Global Views

Weekly commentary on economic and financial market developments

May 23, 2014

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Global Views is available on scotiabank.com, Bloomberg at SCOT and Reuters at SM1C

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Will European Politics Blow It Again?

- **Please see our full indicator, central bank, auction and event calendars on pp. A2-A6.**

US — Temporary Giveback On Previous Strength

After starting the week off being closed for Memorial Day, **US markets will digest a round of what may prove to be somewhat less encouraging data next week.** On the heels of strong gains to previous readings, several of the higher-frequency gauges will probably come in fairly soft while GDP is likely to be revised lower. It is important to look at the trend and the hand-off into Q2 and pay relatively less attention to the higher monthly indicator volatility following weather-induced shocks, and we expect that trend to remain constructive.

In fact, after an initial reading of 0.1% q/q that signaled flat GDP in Q1, we're likely to see a slightly negative print that would be an overall economic contraction in the face of adverse weather effects. This very soft starting point and the deferred release of pent-up demand into Q2 are why we see about 4% growth unfolding in Q2. Forward-looking markets may well look past Q1 revisions.

Next week will also bring out a 25th consecutive month of rising house prices according to the S&P Case-Shiller metric, but this will probably occur against the backdrop of otherwise soft figures. After a large 2.6% m/m rise in durable goods orders in March, look for some moderation in April particularly since lumpy indicators like Boeing aircraft orders fell back to 70 planes in April from 163 in March. Similarly, after a big 3.4% m/m rise in pending home sales during March which was the strongest gain since May 2011, some moderation is likely to occur. Following a softer print for the University of Michigan's consumer sentiment gauge, there may also be downside risk to the Conference Board's consumer confidence print next Tuesday. Lastly, in the wake of the solid 0.9% gain in consumer spending during March, the April figures are likely to post growth at a more modest pace. Throughout it all, however, the activity measures ended Q1 and entered Q2 at higher levels and this effect is likely to propel overall economic growth significantly higher by virtue of the quarterly hand-off effects.

Finally, Fed speak will also continue. Perhaps most interesting will be any further elaboration on exit strategies in the wake of recent remarks by Fed officials including NY Fed President William Dudley that hikes to the fed funds target need not wait until after ending reinvestment of maturing bond proceeds which had previously been a common assumption. We'll also hear from incoming Cleveland Fed President Loretta Mester (voting 2014, nonvoting 2015) for the first time and she speaks on inflation and monetary policy. San Francisco Fed President John Williams (alternate 2014, voting 2015) speaks twice, and other speakers will include Philadelphia Fed President Charles Plosser (voting 2014, nonvoting 2015), Richmond Fed President Jeffrey Lacker (alternate 2014, voting 2015), KC President Esther George (nonvoting 2014, alternate 2015), Atlanta Fed President Dennis Lockhart (alternate 2014, voting 2015), and outgoing Cleveland Fed President Sandra Pianalto (voting 2014, nonvoting 2015).

The US Treasury auctions 2s, 5s, 7s and 2 year floating rate notes next week.

Canada — One Quarter Doesn't Make A Trend

Canada probably outperformed the US on quarterly GDP growth in the first quarter, but don't extrapolate such a relative story for long. In fact, it's likely to end just as abruptly as the pattern began once Q2 growth figures become available when we expect US growth to surge ahead to about the 4% mark and leave Canada in the dust.

In the meantime, Q1 growth had 1.7% baked in over Q4 given what we already know about the first two-thirds of the quarter. We think the final month of the quarter may have ended flat to net out to around 1½% annualized full quarter growth. That's because the activity measures for the month of March were mixed at best. The economy gained 42,900 jobs in March if you take the volatile jobs report at face value, and yet

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hours worked were flat. It's hours worked that matter more to forecasting GDP given that the latter equals total hours worked times productivity defined as output per hour worked; flat hours worked therefore require strength in productivity in order for GDP to rise. Also on the soft side was a sharp drop in housing starts from 191k in February to 157k in March via a 26% m/m drop in multiples and a 5% decline in single unit starts. Housing construction could therefore likely be a soft spot in the report notwithstanding a 1% m/m rise in resales that could lift ancillary services. Wholesale trade also fell 0.2%, and so did retail sales—both in volume terms. Upbeat influences included the rise in the volume of manufacturing shipments (+0.5% m/m); and a 0.7% m/m rise in export volumes (that are often heavily revised) despite the strike at Vancouver's port led to a GDP gain from net trade as import volumes were flat during the month.

