — triggering a rush to cash and the safety & liquidity of U.S. Treasury securities by metal traders and the funds — though prices have partially rallied back on optimism over a broad agreement to shore up European finances, after the October 26 EU Leaders Summit. China's GDP growth — of vital importance to global commodity markets — advanced by 9.4% in 2011:Q3, but is slowing — also causing some unwinding of commodity positions.

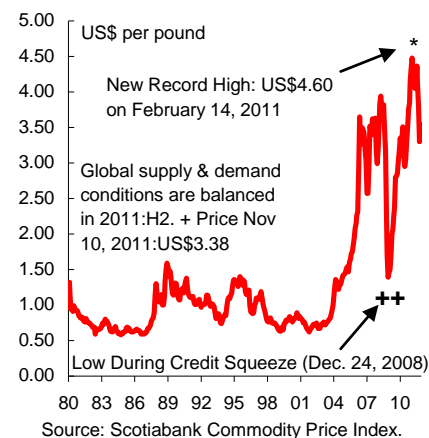
While substantial downside risks remain on the European economic front (particularly related to Italy and Greece), base metal prices will be underpinned by relatively strong demand in 'emerging' markets (especially China). With lower inflation (+5.5% yr/yr) and slower industrial activity in October (+13.2% yr/yr), China has implemented 'selective easing' of its tight credit policy (offering tax breaks to support small business and allowing a pick-up in bank loans). A broader easing in monetary policy is expected as 2012 unfolds. China has considerable financial resources to boost its economy through infrastructure spending. In its new 12th Five-Year Plan, China intends to build 36 million 'affordable' apartments for low-income households — 10 million in each of 2011 and 2012 alone. This will at least partly offset the downturn in private-sector property development (triggered by mortgage restrictions to cool housing prices). China accounts for an enormous 42% of world demand for copper, zinc, aluminium and nickel, the United States only 9.7%.

LME copper prices (the bellwether for base metals) remain lucrative at US\$3.38 per pound on November 10, yielding a 57% profit margin over average world breakeven costs including depreciation. The global supply & demand balance for copper has been in 'deficit' in 2011 (that is, world consumption exceeds refined metal supplies) and is likely to remain in 'deficit' in 2012. China's demand should strengthen again markedly by spring 2012, as fabricators restock. (China's refined metal imports have already increased in recent months, partly due to a shortage of scrap & concentrates, after falling back earlier in the year). China represents 38.6% of world consumption — 1.3 times demand in the United States (9.0%), Western Europe (15.3%) and Japan (5.2%) combined.

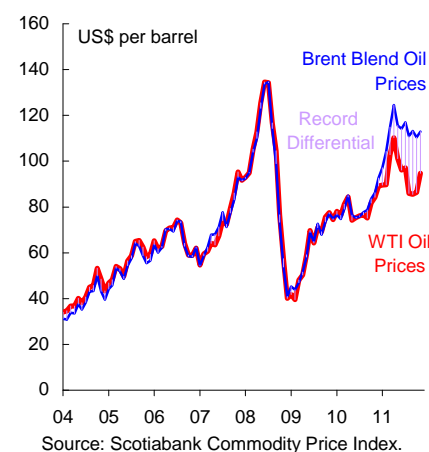
World copper mine output has only expanded by 1.5% per annum in the past five years in the face of huge demand growth in 'emerging' markets. Production has recently been limited by strikes at Grasberg in Indonesia and Cerro Verde in Peru. However, new mine development should gradually come on stream in 2012:H2 -13, moderating prices. LME copper prices should average about US\$4 per pound in both 2011 and 2012.

WTI oil prices have also been resilient, rallying from a low of US\$75.67 on October 4 to US\$97 today. Inventories have fallen back at Cushing, Oklahoma (the pricing point for the NYMEX contract) and U.S. refiners on the Gulf Coast have stepped-up overseas petroleum exports.

### Resilient Copper Prices



### Oil Prices



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### Russia Continues To Drive Re-acceleration In Global Car Sales

- The recent pick-up in global car sales remained intact in October, while two Japanese automakers announce that their vehicle production is returning to normal.

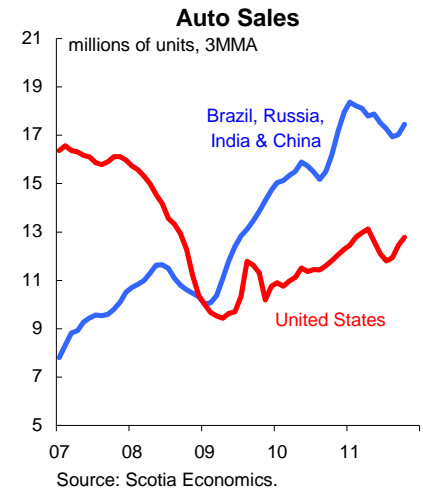
The re-acceleration in global vehicle sales of recent months remained intact in October, based on data for roughly 70% of global volumes. The emerging nations, especially Russia, continue to lead the way. Car sales in Russia surged 28% y/y last month, buoyed by the strongest pace of economic growth in three years and high energy prices. However, outside of Russia, volumes in the other BRIC nations actually declined below a year earlier for the first time since early 2009, as volumes weakened in Brazil and India. Special one-time factors help explain the slowdown in India, but activity in Brazil has slowed significantly in recent months, both in the auto market and in the broader economy.

In India, purchases were held back by a 55% y/y plunge at Maruti Suzuki — the domestic market leader with a 45% market share — as labour problems led to production losses of more than 40,000 vehicles last month, leading to a shortage of vehicles for sale. The good news is that the strike has been resolved, and the company hopes to normalize production by December. In addition, Maruti has an order book in excess of 100,000 units for its newly launched Swift compact car, a development that will lead to a rebound in sales over the next several months. However, even excluding Maruti, sales gains moderated to only a 3% y/y gain in October — the weakest performance since last November — with purchases dampened by high interest rates. The Reserve Bank of India raised borrowing costs thirteen times since March 2010 to cool consumer prices, leading to a jump in auto loans rates by more than 4 percentage points since early 2010 to roughly 16% currently. High interest rates are having the largest negative impact on the more affordable small car segment. In contrast, demand remains solid for mid-size and larger vehicles.

Car sales in Brazil also slumped last month, falling 15% below a year earlier — the first double-digit fall-off since March. However, purchases are expected to strengthen in the final months of 2011, as interest rates have started to come down and credit expansion has recently picked up.

Purchases held up better in China last month, despite the government withdrawing subsidies on some fuel-efficient vehicles on October 1<sup>st</sup>. In June 2010, the Chinese government introduced 3,000-yuan subsidies on more than 300 fuel-efficient cars. However, as of October, the number of eligible models has been reduced to only 49. Local brands lagging in fuel-savings technology were hardest hit by declining sales last month. In contrast, global automakers such as General Motors and Volkswagen, which collectively have 27 models that continue to qualify for the subsidies, posted year-over-year gains of 10% and 7% respectively. In addition, in contrast to the moderation in the overall car market, sales of luxury vehicles accelerated in China last month, with purchases of European luxury models soaring 43% above a year earlier, up from a 34% jump from January through September.

Other positives for the global auto industry were this week's announcements by Mitsubishi and Toyota that they will resume production in Thailand over the next two weeks. In addition, Toyota also announced that their North American facilities will resume normal production as of November 14<sup>th</sup>.



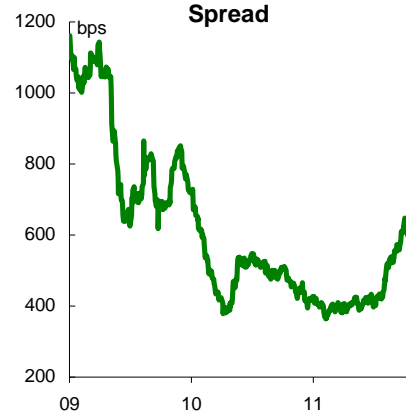
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### *Jamaican Outlook Uncertain Amid Global Turmoil*

- **Global financial stress and domestic policy shifts weigh on country's risk profile.**

Jamaica's sovereign creditworthiness has deteriorated on the back of a persistently weak economic recovery, intensifying stress in global financial markets and increasing risks that the International Monetary Fund (IMF)-supported adjustment may suffer further implementation delays. On October 31, 2011, Standard and Poor's (S&P) downgraded the outlook on the country's long-term foreign-currency "B-" rating to "negative" from "stable", an event that was amply anticipated in bond-market metrics. Jamaica's sovereign debt spread (as measured by the EMBIG index) had widened by 250 basis points (bps) to 650 bps versus US Treasury bonds between July and September, before recovering to UST+580 bps in early November. S&P stressed that the country's fiscal and debt profile has barely improved following the February 2010 voluntary debt exchange.

**JPM EMBIG Jamaica Sovereign Spread**



Source: Bloomberg.

The Jamaican economic outlook remains fragile despite recent modest output gains. For the first time since 2008, real GDP expanded in two consecutive quarters during the first half of 2011. However, the global economic deceleration underway will weigh on Jamaica's growth prospects over the next two years. After an estimated 2% expansion rate this year, the economy will grow modestly by 1.5% in 2012-13. Excessive public sector indebtedness (130% of GDP) remains a growth-constraining factor, providing limited maneuvering room to implement fiscal stimulus as global economic activity continues to decelerate. The newly appointed authorities, however, seem committed to boosting fiscal revenue through the privatization of state assets.

Jamaica continues to suffer from a persistent twin-deficit (fiscal and current account) position. Although there has been progress on fiscal consolidation measures, the IMF has not been able to complete the reviews to release additional funds under the SDR820 million (US\$1.3 billion) 27-month Stand-By financial arrangement, which expires in May 2012. Constant delays in meeting tax and pension fund reform objectives coupled with wage adjustment measures, have contributed to worsen the prospects of structural fiscal adjustments. To date, Jamaica has drawn two-thirds of approved multilateral funds. The perceived increase of IMF plan implementation risk has been one of the primary reasons leading to the recent rating outlook downgrade. The current account deficit, estimated at 14% of GDP, remains a negative factor weighing on economic growth and currency stability.

The domestic interest rate environment shows signs of improvement, a positive development needed to reduce the heavy public sector debt burden; six-month treasury-bill rates are averaging 6.3% during the final quarter of the year. Price stability is a key priority of the Jamaican monetary authorities, which are gradually converging towards an inflation-targeting regime. The headline inflation rate, currently at 7.8% y/y, will remain within the 6-8% official target in 2012 as global demand pressures subside and energy prices remain stable.

Officials remain committed to securing exchange rate stability in the context of a highly unstable global financial and economic environment. The value of the Jamaican dollar (JMD) has barely changed against the US dollar (USD) over the past 12 months, supported by effective official intervention. Net international reserves held by the central bank reached US\$2 billion at the end of October. Looking ahead, a still-wide current account deficit, declining remittances (which account for 14% of GDP), and policy uncertainties linked to leadership succession may weigh on the Jamaican currency. We expect the JMD per USD rate to reach 90 by the end of 2012.