Canada also auctions 30 year notes on Wednesday.

Europe — Biding Time Ahead Of The ECB

European markets may be focused upon digesting the aftermath of the European parliamentary elections as voting concludes this Sunday. This is the first parliamentary election since June 2009 and hence the first since the Eurozone crisis broke out. **Anti-EU parties on the left and the right are therefore expected to grow their share of the seats with some forecasting a doubling from the current 12% share held by such parties.** This will be combined with the outcome of elections in Ukraine and Russia's reaction as possible influences upon market tone to commence the week.

A light release schedule is expected to be relatively positive. After a soft print in March, German retail sales are expected to post a gain in April while French consumers are expected to chalk up a second consecutive monthly spending gain.

Beyond such developments, **most of the rest of the week will be about biding time ahead of the June 5th ECB meeting** the following week and with a few ECB speeches to ponder along that path. We remain of the view that the ECB is likely to introduce new stimulus measures in June such as cuts in both policy rates, perhaps ceasing to sterilize past initiatives, a relatively token ABS-focused buying program, and maybe an LTRO targeting credit in an ECB twist on the BoE's funding for lending scheme. The most likely scenario is to cut both policy rates. We don't expect unsterilized purchases of government bonds and believe there is a very high bar that must be crossed before triggering such action. If inflation continues to carve out a bottom as the ECB anticipates, and the Federal Reserve moves toward less stimulus and eventual tightening that could strengthen the USD versus the euro, then the ECB is perhaps under no great pressure to trigger what would arguably be the most powerful weapon in its arsenal.

Asia-Pacific — A First Test Of Japan's Sales Tax Increase

A round of Japanese indicators for the month of April will fetch most of the attention next week. **This will test the economy's response to the April 1st sales tax hike and the results are unlikely to be pretty for Japan.** Retail sales are projected to plunge by about 12% m/m after spending was brought forward via a 6% m/m rise in March. The same effect is likely to impact total household spending with consensus expecting the 7% gain in March to drop by 3-4% in April as services spending offsets some of the retail weakness. The Bank of Japan will be able to say 'Presto, we've achieved our inflation goals!' — at least on the surface, and temporarily so. Headline national CPI is expected to double from 1.6% y/y in March to 3.3% y/y in April. The fact that almost all of this inflation is being achieved through the sales tax hike, higher electricity prices via shutting down nuclear reactors, and higher imported food and energy costs due to yen depreciation last year that has partially reversed this year makes the BoJ's victory a rather hollow one. This is a relative price shock in the context of weak nominal wage growth that poses second-round disinflationary effects. This has always been our argument behind why we are skeptical regarding the prospects facing Abenomics as the government of Shinzo Abe continues to search high and low for evidence of the elusive third arrow in its quiver. How the BoJ is reading economic and market conditions may receive further attention when the

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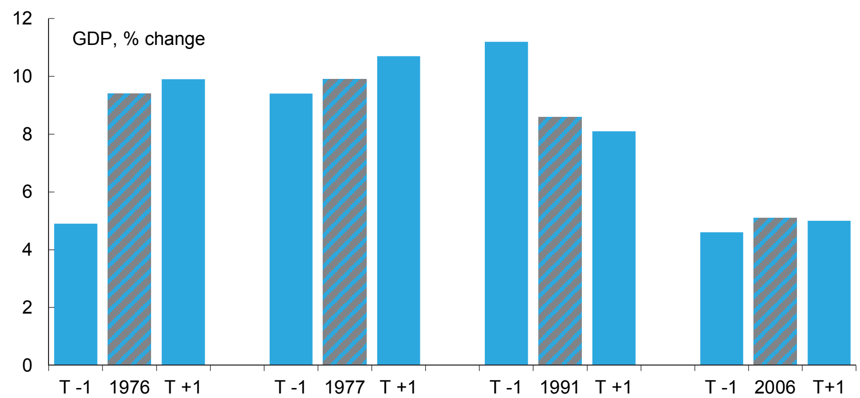
minutes to the April 30th BoJ meeting are released but they are already stale as Governor Kuroda chose not to address the debate over possible future monetary stimulus following the meeting on May 21st.