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### Sound Fundamentals Support South Korean Outlook

- **Improved creditworthiness in the face of heightened global financial stress.**

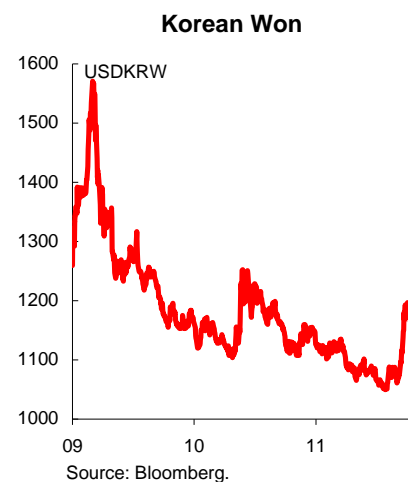
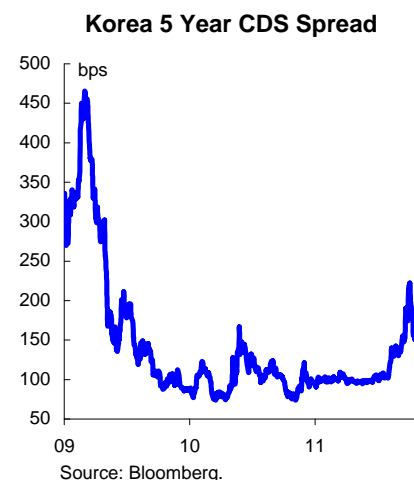
South Korea's sovereign creditworthiness has been steadily improving since the steep credit risk re-pricing activity occurred during the third quarter of the year. The country's credit default swap (CDS) spreads, currently priced at 160 basis points (bps), have mirrored swings in global volatility, increasing to 228 bps in September from 100 bps in July. Korea's long-term foreign currency rating outlook has also recently improved, with Fitch's revision to "positive" on November 8<sup>th</sup>, 2011 citing strengthening sovereign and external balance sheets. Current sovereign credit ratings are as follows: Standard & Poor's - "A", Moody's - "A1", and Fitch - "A+".

The Korean won (KRW), which has been appreciating against the US dollar (USD) since early October, will remain range-bound in the near term as the effects of global financial uncertainty are mitigated by positive economic activity, which remains solid on the back of resilient domestic demand conditions and steady export performance.

While the Bank of Korea (BoK) stands ready to dampen excessive appreciation, the healthy economic rebalancing underway will continue to attract foreign capital flows. Downside currency risk is limited by substantial swap lines with other central banks and an international reserves position of US\$310 billion (30% of GDP). We expect the USDKRW exchange rate to close the year at 1130.

The Korean economy is slowing slightly in the medium term. We expect the economy to expand at a 4% rate in 2011-12 following a 2010 gain of 6.2%. GDP advanced at a 2.8% quarterly annualized rate during the third quarter on the back of steady contributions from both domestic and external demand. The expansion mimicked the previous quarter's performance; however, GDP contributions switched from gains dominated by local activity to a more balanced picture. While net foreign sales propelled growth in the third quarter, export volumes remained flat as shipments to China and Japan offset the fall in sales to Europe and the U.S. Steady gains in imports reflect resilient domestic demand conditions. The highly open South Korean economy is drifting sideways as household demand remains supported by historically low unemployment and steady credit conditions. With consumption and investment spending accounting for 60% and 30% of GDP, respectively, the softer tone on the external trade front will translate into slower spending at home, as activity lags in locally oriented sectors, such as construction.

We estimate that the BoK has completed its interest rate normalization stage (consisting of 125 bps in rate hikes from July 2010 to July 2011), as inflation has fallen on the back of more muted food price increases. At 3.9% y/y in the latest reading, inflation has softened to within the central bank's 3%  $\pm$ 1% target range for the first time this year. Downshifting demand conditions and a relatively strong KRW will offset underlying pressures in the coming quarters. In a context of low unemployment, the central bank's focus has been on averting a wage/price spiral. Notwithstanding persistent elevated inflationary readings, we do not expect any monetary policy changes through the turn of the year, with the current 3.25% benchmark administered interest rate offering some leeway to adjust to softer economic conditions brought about by slowing foreign sales to Europe.



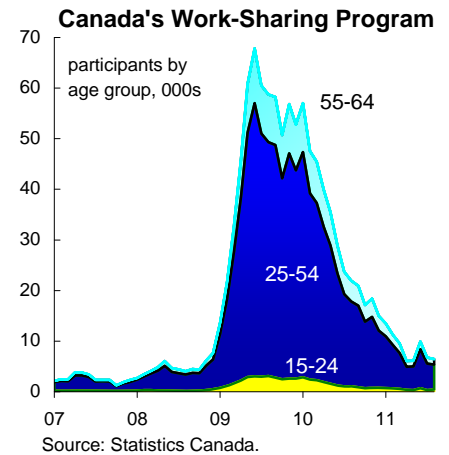
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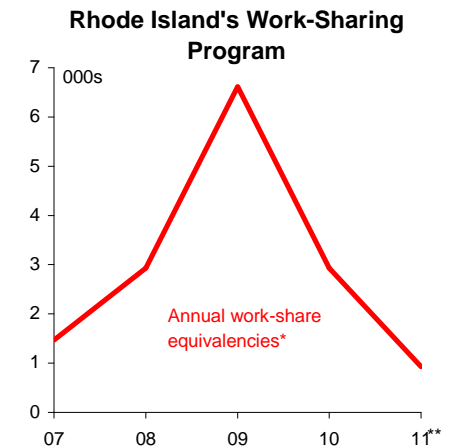
**Work-Sharing Programs — An Important Bridging Function**

- **Ottawa’s temporary return to extended Work-Sharing underlines this Program’s strengths when economic growth slows.**

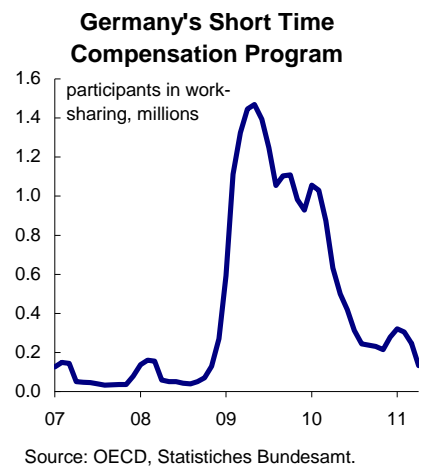
Canada’s federal government *Update* this week focused on the impact of slowing economic growth. Given ongoing efforts to rebuild fiscal flexibility, only two near-term economic support initiatives were announced, one of which adds another year to the additional extension to Work-Sharing Agreements. The federal Work-Sharing Program permits a company, experiencing a temporary work shortage beyond the firm’s control, to apply for a designated group of employees to work temporarily reduced hours, receiving Employment Insurance benefits for the remainder of their work week (*top chart*). With the government monitoring the firm’s recovery plan, the Work-Sharing Agreement can extend from six to 26 weeks. A firm may then request a 12-week extension, and the *Update* measure permits a further extension of up to 16 weeks, allowing a work-sharing arrangement of up to 54 weeks for active, recently terminated or new Agreements until October 2012. A number of other nations rely on similar programs to keep workers employed, typically with their benefits intact. Firms benefit by retaining skilled, experienced labour, maintaining better worker morale, and upon recovery, avoiding the costs of hiring and training new employees.



For governments grappling with the current “jobless recovery”, work-sharing can help to limit long-term unemployment. In the United States, the share of unemployed without work for 27 weeks or longer has averaged 43½% since December 2009, up from 17½% in 2007 and 11½% in 2000. Yet in the U.S., though the number of States offering work-sharing has edged higher, only Rhode Island and Kansas report significant participation (*middle chart*). With little promotion, some State plans also have discouraged business participation with relatively inflexible guidelines and cumbersome administration. In contrast, a number of nations have used work-sharing programs to deliver other initiatives, including economic development assistance and training upgrades to step-up productivity and labour market adjustments.



In Europe, the majority of participants in work-sharing programs are men, largely middle-aged, and disproportionately from medium or large firms in construction or manufacturing. Thus, Work-Sharing Programs are best viewed as one short-term component in a nation’s policy basket. They do not directly address pressing issues such as high youth unemployment and, as a bridging mechanism, they could hamper advantageous restructuring if Agreements are unduly extended. However, in an economy operating below full employment, Germany illustrates the results of flexibly approaching hours worked to limit unemployment. In addition to its work-sharing Short Time Compensation Program, Working Time Accounts for employees allow employers to use overtime without a premium as long as regular hours for employees are cut by an equal amount over a defined period. As the recent recession intensified in Germany, surpluses in workers’ Accounts were drawn down, trimming hours worked without reducing employees’ compensation. In a highly competitive environment, developing new markets, flexible work scheduling offers some distinct advantages.



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**Manufacturing Activity May Moderate, But Is Unlikely To Contract**

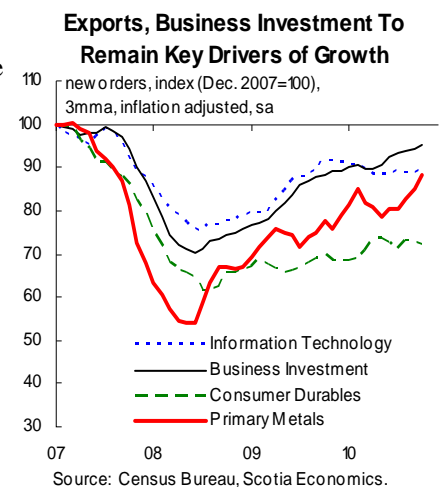
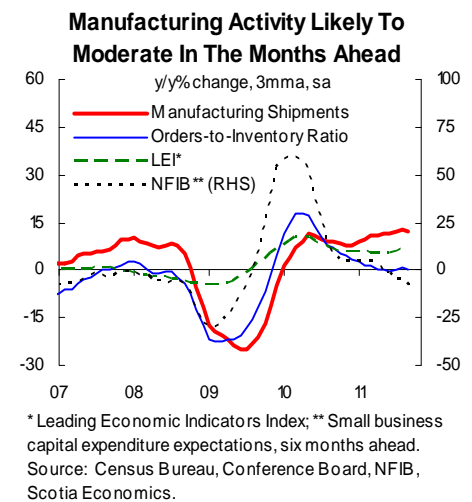
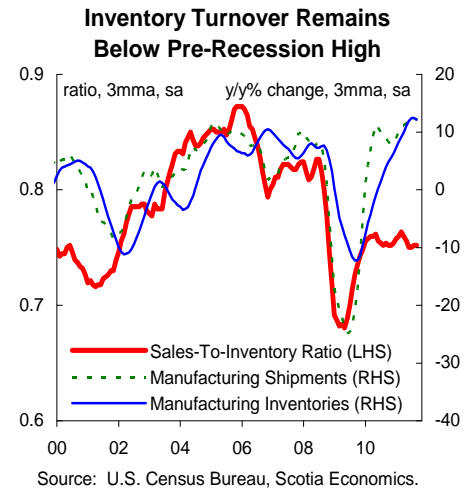
- **Leading indicators point to slower growth in manufacturing, with exports and business investment as key drivers of growth.**

The manufacturing sector is an important — but volatile — component of the U.S. economy. While it accounts for only about 12% of gross domestic product and just under 13% of private non-farm payrolls, it is one of the highest-paying sectors, with significant implications for consumer spending. It is also three times more volatile than the services industry, producing wild swings in economic activity that generate business cycles. As a result, it is crucial to develop indicators that lead cyclical turning points in manufacturing, and the overall economy.

The inventory turnover ratio (chart 1) is widely viewed as a key gauge of demand. After bottoming in mid-2009, U.S. manufacturing saw an uptick in inventory turnover, an indication that sales were rising at a faster pace than stockpiles. However, for over a year, the sales-to-inventory ratio has been moving sideways. While shipments appear to have stopped accelerating at an annual pace comparable to the pre-recession period, it is faster inventory accumulation that has been the constraining factor. That said, recent data suggest that it, too, may have peaked, as businesses are, once again, keeping a more watchful eye on inventory levels, amid growing uncertainty over the global economic outlook.

Several forward-looking indicators confirm this development (chart 2), showing some easing in the pace of production in the months ahead, in line with our view that the U.S. economy is likely to experience slower growth in the first half of 2012. We examined several indicators, including the order-to-inventory ratio, the Conference Board’s leading economic indicators index (LEI), NFIB’s small business capital expenditure intentions and monthly railroad tonnage, as most input goods are transported via rail. Historically, the cyclically-sensitive order-to-inventory ratio has been the most robust predictor — in magnitude and direction — with a lead of about a quarter. The LEI provides a similar lead and encompasses a broader set of component variables — new orders, consumer expectations, financial conditions — but its swings tend to be milder. Small business capital expenditure intentions provide a longer look ahead of up to two quarters, but because this barometer captures sentiment alone, it tends to have more exaggerated peaks and troughs. Interestingly, rail road tonnage appears to be a concurrent indicator, providing limited insight.