Tertiary releases will include Australian new home sales, Chinese industrial profits, South Korean industrial production, and a wave of export figures for countries such as Thailand, New Zealand, and the Philippines that may further inform our reading of recent developments across global trading channels. As a side note in the wake of the military coup in Thailand, we offer the accompanying chart that suggests relatively recent coups since the 1970s have had little effect on economic growth. The country has had twelve coups since the 1930s and 'only' four since the mid-1970s. Some believe that this time the consequences risk being greater partly because the army is not speaking of a temporary interruption of power that will quickly transition back to civilian rule.

Also on the docket for next week is that India's economy is expected to continue to grow at around a sub-5% year-ago pace when 2014Q1 GDP figures are released at the end of the week. A similar unchanged outcome is expected for the Philippines as 2014Q1 growth is expected to ride around 6.5%.

Coup Effects On Thai Economy



Source: Bloomberg, Scotiabank Economics.

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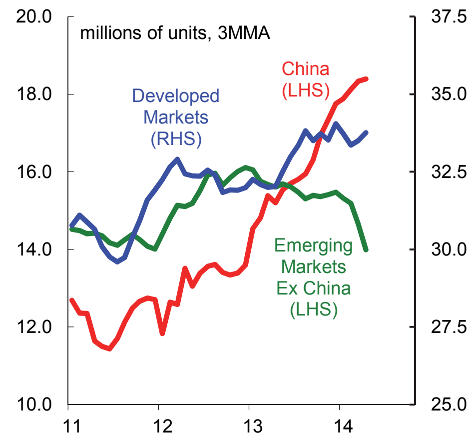
Global Car Sales Continue To Move Higher

- **China and the developed markets lead the way, but activity has weakened in several emerging markets.**

China Drives Global Sales Higher



Source: Bloomberg, Scotiabank Economics.

Global car sales continued to advance in April, as solid gains in China, North America and Western Europe more than offset a slowdown in several emerging markets. We estimate global volumes climbed 1% above a year earlier — the fourteenth consecutive monthly year-over-year increase. However, last month's advance was the smallest since early 2013, held back by declining purchases in South America, Eastern Europe — especially Turkey and Russia — and in several countries in Asia.

China continues to drive global vehicle sales higher. In April, purchases of car and light trucks advanced 14% above a year earlier in the world's largest auto market, largely due to the soaring popularity of crossover utility vehicles (CUVs). Purchases of CUVs surged 58% year-over-year in China last month and now account for 30% of the overall passenger vehicle market. In fact, CUV sales in China have surpassed combined CUV/SUV volumes in the United States. So far this year, 1.8 million CUVs have been sold in China compared with 1.7 million CUVs/SUVs in the United States. As recently as a year ago, the market for these models was 25% greater in the United States than in China.

As we pointed out in our Global Views article of May 9, 2014, vehicle purchases also strengthened last month in the United States and Western Europe. However, activity has weakened significantly in several emerging markets. Purchases in South America dropped 18% below a year ago in April, undercut by slumps of more than 40% yr/yr in both Argentina and Venezuela as well as a double-digit fall-off in Brazil — the region's largest auto market. Declining car sales in Brazil reflect the impact of rising interest rates and slumping consumer confidence, which recently dropped to the lowest level since 2009. Given the importance of the auto industry to the Brazilian economy, the government is negotiating with the banking system to spur sales by facilitating vehicle financing. However, purchases are unlikely to improve over the next several months, as the attention of Brazilians now turns to either hosting, or protesting against, the FIFA World Cup, and away from purchasing new cars. The World Cup runs from June 12 through July 13.

Vehicle purchases also weakened significantly in Russia and Turkey last month alongside slowing economic growth and rising interest rates. The Central Bank of Turkey has increased its policy rate by 500 bps since the start of the year to support the domestic currency. While not as dramatic, short-term rates in Russia have jumped 200 bps this year. Meanwhile, incomes and investment are contracting in Russia as sanctions imposed by the United States and the European Union in response to the annexation of Crimea have intensified capital flight from Russia, triggering a selloff in the currency and reducing household purchasing power.

Car purchases in Thailand dropped 33% below a year earlier last month, undercut by ongoing political instability and the end of government incentives for first-time car buyers last June. Lower car sales are having a significant impact on vehicle production in Thailand, as the domestic market normally accounts for 45% of overall vehicle assemblies. Thailand became a global "top 10" vehicle manufacturer last year, with assemblies surpassing Canada for the first time on record. However, so far this year production has dropped 28% below a year earlier and automakers are delaying planned investment in the Southeast Asian nation.

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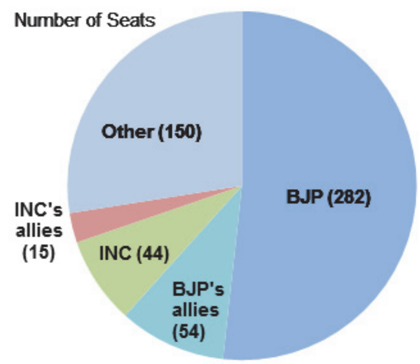
New Majority Government In India To Focus On Economic Reforms

- **India's Bharatiya Janata Party (BJP) succeeded in gaining parliamentary majority in the Indian general election, improving the country's economic outlook.**

The Indian National Congress (INC) party's long-time reign has come to an end after a landslide defeat by the BJP led by Narendra Modi following the election that took place between April 7th and May 12th. There is renewed optimism that the new government will take steps to place India back onto a fast-growth trajectory, as the BJP's election platform was focused on fundamental economic reforms.

According to the results announced on May 16th, the BJP will now hold a majority government with 282 seats of the 545 seats in the Lok Sabha, the Parliament of India. This is an increase of 166 seats from the 2009 Indian general election. Narendra Modi was selected as the BJP leader and is popular amongst the public due to his proven track record during his time as the chief minister of the state of Gujarat since October 2001. There has been recent public disapproval of the United Progressive Alliance, a coalition previously led by the INC, which held majority power since the 2004 Indian general election. The electoral gains made by the BJP were exceptionally large by historical standards with no single party forming a parliamentary majority since the INC's win in the 1984 Indian general election.

Structure Of The Lok Sabha



Source: Election Commission of India

Various anticipated reforms, reaching most sectors of the economy, will improve India's policy credibility and business environment, thereby increasing the nation's economic growth prospects. Real GDP expansion has recently been muted due to weak infrastructure and corporate investment activity. Policy uncertainty, a high cost of financing and a difficult business environment that reflects heavy bureaucracy and poor infrastructure, particularly in terms of transport, energy and information technology, have been the main reasons for subdued performance. Accordingly, output growth slowed to 4.6% in 2013 from an average of 8% in the prior ten years. We expect the Indian economy to start recovering in the coming quarters, with real GDP growth reaching 5.2% this year and 5.7% in 2015. A pick-up in investment that reflects improving sentiment combined with the authorities' efforts to clear structural bottlenecks delaying large industrial projects, together with a recuperating export sector will underpin activity through 2015 and beyond.

Fiscal reform — particularly in terms of subsidy rationalization, privatization (of power supply, water and infrastructure) and revenue base expansion through the implementation of a goods and services tax — is high on the incoming administration's agenda. Policymakers also recognize the importance of investment in promoting economic growth. Continuing creation of jobs through investment is vital, as an estimated 12 million people enter the Indian work force annually; in this regard, the manufacturing sector has been flagged to have great development potential. The identified actions to enhance investment include an improvement of infrastructure, reduction of red tape, lowering ceilings on foreign ownership in various sectors and trade facilitation.

The new administration is supportive of the Reserve Bank of India's (RBI) monetary policy direction, in which inflation containment is taking priority over promoting economic growth. The RBI is planning to redirect its focus from wholesale price inflation to consumer price inflation, and to guide the latter to below 8% by January 2015 — and gradually to 4% over a three year horizon — as part of its transition toward an inflation-targeting monetary policy framework.