While households and the public sector will continue to deleverage, cash-rich companies are moving ahead. Amid ongoing uncertainty and structural shifts, businesses might be hesitant to hire, but they are broadening their export horizons and gradually investing in productivity-enhancing technology, particularly automation. New order volumes suggest that primary metals — dominated by exports — and business investment in machinery & equipment are likely to remain the outperformers (chart 3). Information technology, which led earlier in the recovery, has stabilized at a level well below its pre-recession peak. As households continue to face obstacles in their willingness and ability to spend, consumer durables are likely to remain laggards for some time.



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## Mexican Corporates: 3Q11 Wrap-up

The following article was published on November 8, 2011.

*We review the third-quarter performance of nineteen Mexican corporate bond issuers who held conference calls with analysts over the past few weeks. While performance overall was quite good with notable increases in sales and Ebitda relative to the prior year, bond spreads widened significantly due to global volatility. We compare results and market performance within both high-yield and high-grade issuers.*

### Introduction

Third-quarter results for the nineteen corporates who had earnings calls over the past few weeks were really quite good relative to the same period in the previous year. Almost all saw positive growth in sales and Ebitda, and over half saw double-digit increases in those variables (Figure 1). Many of those increases were of course facilitated by acquisitions, which is probably the reason that leverage ratios grew in over half of the firms despite the improvement in total Ebitda.

Figure 1. Third Quarter 2011 performance of Mexican corporates

Company	% Change in Sales 3Q11 vs. 3Q10	% Change in Ebitda 3Q11 vs. 3Q10	Net Debt / Ebitda	Change in Net Debt / Ebitda
1. America Movil	8%	1%	1.01	0.24
2. Bimbo	9%	-2%	2.80	0.80
3. Bio Pappel	-8%	-43%	3.57	1.41
4. Cemex	4%	0%	8.30	6.80
5. Credito Real	100%	129%	-	-
6. Findep	26%	21%	-	-
7. GEO	9%	16%	2.40	0.60
8. Gruma	30%	32%	2.07	-2.18
9. Homex	10%	11%	2.50	0.19
10. ICA	22%	70%	8.16	0.81
11. Industrias Peñoles	52%	83%	-0.24	-0.51
12. Javer	4%	34%	2.50	-0.10
13. KUO	19%	9%	1.72	0.06
14. Maxcom	-8%	16%	2.90	-0.10
15. Mexichem	23%	2%	1.16	0.06
16. Pemex	23%	25%	0.81	-0.10
17. Posadas	10%	12%	5.50	0.50
18. Televisa	8%	12%	1.71	1.18
19. Urbi	8%	-2%	1.56	0.39

Source: Company reports and stock exchange filings.

Sales and Ebitda data are in Mexican pesos. Average rate was 12.80 in 3Q10 and 12.34 in 3Q11, a 3.7% appreciation. Cemex covenants are based on consolidated funded debt/Ebitda, which is lower than the net debt/Ebitda we report.

Despite strong results and still healthy leverage ratios on most firms, bond spreads on all firms except one increased over the quarter. The absolute increase in spreads was of course highly proportional to the initial spread, but it is the deviations from this relationship that we find interesting (Figure 2).



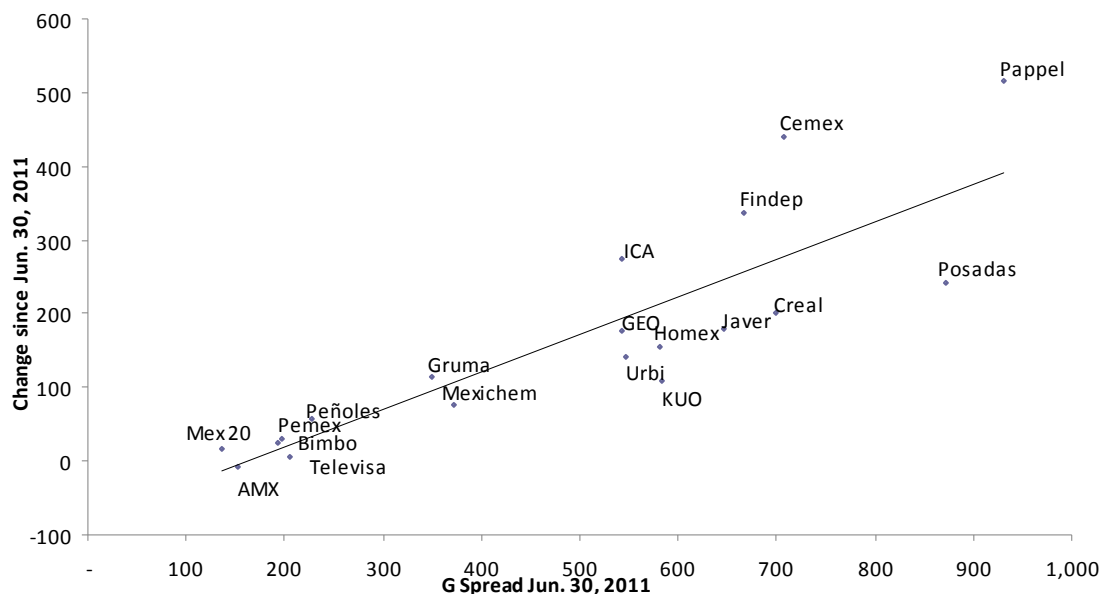
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Figure 2. Change in Mexican corporate spreads since June



Source: Bloomberg, as of November 4, 2011. Maxcom not shown because it is off the scale.

### Higher-yielding names

Those deviations are especially noticeable at the higher end of the spread spectrum. In particular, the Mexican homebuilders outperformed (spreads increased less than predicted by the initial level), with the market seemingly accepting the argument that Mexican homebuilders are far less cyclical than other firms in the construction industry. Bond markets completely shrugged off the disappointing cash flow results, perhaps alleviated in part by the government's substantial increase in subsidies for the sector proposed for the 2012 budget (see our complete discussion in "Mexican homebuilders: Investing for the future," October 28, 2011). Other construction firms underperformed, ICA and of course Cemex. We like Ica because 83% of construction contracts are with government entities (as of the end of 2010), which would allow it to benefit from counter-cyclical public policies. For Cemex, earnings results did not show the deterioration that some investors may have feared, though it was probably the earlier good news around Europe that helped to reverse the dramatic sell-off in the company's bonds.

Other high-yielding Mexican names also widened, driven by the effect of macroeconomic factors on firm fundamentals and the decreased appetite for risky assets, in varying combinations. Sensitivity to the global economic cycle led paper maker Bio Pappel to widen over 500bp, with quarterly sales volume down by 6% and net sales down by 14%. Maxcom presents an interesting contrast, since risks stem not from global macroeconomic factors but rather from uncertainty regarding the sustainability of the firm's business model in an environment of increasing competition in its industry. Maxcom widened by 1,000bp even as it reported relatively good results for the third-quarter, demonstrating the role of technical factors and general risk aversion in that credit. Hotel operator Posadas suffered more from firm-specific issues than from macro factors, since the hotel industry is actually doing quite well.

Among the micro-lenders, we saw a significant difference in market performance, with Findep widening by 350bp even while Credito Real only widened by about 200bp. Findep is experiencing collection difficulties, and we are concerned about the increase in loan-loss provisions. The company has historically compensated

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for higher losses by charging higher interest rates to its customers and posting higher net margins, but this quarter showed more problems than usual. In contrast, Credito Real is not reporting difficulties with its acquisitions. While we find both firms attractive at current levels, we are becoming more concerned about the potential for increased competition in the sector, a factor mentioned by Findep but not by Credito Real.

### **Lower-risk credits**

America Movil was the best performing Mexican corporate we follow, with spreads actually narrowing in response to the heightened global volatility, allowing it to outperform even Mexican sovereign bonds. Bond markets seemed largely unconcerned with the heightened competition the company is facing in mobile telephony in Mexico. The company's growth in data services as well as the fact that half of its activities are abroad so far has allowed it to continue to use its dominant position to grow earnings; even expected new supply to fund both capital investments and the Telmex acquisition, surprisingly, are not deterring bond investors. Televisa also reported good results despite the lost revenue from America Movil and other companies owned by Carlos Slim.

Another low-risk credit we follow closely is Pemex. While the company reported good results thanks to high oil prices, the key event to watch for the long-term outlook will be international interest in incentive contract auctions, with additional ones expected for 4Q11 and the critical deep water ones scheduled for next year. High commodity prices are also helping mining company Peñoles, for whom significantly higher earnings allowed it to reduce leverage even as it continues to expand its production capacity.

In contrast, those higher commodity prices are putting pressure on the margins of food companies Bimbo and Gruma, who are not always able to pass on the full increase in their raw materials costs to their customers; their spreads widened in line with their initial spreads. Kuo was also hurt by raw materials price increases, but was able to offset the negative effects by focusing on higher margin products. Kuo's spreads did not widen that much relative to their initial levels, perhaps because markets are already pricing a large amount of risk relative to fairly low leverage. Finally, Mexichem grew through both higher prices and an increase in sales volumes made possible by recent acquisitions.

More detailed comments about the earnings results of each firm released over the past few weeks are included in the standalone version of this article published on November 8th. Some of this commentary also appeared in past editions of our *Mexican Fixed Income Daily*.

### The View From Europe: Inflation Report Preview

- The November BoE *Inflation Report* is likely to show an abrupt shift in the Bank's projections for growth, though we suspect it will remain too optimistic. Although the weaker growth outlook would argue for pushing down the inflation projection, this is likely to be offset by the implied addition to inflation from the latest round of QE. The net result is that the inflation projection is likely to be little changed from last time and will signal that the door is open to further QE.

#### Steady as she goes...

The November MPC meeting came and went without any surprises. Having restarted QE a month earlier and in the absence of any major surprises on data it was likely that the MPC would choose to continue with its GBP75bn programme of asset purchases that is scheduled to end in February. Even so, the November meeting was one of four each year that is accompanied by updated BoE macroeconomic projections. As such, these meetings tend to see more than their fair share of policy changes.

With regards to the Bank's updated projections we expect:

- The Bank's forecasts for GDP growth in 2011 and 2012 are likely to be revised sharply lower...
- ...though remain too optimistic;
- The projection of near term inflation will remain broadly unchanged;
- The 2-year-ahead inflation projection will be around 1¾%.

The takeaway message should be that the door is open to further QE at the February MPC meeting unless there is a miraculous turnaround.

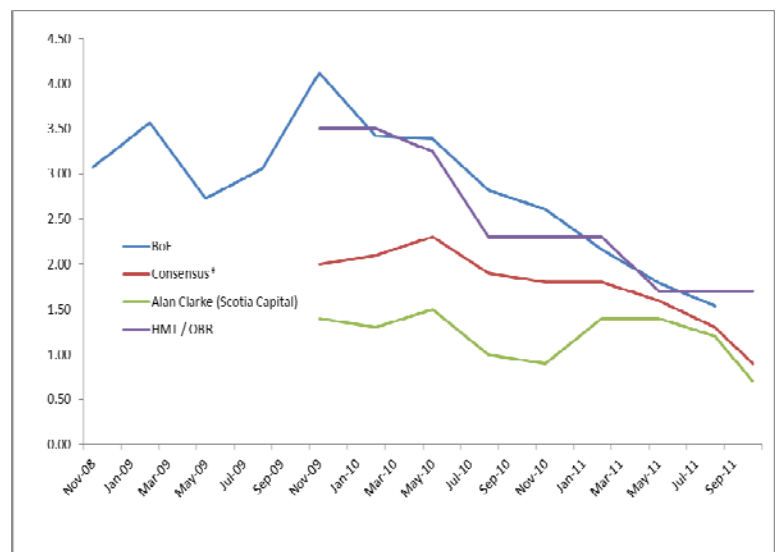
#### GDP forecast likely to be revised down sharply

In August the BoE projected that the economy would grow by an average of 1.5% y/y during 2011 and 2.2% y/y during 2012. For at least the last year the Bank has been far too optimistic with regards to the growth outlook (Chart 1).