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Inflation Shoots Past Bank Of Canada Expectations

- **The fact that inflation is persistently shooting past BoC expectations lessens the credibility of continuing to flag downside risks to inflation.**

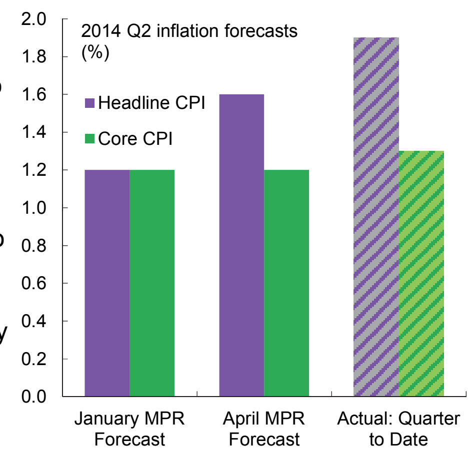
Canadian inflation hit the BoC's 2% target as expected for the April print and the breadth of the rise was significant. More important is that the BoC didn't see this coming in its two rounds of published forecasts this year.

The latter point adds to our argument that the BoC may face rising pressure to take out or soften persistent references to downside risks to inflation and, along with that, move away from its ambiguity over the direction of the next rate move in favour of emphasizing long pause arguments. If it doesn't, then it has much more work to do in explaining why it is looking through upsides to BoC inflation forecasts this year following years of the opposite scenario where the BoC was persistently too high in its inflation projections.

BoC Will Have To Revise Inflation Forecasts Higher Again

The BoC forecast for 1.6% headline inflation in Q2 will probably have to be revised higher again in the July Monetary Policy Report. They had revised it in the April MPR from 1.2% projected in the January MPR and will probably have to do so again. That's because what's baked into Q2 is a 1.9% y/y rate of headline inflation if seasonally unadjusted m/m prices don't change one bit over the rest of Q2 since we only have April so far (see chart). Seasonally unadjusted CPI typically rises in m/m terms over Q2 so the risk is toward a higher quarterly average than what's already baked in. It is also not clear that this is temporary; that might be truer for energy prices that are rapidly rising at an 8.4% y/y pace, but food prices are also under pressure (+1.9%) due to a combination of forces acting to raise meat, fruit and vegetable prices.

Inflation Shoots Past BoC Forecasts



Source: Scotiabank, Bank of Canada, Statistics Canada.

Translation: the BoC didn't see it coming back in the last round of forecasts in April and certainly didn't see it coming in the previous forecast round in January. If they erred on the side of being materially too low in their inflation forecasts throughout the year, then a serious question mark surrounds whether the BoC can continue to flag downside risks to inflation when it missed the upsides. That's not meant to be unkind as many of us have found forecasting global inflation to be a challenge for some time, but it does point to the risk that the BoC has to somewhat re-write the story and emphasize more of the long pause argument over the ambiguity surrounding the direction of the next rate movement.

Widespread Price Increases

Having said that, much of the pressure is on headline, and not core inflation. The second set of bars on the accompanying chart show that the BoC's core inflation forecasts have been much closer to current tracking. That does not negate, however, the merits of moving past talk of downside risks to inflation. At 1.4% y/y in April, inflation has stabilized in the 1.1-1.4% range since late last year with a modest upward drift as opposed to courting rising downside risks.

It's also possible that monthly pressures on core have recently increased. Even though the seasonally adjusted monthly print was on top of expectations at +0.2% m/m, there were several areas of strong price gains amid temporary offsets in some categories. Shelter costs were up 0.8% m/m (all #s in seasonally adjusted terms), clothing and footwear prices rose by 0.8% m/m, food was up 0.4%, and the transportation, health and personal care categories were up 0.2%. Somewhat-offsetting declines were registered in recreation and reading and the alcohol/tobacco categories with the latter a temporary influence because of the prior month's surge due to a hike in tobacco taxes in the Federal Budget. Some of these categories may be in the earlier stages of reflecting pass-through from higher import prices on the back of the 12% depreciation in CAD versus the USD over the past year-and-a-half.

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Will Colombia Get More Bond Inflows?

The following article was published on May 22, 2014.

Delays in opening local accounts and the relatively small presence of foreigners in the local Colombian bond market suggest that we could see additional inflows. Potential flows are large relative to expected gross issuance and to the Central Bank's typical annual interventions. Unless the government modifies pension fund rules, the supply of bonds to feed this inflow will likely come only from the inventory of commercial banks.

Introduction

Colombia local bonds significantly outperformed peers in the two months following the announcement that Colombia would move from a 3.2% weighting to an 8% weighting in JP Morgan's index by the end of September. That market move happened before any changes actually occurred with the index, which will start at the end of May. The question we often hear is whether the majority of the inflows have already occurred in anticipation of index inclusion.

Delays from opening accounts

From a practical perspective, administrative delays in setting up accounts suggest that most of the index-related inflows have not occurred so far. In previous years, our clients reported that custody accounts could take a month to open, from the moment they started the process with their global custodians until it was finished with the local custodians. Opening relationships with some local brokers can take longer, and requires the assistance of those custodians. There are only three local custodians in Colombia (two more are entering) and the increase in workload may have caused some additional delays. In other words, clients who were not previously set up for Colombia will probably not be able to start trading right away.

Quantifying the effect

According to government data, foreign investors purchased 1.4bn USD in March and 0.6bn USD in April for a total of $2bn. Typical foreign purchases in the twelve months prior were around $230mn per month, such that we can only attribute $1.5bn of inflows to index-inclusion through the end of April. That figure is obviously much smaller than the $10bn of new demand typically calculated by the market. That calculation is based on the finding in JP Morgan's surveys of its own clients that around $200bn in dedicated funds is benchmarked to its index, such that a 5% increase in index weightings implies an expected $10bn increase in allocation.

We think less than 10% of that $200bn corresponds to passive indexed funds; those funds cannot deviate much on country allocation from their indices, though may have some leeway in the instruments they use (Global TES vs. Local TES) and the exact timing of their additions to their portfolio relative to expected changes in the benchmark indices.

In contrast, there is no way to know how closely the remaining 90% of actively managed funds actually follow the index. We cannot know if EM funds were overweight Colombia before, for example, or alternatively, if they will decide to underweight Colombia after September because after-tax yields are no longer high relative to Latam peers. Similarly, we don't know to what extent some funds were using Colombia offshore bonds as a proxy for the local bonds, and whether that will continue going forwards.

The amount of money that could theoretically be invested in Colombia in the long-run is much larger. Foreigners currently own $100bn USD-equivalent of nominal Mexican Mbonos, representing 57% of the outstanding amount. In contrast, foreigners only own $7bn of nominal Coltes bonds, representing only 11% of the amount outstanding. Foreigners would have to buy an additional $33bn in order to reach the ownership levels we see in Mexico. Of course, such an increase in allocation cannot happen in a few months. In Mexico, for example, foreign ownership increased from 28% to 58% in the 2.5 years following inclusion in the WGBI index. Those inflows of course occurred under more supportive international monetary conditions.

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Nevertheless, in the most optimistic scenario, we would see not just a one-time inflow of $10bn but rather an inflow of that magnitude every year.

The supply of bonds

The only major holders of bonds who sold in the last two months were commercial banks. The good news is that banks still hold 22% of all local bonds. The problem is that deposits are growing at double digit rates and loan net interest margins have compressed over the past couple of years (Bancolombia reported a loan interest margin of 6.1% for 1Q14 vs. 7% in 2012, for example); as a result, banks need to continue buying bonds. On the other hand, yields on Coltes bonds have also been dropping and that will certainly figure in bank allocation decisions.

Colombian pension funds are the largest holders of Coltes overall at 26% of amount outstanding, and they are also one of the three top holders of nominal Coltes. 35% of pension fund assets are currently invested in Coltes bonds, and an additional 5% are invested in other government bonds, suggesting that pension funds have room to shift to other investments in principle. The problem is that the incentive structure of the pension fund industry in Colombia ensures that changes to allocations happen very slowly. The government would need to revive the pension fund reform proposal from a year ago that would have coerced more international investment in lieu of local bonds. While the government is working on a new reform with the cooperation of the industry, it is too early to know what changes will be included.

Trusts are another top holder at 17% of Coltes outstanding overall. We understand that they are only allowed to hold government bonds, and therefore would not provide a source of supply.