To a large extent the Bank's optimism has been based on the belief that the ONS would revise growth sharply higher as part of the Blue Book revisions completed last month. While the level of GDP was revised up, the growth rate over the last year was actually revised slightly lower. Even if the Bank does not concede defeat at this stage, we suspect it will go at least part of the way towards accepting that growth over the last year was not a percentage point higher than the ONS has been reporting.

We doubt the Bank will bring this up voluntarily. Rather, it will say that the decline in survey indicators suggests that the pace of growth going forward is unlikely to be as buoyant as previously assumed. In particular, the Bank will probably blame the downgrading of its growth outlook on the deterioration in the international economy — not least the Eurozone — and its impact on the financial markets.

Chart 1: Evolution of GDP Forecasts for 2011



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Hence we expect a sharp downward revision to the Bank's growth projections. However, we suspect that the Bank will remain too optimistic, especially for 2012. Table 1 compares our growth projection with that of the BoE, the consensus and the recently released European Commission forecast. The Bank's forecasts stick out like a sore thumb and have done for the last year.

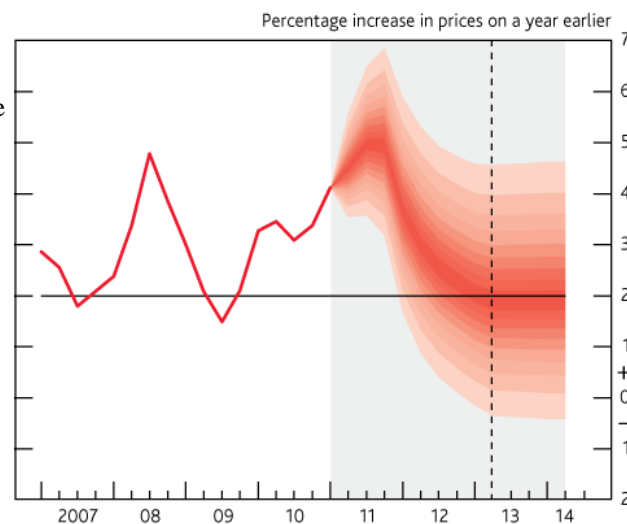
Table 1: UK GDP Forecasts Compared

	2011	2012
Bank of England (August)	1.5	2.2
Scotia	0.8	0.8
European Commission	0.7	0.6
Consensus	0.9	1.3

### Near-term Inflation Projection

Over the last 6 months, the path of inflation has been broadly in line with the Bank's projection. That broke the persistent run of upward surprises over the prior two years. This, combined with little news on the influences on near term inflation means that the projection over the first four quarters is likely to be little changed from last time. The profile is likely to show that inflation has peaked at just over 5% and will slow sharply, to be within a whisker of the 2% target by the middle of next year (Chart 2). Base effects related to last January's VAT hike and sharp increases in petrol and utility bills at the end of last year will contribute most to the slowdown.

Chart 2: BoE CPI Inflation Projection Aug-11 (Market Rate expectations)



### 2-Year Ahead Inflation Projection

Table 2 shows the breakdown of the key influences on the Bank's inflation projection and how these have evolved since the August *Inflation Report*. Our conclusion is that the projection will be little changed from last time. More specifically, the combination of the sharp downward revisions to the Bank's growth outlook, coupled with the fall in oil prices, weaker equities and mild appreciation in the GBP exchange rate since August should bear down on the medium term inflation projection.

Table 2: Evolution in the key inputs into the BoE Inflation Projection

		Aug	Nov	% Chg	Impact on BoE Inflation Projection
Oil*	Spot (USD)	117.43	114	-2.9	-0.07
	Spot (GBP)	72.16	71.69	-0.7	
GBP*	Effective GBP	78.6	79.5	1.1	-0.11
Near quarter inflation fcast		4.62	4.7	0.1	0
GDP forecast	2011	1.5	0.9	-0.6	-0.25
	2012	2.2	1.5	-0.7	
FTSE All-Share*		3015	2851	-5.4	-
Market rate expectations				-25bp	0.1
Total QE Announced (GBP bn)		200	275	75	0.375
					<b>0.04</b>
* 15 working day average					

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However, these are likely to be almost exactly offset by lower interest rate expectations and the Bank's judgement of the impact of the additional GBP75bn of QE on inflation. Our calculation is based on the guidance that the BoE provided in the latest *Quarterly Bulletin*. It suggested that the GBP200bn of asset purchases during QE1 added around 1% to inflation. Based on this, the GBP75bn of additional asset purchases announced in October should be expected to add around 0.37% to inflation.

At the time of the August *Inflation Report*, the mid-point of the Bank's projection for CPI inflation 2-years ahead (based on market rate expectations) was 1.71% y/y. The net result is that **we expect the 2-year-ahead inflation projection based on market rate expectations to be around 1.75% y/y**. That is a reasonable margin below the 2% target and broadly in line with the projection from the August *Inflation Report*. We also suspect that given the elevated risk of disaster coming from the Eurozone, the Bank will modify the risk distribution such that the bias is more heavily to the downside.

Indeed, the Bank's 'ribbon' chart that shows the probability that inflation will be above target is also likely to show a continued downward bias (Chart 3). The combination of both projections is that the door is wide open to further asset purchases by the February *Inflation Report* at the latest.

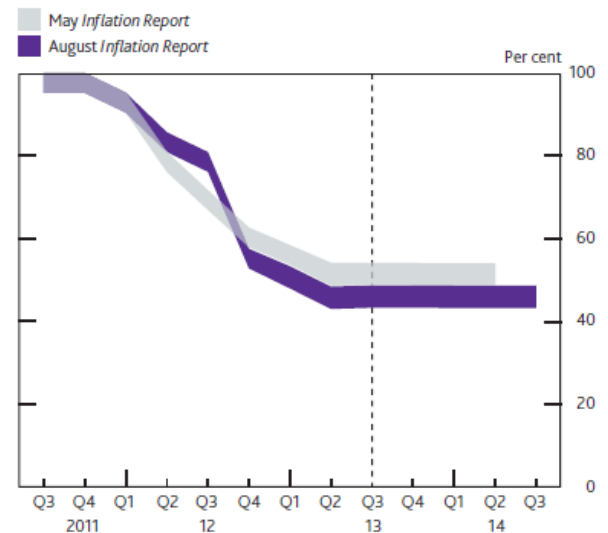
### Conclusion

The thrust of the November *Inflation Report* is likely to be dovish. This will justify the October decision to embark on a second phase of QE, but will also hint that another instalment of asset purchases is likely by the time of the February *Inflation Report* (at the latest). The prospect of a negative GDP print for Q4 (released in late-January) should ensure that this is the case.

Given our calculation that the Bank's 2-year ahead inflation projection will still be a considerable margin below target, there is a good chance that at least one member dissented at the November meeting in favour of expanding the size of the current QE programme.

Last but not least, we suspect that the Bank will come under some scrutiny at the press conference as to the nature of its latest unconventional policy easing. We haven't come across a single investor that thinks QE will be successful. Hence it would be welcome if the Bank shows some willing to think outside the box and consider alternative ways to implement unconventional policy easing.

Chart 3: Probability Inflation Will be Above Target



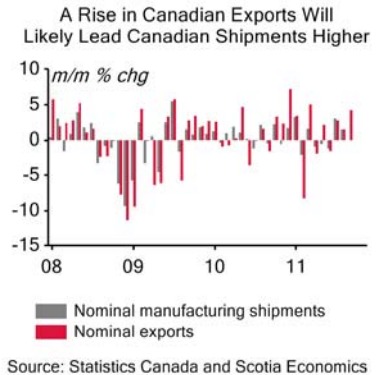
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## Key Data Preview

### CANADA

Nominal manufacturing shipments (Tuesday) and nominal exports tend to move in tandem within a specific month and that connection has been even stronger over the past three months (see accompanying chart). Indeed, we are expecting this correlation to remain strong into September, suggesting that the over 4% m/m gain in exports will likely translate into a roughly 2% increase in manufacturing shipments. While a decline in machinery exports will likely weigh more heavily on manufacturing shipments than total exports, gains in auto and petroleum exports should help prop up the shipments results for the month. And, given that much of the strength in exports in September stems from gains in volumes, this should feed through into price-adjusted manufacturing shipments which we use to forecast monthly GDP. Indeed, real manufacturing shipments have been extremely strong over the past two months, reversing the temporary weakness witnessed in Q2. This has helped to prop up real GDP in July and August and will likely provide further support in September but Q4 will not likely be as rosy as temporary support vanishes and a weakening global economy comes to the forefront.



Just as we witnessed in September, seasonal factors will once again move both the headline and core CPI (Friday) results in October and it is these results that flash on your Bloomberg screens when the report is released. Pressuring prices upwards will likely be another increase in property taxes, which account for about 3.2% of the total basket and which have risen on average just above 3.5% over the past four years every October. However, downward pressures will likely weigh more heavily on headline CPI as food, gasoline, clothing and travel costs all fell in September although there remains a risk that further currency weakness may also start to put some upward pressure on prices via rising import prices given that September marks the third consecutive monthly decline in the Canadian dollar. In seasonally adjusted terms, which matter more to us as they remove the seasonal factors that influence the month-to-month numbers, we also expect a decline in clothing and transportation costs after a sharp increase in September which will keep inflation well anchored. What this all means is that inflation is starting to come down as strong energy prices last year at this time start to pressure year-over-year results lower. This is a positive development, especially as the BoC and Government of Canada renew the 2% inflation target for another 5 years.

### UNITED STATES

Headline CPI (Wednesday) will likely come in flat in October as a decline in gasoline, food and auto prices is offset by gains in rent, services and apparel prices. Even excluding gasoline and food, core CPI will likely only increase by 0.1% m/m. This should lead to a moderation in year-over-year gains as inflation finally peaks after strong energy and food prices last year start to roll off. The Fed has consistently argued that the recent run-up in inflation would only be temporary, with October's report likely the first piece of evidence to support this view as inflation moves back towards the implicit 2% target.

Headline retail sales (Tuesday) witnessed a strong gain in September on the back of a substantial increase in auto sales during the month with core sales up more modestly on the month. While we aren't expecting a gain of the same magnitude in October, a further modest increase in auto sales should still provide a moderate lift to headline retail sales over core sales once again although weakening economic activity will likely keep a lid on consumer spending in general during the month. Indeed, while the US economy continues to add jobs each month, the unemployment rate has been stuck at around 9.1% since April, while average hourly earnings have been moderating at a relatively fast clip, falling to 1.6% y/y in October, which is down from over 3% only a few years ago. In addition, while gasoline and food costs have come down lately, they remain elevated, cutting into households' disposable income and weighing on non-essential goods demand. As a result, it is the price-adjusted results that we watch more closely given their impact on real GDP and given that they provide a clearer view of underlying consumer demand. After a strong gain in September in real retail sales, October price-adjusted sales will likely return to the downward trend begun in April.

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## EUROPE

While financial markets continue to swing with political developments, next week's third-quarter output data will cast some light on the economic situation in the euro zone. Real GDP data will be released for several member nations, including Germany and France, as well as for the aggregate region. We anticipate that the euro zone slowed again in the third quarter, advancing 1.3% y/y (0.1% q/q) after posting a 1.6% y/y (0.2% q/q) gain in the second quarter. Germany and France are expected to have outpaced their smaller counterparts, at 2.3% y/y (0.4% q/q) and 1.5% (0.2% q/q), respectively. While this represents an acceleration in Germany and France, this result was likely driven by base effects, after both nations relatively underperformed in the second quarter. Other key member nations, namely Italy (December 21<sup>st</sup>) and Spain (November 11<sup>th</sup>), will likely show negative growth in the quarter, marking the start of a recessionary phase to last through mid-2012. Several regional economic metrics deteriorated in the July-September period, including retail sales, unemployment, consumer and investor confidence, and purchasing manager's indexes (PMI). Both the composite and manufacturing PMI's for the euro zone fell below the 50-point threshold separating economic expansion from contraction in the third quarter, where they remain as of October. Going forward, we expect further weakening in the region, entailing a mild recession from the final quarter of 2011 to the first quarter of 2012.

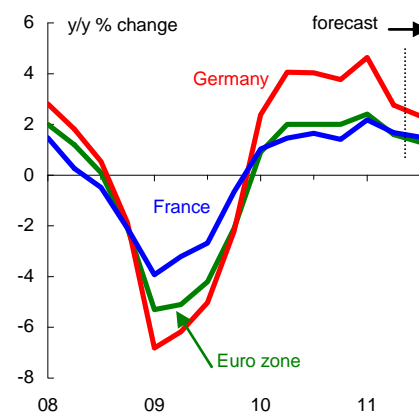
## LATIN AMERICA

Chilean real GDP for the third quarter will be released on November 18<sup>th</sup>. After a clear deceleration in the second quarter — real GDP fell from 10% y/y in the first quarter to 6.8% y/y in the second — monthly data suggest that the third quarter could show an improved performance. Economic activity, measured by the IMAEC, increased by 5.7% y/y in September, the third consecutive monthly expansion (4.6% y/y in August and 3.9% y/y in July), pointing towards a strong pace in the third quarter. However, the global deceleration and slower local demand could jeopardize this positive trend toward the end of the year. We anticipate Chilean output to grow by 6.5% y/y in 2011, subsequently decelerating to 4.8% y/y in 2012.

## ASIA

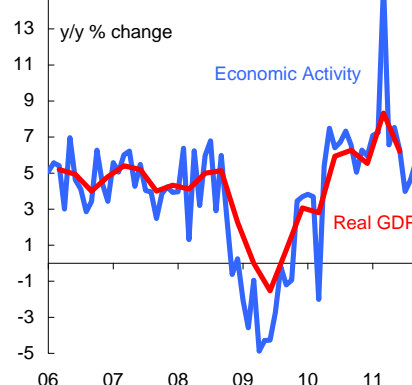
India's October reading for wholesale price inflation will be published on November 14<sup>th</sup>. So far, the headline inflationary gauge has been trailing sideways as a result of upward trending fuel costs — as public subsidies have been withdrawn — and a downward trend in food prices. We anticipate a further fall in food inflation in accordance with regional trends and the fact that this year's rainfall levels have been reversing some of the effects of last year's weak monsoon season. Fuel costs, however, will likely remain elevated, conditioning the downside risk for the headline rate. Manufacturing costs, a proxy for underlying inflation, could also be adversely affected by the rise in fuel inflation as it is a key input. In summary, we anticipate a slight fall in headline inflation to 9.5% y/y from 9.7% in September.

Euro Zone GDP



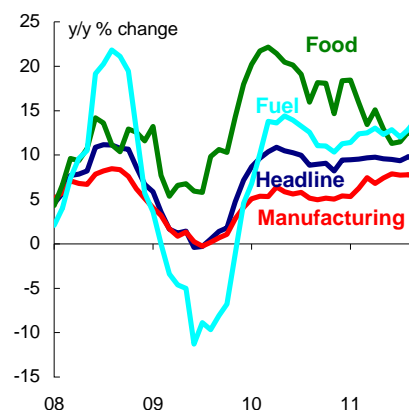
Source: Bloomberg, Scotia Economics.

Chilean Real GDP and Monthly Economic Activity Indicator



Source: Bloomberg.

India's Wholesale Inflation



Source: India's National Statistics Agency.

## Key Indicators for the week of November 14 - 18

North America							
Country	Date	Time	Event	Period	BNS	Consensus	Latest
US	11/11/2011	09:55	U. of Michigan Confidence	NOV P	--	61.5	60.9
US	NOV 14-18		Mortgage Delinquencies (%)	3Q	--	--	8.4
US	NOV 14-18		MBA Mortgage Foreclosures (%)	3Q	--	--	4.4
CA	11/15/2011	08:30	Manufacturing Sales (MoM)	SEP	2.0	1.9	1.4
US	11/15/2011	08:30	Producer Price Index (MoM)	OCT	--	-0.1	0.8
US	11/15/2011	08:30	PPI Ex Food & Energy (MoM)	OCT	--	0.1	0.2
US	11/15/2011	08:30	Producer Price Index (YoY)	OCT	--	6.3	6.9
US	11/15/2011	08:30	PPI Ex Food & Energy (YoY)	OCT	--	2.8	2.5
US	11/15/2011	08:30	Advance Retail Sales (MoM)	OCT	0.2	0.3	1.1
US	11/15/2011	08:30	Retail Sales Less Autos (MoM)	OCT	0.1	0.2	0.6
US	11/15/2011	08:30	Empire Manufacturing	NOV	-1.5	-2.7	-8.5
MX	11/15/2011	10:00	Central Bank Announces International Reserves for Prev. Week				
US	11/15/2011	10:00	Business Inventories (MoM)	SEP	--	0.3	0.5
US	11/16/2011	07:00	MBA Mortgage Applications (WoW)	11-Nov	--	--	10.3
US	11/16/2011	08:30	Consumer Price Index (MoM)	OCT	0.0	0.0	0.3
US	11/16/2011	08:30	CPI Ex Food & Energy (MoM)	OCT	0.1	0.1	0.1
US	11/16/2011	08:30	Consumer Price Index (YoY)	OCT	3.7	3.6	3.9
US	11/16/2011	08:30	CPI Ex Food & Energy (YoY)	OCT	2.0	2.1	2.0
US	11/16/2011	09:00	Net Long-term TIC Flows (US\$ bns)	SEP	--	--	57.9
US	11/16/2011	09:00	Total Net TIC Flows (US\$ bns)	SEP	--	--	89.6
US	11/16/2011	09:15	Industrial Production (MoM)	OCT	0.6	0.4	0.2
US	11/16/2011	09:15	Capacity Utilization (%)	OCT	77.5	77.6	77.4
US	11/16/2011	10:00	NAHB Housing Market Index	NOV	19	18.0	18.0
CA	11/17/2011	08:30	Int'l Securities Transactions (C\$ bns)	SEP	--	--	7.9
US	11/17/2011	08:30	Housing Starts (000s)	OCT	600	605	658
US	11/17/2011	08:30	Housing Starts (MoM)	OCT	-8.8	-8.1	15.0
US	11/17/2011	08:30	Building Permits (000s)	OCT	600	600.0	589.0
US	11/17/2011	08:30	Building Permits (MoM)	OCT	1.9	1.9	-5.8
US	11/17/2011	08:30	Initial Jobless Claims (000s)	11-Nov	390	--	390
US	11/17/2011	08:30	Continuing Claims (000s)	4-Nov	3600	--	3615
US	11/17/2011	10:00	Philadelphia Fed.	NOV	9.0	10.0	8.7
CA	11/18/2011	07:00	Consumer Price Index (MoM)	OCT	0.0	0.1	0.2
CA	11/18/2011	07:00	Consumer Price Index (YoY)	OCT	2.7	2.7	3.2
CA	11/18/2011	07:00	Bank Canada CPI Core (MoM)	OCT	0.1	0.1	0.5
CA	11/18/2011	07:00	Bank Canada CPI Core (YoY)	OCT	1.9	1.9	2.2
CA	11/18/2011	08:30	Leading Indicators (MoM)	OCT	--	--	-0.1
US	11/18/2011	10:00	Leading Indicators (MoM)	OCT	--	0.5	0.2

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.



## Key Indicators for the week of November 14 - 18

Europe								
Country	Date	Time	Event	Period	BNS	Consensus	Latest	
SP	11/11/2011	03:00	GDP (Constant SA) (QoQ)	3Q P	-0.1	0.0	0.2	
UK	11/11/2011	04:30	PPI Input NSA (MoM)	OCT	0.0	-0.3	1.7	
UK	11/11/2011	04:30	PPI Output n.s.a. (MoM)	OCT	0.3	0.1	0.3	
UK	11/11/2011	04:30	PPI Output Core NSA (MoM)	OCT	0.3	0.1	0.3	
PO	11/11/2011	05:00	Consumer Price Index (YoY)	OCT	--	--	3.6	
PO	11/11/2011	05:00	CPI - EU Harmonised (YoY)	OCT	--	--	3.5	
FR	11/14/2011	02:45	Current Account (€ bns)	SEP	--	--	-2.9	
EC	11/14/2011	05:00	Euro-Zone Ind. Prod. sa (MoM)	SEP	-1.4	-1.5	1.6	
PO	11/14/2011	05:00	GDP (QoQ)	3Q P	--	--	0.0	
IR	NOV 14-18		Consumer Confidence	OCT	--	--	53.3	
FR	11/15/2011	01:30	Gross Domestic Product (QoQ)	3Q P	0.2	--	0.0	
GE	11/15/2011	02:00	GDP s.a. (QOQ)	3Q P	0.4	0.5	0.1	
FR	11/15/2011	02:45	Non-Farm Payrolls (QoQ)	3Q P	--	--	0.2	
FR	11/15/2011	02:45	Wages (QoQ)	3Q P	--	--	0.6	
SP	11/15/2011	03:00	CPI (EU Harmonised) (MoM)	OCT	0.4	--	1.2	
SP	11/15/2011	03:00	CPI (EU Harmonised) (YoY)	OCT F	3.0	--	3.0	
SP	11/15/2011	03:00	CPI (Core Index) (YoY)	OCT	--	--	1.7	
SP	11/15/2011	03:00	Consumer Price Index (YoY)	OCT F	--	--	3.0	
IT	11/15/2011	04:00	Trade Balance (Total) (€ mns)	SEP	--	--	-3152	
NO	11/15/2011	04:00	Trade Balance (NOK bns)	OCT	--	--	34.1	
UK	11/15/2011	04:30	CPI (MoM)	OCT	0.0	0.1	0.6	
UK	11/15/2011	04:30	CPI (YoY)	OCT	5.0	5.1	5.2	
UK	11/15/2011	04:30	Core CPI (YoY)	OCT	3.2	3.2	3.3	
UK	11/15/2011	04:30	RPI (MoM)	OCT	0.0	0.2	0.8	
UK	11/15/2011	04:30	RPI (YoY)	OCT	5.3	5.6	5.6	
UK	11/15/2011	04:30	RPI Ex Mort Int.Payments (YoY)	OCT	5.4	5.7	5.7	
EC	11/15/2011	05:00	Euro-Zone GDP s.a. (QoQ)	3Q A	0.1	0.2	0.2	
GE	11/15/2011	05:00	Zew Survey (Current Situation)	NOV	28.0	35.0	38.4	
GE	11/15/2011	05:00	ZEW Survey (Econ. Sentiment)	NOV	-55.0	-52.0	-48.3	
EC	11/15/2011	05:00	ZEW Survey (Econ. Sentiment)	NOV	--	--	-51.2	
EC	11/15/2011	05:00	Euro-Zone Trade Balance SA (€ bns)	SEP	--	-1.0	-983.4	
EC	11/16/2011	02:00	EU 25 New Car Registrations (YoY)	OCT	--	--	0.7	
SW	11/16/2011	03:30	Industry Capacity Utilization	3Q	--	--	88.8	
IT	11/16/2011	04:00	CPI (NIC incl. tobacco) (YoY)	OCT F	--	3.4	3.4	
IT	11/16/2011	04:00	CPI - EU Harmonized (MoM)	OCT F	0.9	0.9	0.9	
IT	11/16/2011	04:00	CPI - EU Harmonized (YoY)	OCT F	3.8	3.8	3.8	
UK	11/16/2011	04:30	Claimant Count Rate	OCT	5.0	5.1	5.0	
UK	11/16/2011	04:30	Jobless Claims Change (000s)	OCT	20.0	23.5	17.5	
UK	11/16/2011	04:30	Average Weekly Earnings (3M/YoY)	SEP	2.5	2.5	2.8	
UK	11/16/2011	04:30	Weekly Earnings exBonus (3M/YoY)	SEP	1.6	1.7	1.8	
UK	11/16/2011	04:30	ILO Unemployment Rate (3mths)	SEP	8.2	8.2	8.1	
EC	11/16/2011	05:00	Euro-Zone CPI - Core (YoY)	OCT	--	1.7	1.6	
EC	11/16/2011	05:00	Euro-Zone CPI (MoM)	OCT	0.3	0.3	0.8	
EC	11/16/2011	05:00	Euro-Zone CPI (YoY)	OCT	3.0	3.0	3.0	
UK	11/16/2011	05:30	Bank of England Inflation Report					
PO	11/16/2011		Unemployment Rate	3Q	--	--	12.1	
SW	11/17/2011	03:30	Unemployment Rate	OCT	--	6.7	6.8	
UK	11/17/2011	04:30	Retail Sales Ex Auto Fuel (MoM)	OCT	-0.2	--	0.7	
UK	11/17/2011	04:30	Retail Sales w/Auto Fuel (MoM)	OCT	-0.1	-0.2	0.6	
EC	11/17/2011	05:00	Construction Output SA (MoM)	SEP	--	--	0.2	
GE	11/18/2011	02:00	Producer Prices (YoY)	OCT	--	5.3	5.5	
IT	11/18/2011	04:00	Industrial Orders s.a. (MoM)	SEP	--	--	5.0	
IT	11/18/2011	05:00	Current Account (€ mns)	SEP	--	--	-5393.0	
PO	11/18/2011		Producer Prices (YoY)	OCT	--	--	5.5	
IR	NOV 18-23		PPI (YoY)	OCT	--	--	0.2	

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

## Key Indicators for the week of November 14 - 18

Asia Pacific							
Country	Date	Time	Event	Period	BNS	Consensus	Latest
PH	NOV 10-11		Bank Lending Net of RRP's (YoY)	SEP	--	--	19.8
PH	NOV 10-11		Bank Lending (YoY)	SEP	--	--	24.8
CH	NOV 10-15		New Yuan Loans (bns)	OCT	510	500	470
IN	11/11/2011	00:30	Industrial Production (YoY)	SEP	--	3.6	4.1
HK	11/11/2011	03:30	GDP sa (QoQ)	3Q	--	0.0	-0.5
MA	11/11/2011	05:00	<b>Overnight Rate</b>	11-Nov	<b>3.00</b>	<b>3.00</b>	<b>3.00</b>
NZ	11/13/2011	16:45	Retail Sales Ex Inflation (QoQ)	3Q	--	--	0.9
JN	11/13/2011	18:50	GDP Deflator (YoY)	3Q P	--	-2.2	-2.2
JN	11/13/2011	18:50	Nominal GDP (QoQ)	3Q P	--	1.4	-1.5
JN	11/13/2011	18:50	GDP Annualized (QoQ)	3Q P	7.2	5.9	-2.1
JN	11/13/2011	18:50	Gross Domestic Product (QoQ)	3Q P	1.8	1.5	-0.5
JN	11/13/2011	23:30	Industrial Production (MoM)	SEP F	--	--	-4.0
JN	11/13/2011	23:30	Capacity Utilization (MoM)	SEP F	--	--	2.4
CH	NOV 13-17		Actual FDI (YoY)	OCT	--	--	7.9
JN	NOV 13-18		Nationwide Dept. Sales (YoY)	OCT	--	--	-2.4
JN	NOV 13-18		Tokyo Dept. Store Sales (YoY)	OCT	--	--	-3.6
NZ	NOV 13-17		REINZ Housing Price Index (MoM)	OCT	--	--	1.7
IN	11/14/2011	01:30	Monthly Wholesale Prices (YoY)	OCT	9.5	9.6	9.7
SK	11/14/2011	16:00	Export Price Index (MoM)	OCT	--	--	3.4
SK	11/14/2011	16:00	Import Price Index (MoM)	OCT	--	--	3.7
AU	11/14/2011	19:30	<b>Reserve Bank's Board November Minutes</b>				
AU	11/14/2011	19:30	New Motor Vehicle Sales (MoM)	OCT	--	--	-1.5
JN	11/14/2011	23:00	Tokyo Condominium Sales (YoY)	OCT	--	--	16.7
PH	NOV 14-15		Overseas Workers Remittances (US\$ mns)	SEP	--	--	1670.1
TH	NOV 14-18		Total Car Sales	OCT	--	--	87012
AU	11/15/2011	18:30	Westpac Leading Index (MoM)	SEP	--	--	0.8
JN	11/15/2011	18:50	Housing Loans (YoY)	3Q	--	--	2.4
AU	11/15/2011	19:30	Wage Cost Index (QoQ)	3Q	--	--	0.9
JN	NOV 15-16		<b>BOJ Target Rate</b>	16-Nov	<b>0.10</b>	<b>0.10</b>	<b>0.10</b>
NZ	11/16/2011	16:45	Producer Prices- Inputs (QoQ)	3Q	--	--	0.9
NZ	11/16/2011	16:45	Producer Prices- Outputs (QoQ)	3Q	--	--	1.4
AU	11/16/2011	19:30	Average Weekly Wages (QoQ)	AUG	--	--	1.2
CH	11/16/2011	21:00	Conference Board China September Leading Economic Index				
SK	NOV 16-19		Department Store Sales (YoY)	OCT	--	--	6.5
HK	11/17/2011	03:30	Unemployment Rate SA	OCT	--	3.3	3.2
CH	11/17/2011	20:35	MNI November Flash Business Sentiment Survey				
HK	NOV 17-22		Composite Interest Rate	OCT	--	--	0.36
MA	NOV 17-18		Current Account Balance (MYR bns)	3Q	--	--	23397
PH	NOV 17-18		Balance of Payments (US\$ mns)	OCT	--	--	719
MA	11/18/2011	05:00	GDP (YoY)	3Q	--	--	4.0

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

## Key Indicators for the week of November 14 - 18

Latin America								
<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>	<u>Period</u>	<u>BNS</u>	<u>Consensus</u>	<u>Latest</u>	
BZ	11/11/2011	06:00	IBGE Inflation IPCA (MoM)	OCT	--	0.4	0.5	
BZ	11/11/2011	06:00	IBGE Inflation IPCA (YoY)	OCT	--	7.0	7.3	
CO	11/11/2011		<b>Monetary Policy Meeting Minutes</b>					
PE	11/11/2011		Trade Balance (US\$ mns)	SEP	--	552.0	1157.0	
BZ	11/14/2011	05:30	Central Bank Weekly Economists Survey					
PE	11/15/2011	10:30	Unemployment	OCT	--	--	7.3	
CL	11/15/2011	16:00	<b>Nominal Overnight Rate Target</b>	16-Nov	<b>5.25</b>	<b>5.25</b>	<b>5.25</b>	
PE	11/15/2011		GDP NSA (YoY)	SEP	--	6.3	7.5	
BZ	11/16/2011	05:00	FGV CPI IPC-S (% change)	11-Nov	--	--	0.3	
BZ	11/16/2011	09:30	Central Bank Posts Currency Flows' Data for Prev. Week					
CO	11/17/2011	16:00	Trade Balance (US\$ mns)	SEP	--	--	440.9	
BZ	11/18/2011	02:00	FIPE CPI - Weekly (% change)	15-Nov	--	--	0.5	
BZ	11/18/2011	05:00	FGV Inflation IGP-10 (MoM)	NOV	--	0.5	0.6	
CL	11/18/2011	06:30	Gross Domestic Product (YoY)	3Q	4.75	4.5	6.8	
CL	11/18/2011	06:30	Current Account (US\$ mns)	3Q	--	--	13.0	
CO	11/18/2011	16:00	Industrial Production (YoY)	SEP	--	--	9.5	
CO	11/18/2011	16:00	Retail Sales (YoY)	SEP	--	--	9.7	

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

## Global Auctions for the week of November 14 - 18

## North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	11/14	11:00	U.S. Fed to Purchase USD2.25-2.75 Bln Notes/Bonds
US	11/14	11:30	U.S. to Sell 3-Month Bills
US	11/14	11:30	U.S. to Sell 6-Month Bills
US	11/15	11:00	U.S. Fed to Purchase USD4.25-5.00 Bln Notes/Bonds
US	11/15	11:30	U.S. to Sell 4-Week Bills
US	11/15	11:30	U.S. to Sell 52-Week Bills
US	11/16	11:00	U.S. Fed to Sell USD8.00-8.75 Bln Notes
CA	11/16	12:00	Canada to Sell 30-Year Bonds
US	11/17	11:00	U.S. Fed to Purchase USD4.25-5.00 Bln Notes/Bonds
US	11/17	13:00	U.S. to Sell 10-Year TIPS Reopening
US	11/18	11:00	U.S. Fed to Purchase USD2.25-2.75 Bln Notes/Bonds

## Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
UK	11/11	06:10	U.K. to Sell GBP500 Mln 28-Day Bills
UK	11/11	06:10	U.K. to Sell GBP1 Bln 91-Day Bills
UK	11/11	06:10	U.K. to Sell GBP1.5 Bln 182-Day Bills
IT	11/14	05:00	Italy to Sell 4.75% 2016 Bonds
NO	11/14	05:00	Norway to sell Bonds
FR	11/14	09:00	France to Sell Bills
EC	11/14	09:30	ECB Calls for Bids in 7-Day Main Refinancing Tender
SP	11/15	04:30	Spain to Sell 12M and 18M Bills
GR	11/15	05:00	Greece to Sell Bills
SZ	11/15	05:30	Switzerland to Sell 3-Month Bills
BE	11/15	05:30	Belgium to Sell Bills
SW	11/16	05:10	Sweden to Sell Bonds
GE	11/16	05:15	Germany to Sell EU6 Bln 2-Year Notes
PO	11/16	05:30	Portugal to Sell 3-Month and 6-Month Bills
PD	11/16	06:00	Poland to Sell Up to PLN3.5 Bln Bonds Due 2016
SP	11/17	04:30	Spain to Sell Bonds
FR	11/17	05:00	France to Sell Bonds/Notes
UK	11/17	05:30	U.K. to Sell 5% 2018 Gilt
UK	11/18	06:10	U.K. to Sell Bills

## Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
JN	11/13	22:35	Japan to Sell 1-Year Bills
JN	11/14	22:35	Japan to Sell 3-Month Bills
JN	11/14	22:45	Japan to Sell 5-Year Bond
CH	11/15	22:00	China to Sell 10 Year Bond
JN	11/17	03:00	Japan Auction for Enhanced-Liquidity

Source: Bloomberg, Scotia Economics.

## Events for the week of November 14 - 18

## North America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	11/11	13:15	Fed's Yellen Speaks at Banking Conference in Chicago
US	11/11	14:45	Fed's Williams Speaks on Panel at IMF Conference
US	11/15	08:30	Fed's Bullard to Speak on Economy in St. Louis
US	11/15	10:08	Fed's Williams Speaks in Scottsdale, Arizona
CA	11/15	11:45	Ontario Premier McGuinty Speaks in Toronto
US	11/15	12:30	Fed's Fisher Speaks on Too Big to Fail in New York
US	11/16	09:00	New York Fed's Dahlgren to Speak on Panel in Washington, DC
US	11/16	11:15	Fed's Lacker Speaks on Credit Allocation in Washington
US	11/16	12:45	Fed's Rosengren speaks on economy in Boston
US	11/17	12:30	Fed's Pianalto Speaks on Economy in Kentucky
CA	11/17	21:00	Bank of Canada Deputy Governor Boivin speaks in Thompson, MB
US	11/18	13:50	Fed's Williams Speaks in Chile

## Europe

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
EC	11/11	06:30	ECB's Gonzalez Paramo Speaks in Madrid
EC	11/11	09:00	EU's Van Rompuy Gives Speech in Florence
SZ	11/11	10:00	ECB's Kranjec Speaks at Bankers' Forum in Slovenia
EC	11/11		EU's Barroso Speaks on higher education in Lisbon
EC	11/11		EU's Almunia at State-Aid Conference in Berlin
GE	11/14	03:30	Germany's Asmussen Delivers Keynote at Frankfurt Conference
EC	11/15	04:00	EU's Van Rompuy Speaks at Brussels Think Tank
IT	11/15	05:00	Bank of Italy Releases September Public Finance Supplement
EC	11/15		ECB's Praet Speaks at Pension Funds Conference in Frankfurt
UK	11/16	05:30	Bank of England Releases Quarterly Inflation Report
GE	11/16	08:00	Merkel Speaks at HDE-Sponsored Retail Conference
IT	11/16	08:30	Italy Debt Agency Head Cannata Speaks at Conference in Milan
GE	11/16		Merkel Answers 10 Questions from YouTube Viewers
GE	11/17	03:00	Schaeuble, EU's Barnier Speak on Regulation
PO	11/17	04:00	Bank CEOs, Sonae Chairman, IMF's Thomsen Attend Conference

## Asia Pacific

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
MA	11/11	05:00	Overnight Rate
AU	11/14	19:30	Reserve Bank's Board November Minutes
JN	NOV 15-16		BOJ Target Rate
AU	11/16	16:30	RBA's Stevens Speaks at Financial Services Event in Sydney

## Latin America

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
CO	11/11		Monetary Policy Minutes
CL	11/15	16:00	Nominal Overnight Rate Target

Source: Bloomberg, Scotia Economics.

## Global Central Bank Watch

## North America

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
Bank of Canada – Overnight Target Rate	1.00	December 6, 2011	1.00	--
Federal Reserve – Federal Funds Target Rate	0.25	December 13, 2011	0.25	--
Banco de México – Overnight Rate	4.50	December 2, 2011	4.50	--

Inflation numbers next week will likely show that inflation has peaked in Canada, in line with our own estimates along with the Bank of Canada's, as headline CPI starts to move back towards the 2% target. Indeed, in line with the Bank of Canada's strong record on inflation targeting, the Bank of Canada and the Government of Canada released a joint statement this week to renew the 2% inflation target for another 5 years. As several voting and non-voting Fed Presidents took to the road this week, we were provided even greater colour on the extent of the division within the Fed and where each speaking Fed member thinks monetary policy should go in the future.

## Europe

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
European Central Bank – Refinancing Rate	1.25	December 8, 2011	1.25	--
Bank of England – Bank Rate	0.50	December 8, 2011	0.50	--
Swiss National Bank – Libor Target Rate	0.00	December 15, 2011	0.00	--
Central Bank of Russia – Refinancing Rate	8.25	November 21, 2011	8.25	--
Hungarian National Bank – Base Rate	6.00	November 29, 2011	6.00	6.00
Central Bank of the Republic of Turkey – 1 Week Repo Rate	5.75	November 23, 2011	5.75	--

Despite easing inflationary pressures and fading growth momentum, the Central Bank of Russia is unlikely to alter monetary conditions at the next meeting on November 21. The headline inflation rate was flat at 7.2% y/y in October, versus an expected slowing to 7.0%; however, further disinflation is still anticipated, and we consider an interest rate reduction in the next few months quite likely. We anticipate that Turkey's central bank will maintain its benchmark policy rate unchanged at a record low of 5.75% later this month, given recent signs of economic deceleration. With a substantial weakening in the lira, both headline and core inflation accelerated to 7.7% y/y in October, up from 6.2% and 7.0%, respectively in September.

## Asia Pacific

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
Bank of Japan – Target Rate	0.10	November 16, 2011	0.10	0.10
Reserve Bank of Australia – Cash Target Rate	4.50	December 5, 2011	4.50	4.50
Reserve Bank of New Zealand – Cash Rate	2.50	December 7, 2011	2.50	2.50
People's Bank of China – Lending Rate	6.56	TBA	--	--
Reserve Bank of India – Repo Rate	8.50	TBA	8.50	--
Hong Kong Monetary Authority – Base Rate	0.50	TBA	0.50	--
Central Bank of China Taiwan – Discount Rate	1.88	December 30, 2011	1.88	--
Bank Negara Malaysia – Overnight Policy Rate	3.00	November 11, 2011	3.00	3.00
Bank of Korea – Bank Rate	3.25	December 7, 2011	3.25	--
Bank of Thailand – Repo Rate	3.50	November 30, 2011	3.50	--
Bank Indonesia – Reference Interest Rate	6.00	December 7, 2011	6.50	--
Central Bank of the Philippines – Overnight Policy Rate	4.50	December 1, 2011	4.50	--

The Bank of Japan (BoJ) will likely keep the target interest rate at the current 0.1% level. A trace of inflation has appeared in the horizon during the third quarter as annual price advances were positive in the three months to September. Yearly inflation for the third quarter averaged 0.13%, breaking a spell of 28 months of deflationary readings. We expect the BoJ to continue to support the economic recovery with further injections of liquidity through bond purchases, as companies now try to shake-off the effects of a second supply-chain disruption shock as a result of the floods in Thailand.

## Latin America

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
Banco Central do Brasil – Selic Rate	11.50	November 30, 2011	11.00	--
Banco Central de Chile – Overnight Rate	5.25	November 15, 2011	5.25	5.25
Banco de la República de Colombia – Lending Rate	4.50	November 25, 2011	4.50	--
Banco Central de Reserva del Perú – Reference Rate	4.25	December 7, 2011	4.25	--

Chilean inflation accelerated from 3.3% y/y in September to 3.7% y/y in October, while core inflation rose from 2.1% y/y to 2.5% y/y. In light of these numbers and the positive - though moderate - economic performance in the last three months, we expect the central bank to maintain its monetary policy rate unchanged at 5.25% on November 15. We anticipate that inflationary pressures will ease somewhat going forward, closing 2011 at 3.5% y/y.

## Africa

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
South African Reserve Bank – Repo Rate	5.50	TBA	5.50	--

Forecasts at time of publication.

Source: Bloomberg, Scotia Economics.

<b>Forecasts as at November 3, 2011*</b>	<b>2000-09</b>	<b>2010</b>	<b>2011f</b>	<b>2012f</b>	<b>2000-09</b>	<b>2010</b>	<b>2011f</b>	<b>2012f</b>
<b>Output and Inflation (annual % change)</b>	<b>Real GDP</b>				<b>Consumer Prices<sup>2</sup></b>			
World <sup>1</sup>	3.6	5.1	3.8	3.2				
Canada	2.1	3.2	2.2	1.7	2.1	1.8	2.9	1.7
United States	1.7	3.0	1.8	1.7	2.6	1.6	3.0	2.0
Mexico	1.7	5.4	3.7	2.9	4.9	4.4	3.4	4.0
United Kingdom	1.9	1.8	0.8	0.8	1.9	3.7	4.5	2.1
Euro zone	1.4	1.8	1.5	0.3	2.0	2.2	2.6	1.5
Japan	0.6	4.0	0.3	3.2	-0.3	-0.4	1.1	1.3
Australia	3.1	2.7	2.9	3.0	3.2	2.7	2.8	2.5
China	9.4	10.4	9.1	8.9	2.0	4.6	5.0	4.5
India	7.4	9.0	7.9	8.3	22.5	32.2	7.5	6.0
Korea	4.4	6.2	4.7	5.0	3.1	3.5	3.7	3.3
Thailand	4.1	7.8	3.0	3.5	2.6	3.0	3.5	2.8
Brazil	3.3	7.5	3.5	4.0	6.7	5.9	6.5	6.0
Chile	3.7	5.2	6.5	4.8	3.5	1.4	3.5	3.3
Peru	5.2	8.8	6.2	5.6	2.5	2.1	3.8	2.7
<b>Central Bank Rates (% end of period)</b>	<b>11Q1</b>	<b>11Q2</b>	<b>11Q3</b>	<b>11Q4f</b>	<b>12Q1f</b>	<b>12Q2f</b>	<b>12Q3f</b>	<b>12Q4f</b>
Bank of Canada	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Federal Reserve	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
European Central Bank	1.00	1.25	1.50	1.25	1.00	1.00	1.00	1.00
Bank of England	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Swiss National Bank	0.25	0.25	0.00	0.00	0.00	0.00	0.25	0.25
Bank of Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Reserve Bank of Australia	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
<b>Exchange Rates (end of period)</b>								
Canadian Dollar (USDCAD)	0.97	0.96	1.05	1.02	1.00	0.99	0.98	0.98
Canadian Dollar (CADUSD)	1.03	1.04	0.95	0.99	1.00	1.01	1.02	1.02
Euro (EURUSD)	1.42	1.45	1.34	1.40	1.42	1.42	1.40	1.40
Sterling (GBPUSD)	1.60	1.61	1.56	1.60	1.61	1.62	1.63	1.64
Yen (USDJPY)	83	81	77	80	82	83	84	85
Australian Dollar (AUDUSD)	1.03	1.07	0.97	1.00	1.02	1.04	1.06	1.08
Chinese Yuan (USDCNY)	6.5	6.5	6.4	6.3	6.3	6.2	6.1	6.1
Mexican Peso (USDMXN)	11.9	11.7	13.9	12.9	12.9	12.7	12.7	12.7
Brazilian Real (USDBRL)	1.63	1.56	1.88	1.80	1.79	1.77	1.76	1.75
<b>Commodities (annual average)</b>	<b>2000-09</b>	<b>2010</b>	<b>2011f</b>	<b>2012f</b>				
WTI Oil (US\$/bbl)	51	79	92	92				
Brent Oil (US\$/bbl)	50	80	112	112				
Nymex Natural Gas (US\$/mmbtu)	5.95	4.40	4.25	4.50				
Copper (US\$/lb)	1.78	3.42	4.00	4.00				
Zinc (US\$/lb)	0.73	0.98	0.99	0.99				
Nickel (US\$/lb)	7.11	9.89	10.50	9.00				
Gold, London PM Fix (US\$/oz)	522	1,225	1,565	1,675				
Pulp (US\$/tonne)	668	960	977	973				
Newsprint (US\$/tonne)	572	607	640	680				
Lumber (US\$/mfbm)	275	254	255	260				

<sup>1</sup> World GDP for 2000-09 are IMF PPP estimates; 2010e-12f are Scotia Economics' estimates based on a 2010 PPP-weighted sample of 38 countries.

<sup>2</sup> CPI for Canada and the United States are annual averages. For other countries, CPI are year-end rates.

\* See Scotia Economics 'Global Forecast Update' ([www.scotiacapital.com/English/bns\\_econ/forecast.pdf](http://www.scotiacapital.com/English/bns_econ/forecast.pdf)) for additional forecasts & commentary.

<b>Canada</b>	<b>2010</b>	<b>11Q1</b>	<b>11Q2</b>	<b>Latest</b>	<b>United States</b>	<b>2010</b>	<b>11Q1</b>	<b>11Q2</b>	<b>Latest</b>
Real GDP (annual rates)	3.2	3.6	-0.4		Real GDP (annual rates)	3.0	0.4	1.3	2.5 (Q3-A)
Current Acc. Bal. (C\$B, ar)	-50.9	-40.3	-61.3		Current Acc. Bal. (US\$B, ar)	-471	-478	-472	
Merch. Trade Bal. (C\$B, ar)	-9.0	5.4	-14.7	15.0 (Sep)	Merch. Trade Bal. (US\$B, ar)	-646	-729	-762	-707 (Sep)
Industrial Production	4.9	5.7	2.3	3.1 (Aug)	Industrial Production	5.3	5.3	3.8	3.4 (Sep)
Housing Starts (000s)	192	178	192	208 (Oct)	Housing Starts (millions)	0.58	0.58	0.57	0.66 (Sep)
Employment	1.4	1.9	1.6	1.3 (Oct)	Employment	-0.8	0.9	0.9	1.1 (Oct)
Unemployment Rate (%)	8.0	7.8	7.5	7.3 (Oct)	Unemployment Rate (%)	9.6	8.9	9.1	9.0 (Oct)
Retail Sales	5.5	2.5	4.1	3.9 (Aug)	Retail Sales	6.8	8.6	8.1	8.1 (Sep)
Auto Sales (000s)	1561	1573	1573	1625 (Aug)	Auto Sales (millions)	11.6	13.0	12.1	13.2 (Oct)
CPI	1.8	2.6	3.4	3.2 (Sep)	CPI	1.6	2.1	3.4	3.9 (Sep)
IPPI	1.0	4.1	5.1	-5.3 (Sep)	PPI	4.2	4.9	6.9	6.9 (Sep)
Pre-tax Corp. Profits	21.2	12.9	14.8		Pre-tax Corp. Profits	25.0	2.8	1.3	
<b>Mexico</b>					<b>Brazil</b>				
Real GDP	5.4	4.6	3.3		Real GDP	6.7	3.8	2.7	
Current Acc. Bal. (US\$B, ar)	-5.7	-4.2	-10.4		Current Acc. Bal. (US\$B, ar)	-47.4	-58.3	-43.4	
Merch. Trade Bal. (US\$B, ar)	-3.0	7.6	5.7	-22.0 (Sep)	Merch. Trade Bal. (US\$B, ar)	20.2	12.7	39.3	28.3 (Oct)
Industrial Production	6.0	5.2	3.4	3.1 (Aug)	Industrial Production	10.5	2.5	0.6	-1.6 (Sep)
CPI	4.2	3.5	3.3	3.2 (Oct)	CPI	5.1	6.8	6.5	6.9 (Oct)
<b>Chile</b>					<b>Italy</b>				
Real GDP	5.2	10.0	6.8		Real GDP	1.2	1.0	0.8	
Current Acc. Bal. (US\$B, ar)	3.0	0.7	0.1		Current Acc. Bal. (US\$B, ar)	-0.07	-0.13	-0.08	-0.09 (Aug)
Merch. Trade Bal. (US\$B, ar)	11.6	16.5	15.5	10.0 (Oct)	Merch. Trade Bal. (US\$B, ar)	-39.1	-77.2	-45.6	-54.2 (Aug)
Industrial Production	0.5	11.7	7.8	5.0 (Sep)	Industrial Production	6.5	2.3	1.8	-1.9 (Sep)
CPI	1.4	2.9	3.3	3.7 (Oct)	CPI	1.6	2.3	2.7	3.1 (Sep)
<b>Germany</b>					<b>France</b>				
Real GDP	3.6	4.6	2.8		Real GDP	1.4	2.2	1.7	
Current Acc. Bal. (US\$B, ar)	187.6	194.8	156.6	259.0 (Sep)	Current Acc. Bal. (US\$B, ar)	-44.5	-51.5	-81.9	-50.8 (Aug)
Merch. Trade Bal. (US\$B, ar)	201.9	207.1	212.0	252.2 (Sep)	Merch. Trade Bal. (US\$B, ar)	-38.8	-54.2	-52.0	-54.9 (Sep)
Industrial Production	10.1	12.8	8.1	5.4 (Sep)	Industrial Production	4.6	4.7	2.0	2.3 (Sep)
Unemployment Rate (%)	7.7	7.3	7.1	7.0 (Oct)	Unemployment Rate (%)	9.8	9.7	9.7	9.9 (Sep)
CPI	1.1	2.1	2.3	2.5 (Oct)	CPI	1.5	1.8	2.1	2.3 (Oct)
<b>Euro Zone</b>					<b>United Kingdom</b>				
Real GDP	1.7	2.4	1.6		Real GDP	1.8	1.6	0.6	
Current Acc. Bal. (US\$B, ar)	-77	-165	-120	-109 (Aug)	Current Acc. Bal. (US\$B, ar)	-56.9	-30.7	-12.2	
Merch. Trade Bal. (US\$B, ar)	32.0	-71.1	-15.3	-53.6 (Aug)	Merch. Trade Bal. (US\$B, ar)	-152.4	-146.1	-160.1	-185.9 (Sep)
Industrial Production	7.4	6.5	4.2	5.7 (Aug)	Industrial Production	1.9	1.6	-0.8	-0.8 (Sep)
Unemployment Rate (%)	10.0	9.9	9.9	10.2 (Sep)	Unemployment Rate (%)	7.9	7.7	7.8	8.1 (Jul)
CPI	1.6	2.5	2.8	3.0 (Sep)	CPI	3.3	4.1	4.4	5.2 (Sep)
<b>Japan</b>					<b>Australia</b>				
Real GDP	4.0	-0.7	-1.1		Real GDP	2.7	1.0	1.4	
Current Acc. Bal. (US\$B, ar)	195.9	193.9	75.4	247.5 (Sep)	Current Acc. Bal. (US\$B, ar)	-32.9	-41.7	-22.4	
Merch. Trade Bal. (US\$B, ar)	74.6	30.9	-52.6	-3.4 (Sep)	Merch. Trade Bal. (US\$B, ar)	19.3	22.0	50.0	43.3 (Sep)
Industrial Production	16.6	-2.5	-7.0	-4.1 (Sep)	Industrial Production	4.5	-4.7	-3.3	
Unemployment Rate (%)	5.1	4.7	4.6	4.1 (Sep)	Unemployment Rate (%)	5.2	5.0	4.9	5.2 (Oct)
CPI	-0.7	-0.5	-0.4	0.0 (Sep)	CPI	2.8	3.3	3.6	
<b>China</b>					<b>South Korea</b>				
Real GDP	10.4	9.7	9.5		Real GDP	6.2	4.2	3.4	
Current Acc. Bal. (US\$B, ar)	305.4				Current Acc. Bal. (US\$B, ar)	28.2	10.4	22.0	37.2 (Sep)
Merch. Trade Bal. (US\$B, ar)	181.5	-8.4	186.0	204.4 (Oct)	Merch. Trade Bal. (US\$B, ar)	41.2	29.0	33.3	51.5 (Oct)
Industrial Production	13.5	14.8	15.1	13.8 (Sep)	Industrial Production	16.6	11.2	6.7	5.6 (Sep)
CPI	4.6	5.4	6.4	6.1 (Sep)	CPI	3.0	4.5	4.2	3.9 (Oct)

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

Source: Bloomberg, Scotia Economics.



## Interest Rates (% , end of period)

Canada	11Q2	11Q3	Nov/03	Nov/10*	United States	11Q2	11Q3	Nov/03	Nov/10*
BoC Overnight Rate	1.00	1.00	1.00	1.00	Fed Funds Target Rate	0.25	0.25	0.25	0.25
3-mo. T-bill	0.83	0.82	0.92	0.83	3-mo. T-bill	0.01	0.02	0.00	0.00
10-yr Gov't Bond	3.11	2.16	2.21	2.13	10-yr Gov't Bond	3.16	1.92	2.07	2.04
30-yr Gov't Bond	3.55	2.77	2.86	2.75	30-yr Gov't Bond	4.37	2.91	3.12	3.08
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	63.5	(Sep)	FX Reserves (US\$B)	136.6	137.4	137.4	(Sep)
<b>Germany</b>					<b>France</b>				
3-mo. Interbank	1.51	1.51	1.43	1.43	3-mo. T-bill	1.18	0.38	0.54	0.51
10-yr Gov't Bond	3.03	1.89	1.91	1.75	10-yr Gov't Bond	3.41	2.60	3.12	3.45
FX Reserves (US\$B)	66.0	66.9	66.9	(Sep)	FX Reserves (US\$B)	60.3	51.8	51.8	(Sep)
<b>Euro-Zone</b>					<b>United Kingdom</b>				
Refinancing Rate	1.25	1.50	1.25	1.25	Repo Rate	0.50	0.50	0.50	0.50
Overnight Rate	1.72	1.46	0.90	0.77	3-mo. T-bill	4.85	4.85	4.85	4.85
FX Reserves (US\$B)	317.2	311.1	311.1	(Sep)	10-yr Gov't Bond	3.38	2.43	2.38	2.20
					FX Reserves (US\$B)	79.7	78.9	78.9	(Sep)
<b>Japan</b>					<b>Australia</b>				
Discount Rate	0.30	0.30	0.30	0.30	Cash Rate	4.75	4.75	4.75	4.50
3-mo. Libor	0.13	0.13	0.13	0.13	10-yr Gov't Bond	5.21	4.22	4.22	4.08
10-yr Gov't Bond	1.14	1.03	1.00	0.97	FX Reserves (US\$B)	40.3	39.7	39.7	(Sep)
FX Reserves (US\$B)	1100.8	1160.7	1160.7	(Sep)					

## Exchange Rates (end of period)

USDCAD	0.96	1.05	1.01	1.02	¥/US\$	80.56	77.06	78.06	77.62
CADUSD	1.04	0.95	0.99	0.98	US¢/Australian\$	107.22	96.62	104.16	101.09
GBPUSD	1.605	1.558	1.604	1.591	Chinese Yuan/US\$	6.46	6.38	6.34	6.35
EURUSD	1.450	1.339	1.382	1.358	South Korean Won/US\$	1068	1178	1130	1134
JPYEUR	0.86	0.97	0.93	0.95	Mexican Peso/US\$	11.714	13.897	13.333	13.566
USDCHF	0.84	0.91	0.88	0.91	Brazilian Real/US\$	1.563	1.879	1.738	1.769

## Equity Markets (index, end of period)

United States (DJIA)	12414	10913	12044	11844	U.K. (FT100)	5946	5128	5546	5427
United States (S&P500)	1321	1131	1261	1234	Germany (Dax)	7376	5502	6133	5840
Canada (S&P/TSX)	13301	11624	12468	12085	France (CAC40)	3982	2982	3195	3060
Mexico (Bolsa)	36558	33503	36579	36723	Japan (Nikkei)	9816	8700	8640	8501
Brazil (Bovespa)	62404	52324	58196	57690	Hong Kong (Hang Seng)	22398	17592	19243	18964
Italy (BCI)	1039	796	816	818	South Korea (Composite)	2101	1770	1870	1813

## Commodity Prices (end of period)

Pulp (US\$/tonne)	1035	970	970	970	Copper (US\$/lb)	4.22	3.23	3.56	3.38
Newsprint (US\$/tonne)	640	640	640	640	Zinc (US\$/lb)	1.05	0.86	0.87	0.85
Lumber (US\$/mfbm)	237	240	226	--	Gold (US\$/oz)	1505.50	1620.00	1758.00	1756.00
WTI Oil (US\$/bbl)	95.42	79.20	94.07	97.12	Silver (US\$/oz)	35.02	30.45	34.72	33.71
Natural Gas (US\$/mmbtu)	4.37	3.67	3.78	3.62	CRB (index)	338.05	298.15	320.01	318.47

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

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