Of course, new supply of bonds plays an important role as well; however, expected primary issuance to the private sector is actually expected to be lower in 2014 than in 2013 at 18.3tn COP vs. 21.5tn. In other words, foreign inflows could potentially absorb 100% of gross primary issuance. Presumably Congress could increase that amount in future years if offered unusually cheap financing in local currency from foreigners; however, assuming they did not want to affect fiscal accounts, the only easy option would be to perhaps reduce the $2bn in external bond issuance planned for 2014, substituting additional local currency issuance.

Effects on the currency

Currency appreciation has been just as important as yield compression in determining recent excess returns for Coltes investors. The Colombian currency appreciated 3% to 6% more than Latin American peers since index inclusion was announced, while bonds outperformed by 30bp to 50bp for a relative price gain of around 2% to 5%. The remaining amount of inflows expected by some is considerable relative to the country’s balance of payments. In 2013 FDI inflows were $17bn and portfolio investment was only $11bn. Inflows could also exceed annual currency interventions by the Central Bank, which are 1.1bn YTD, were 6.8bn in 2013, and were $3bn to $5bn in prior years. Thus, unless these inflows are offset by other factors such as lower exports or lower FDI, the Central Bank could have difficulty containing the pressures on the currency.

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ECB's Policy Options

…"the Governing Council is comfortable with acting next time, but before we want to see the staff projections that will come out in early June." ECB press conference, 08/05/14.

- In view of lower than expected Inflation data since the beginning of the year as well as disappointing Q1 GDP growth, the ECB is likely to deliver additional policy stimulus next month. Once again, all options are on the table!

- **In our view, a 10 to 15 bps rate cut in both the refinancing and deposit rates looks highly likely.** Indeed, past ECB press conferences made it clear that the negative impact of a strong Euro on growth/ inflation forecasts needs to be addressed. At the last ECB press conference, the strength of the euro was indeed seen as "a cause for serious concern". Recent speeches from the ECB's president emphasized that addressing this specific point would be made through conventional actions (i.e., adjusting rates lower), and acting on the refi rate and pushing the deposit rate into negative territory could be required to have a powerful impact on the exchange rate.

- But could we see more than just rate cuts?

- **The end of SMP sterilisation is often addressed during press conferences.** This action would immediately inject €175 billion of liquidity into the banking sector which would have a direct impact on the money market and could also indirectly impact the exchange rate. So, it could be another strong step to further ease monetary conditions in the euro area. While the traditional opposition from the Bundesbank seems to have dissipated, the tone of the last press conference nonetheless did not point to any emergency on this issue. The ECB president indeed notted that recent higher money market rates had not translated to the medium-term yield curve and therefore had no negative impact on the transmission of monetary policy. Furthermore, this decision could have adverse consequences for other ECB programmes. The OMT is also supposed to be sterilised, hence ending SMP sterilisation could provoke complaints. On the other end, an easy option at the June meeting will be for the ECB to once again agree on another extension of fixed rate full allotment. This can have an important psychological impact on strengthening the ECB's forward guidance that "key ECB interest rates will remain at present or lower levels for an extended period of time".

- **A new targeted LTRO dedicated to boost the credit growth channel.** There have been conflicting signals on this issue and, in this regard, this week's April M3 report will be closely watched. On one side, credit growth remains weak while, on the other, the last ECB lending survey suggests that conditions are less restrictive and there has been a pickup in demand. So, there is the potential for some improvement ahead. The ECB could nonetheless decide to help speed up the process of credit growth through this option. The indications of potential stronger credit demand in the ECB survey means that a third targeted LTRO could have indeed a stronger impact than LTRO 1/LTRO 2 to relaunch the credit channel. However, we are not sure that the ECB would like to offer again new cheap liquidity funding to the banking sector in the middle of the Asset Quality Review (AQR). So, at this stage, this option looks also unlikely although the door will remain open for a possible action after the conclusion of the AQR in October.

- **QE program.** Any bond purchasing programme will target eligible assets that are used as collateral by the ECB. Their total amount is around €14 trillion although there is €2 trillion (taking into account haircuts) already used as collateral and which therefore cannot be repurchased. Among this pool, roughly half is linked to central/regional government bonds, bank bonds (uncovered and covered) account for 20%, corporate bonds and ABS account for 15% and other marketable assets which includes European debt (EIB, EU rescue funds) for 10%. There are also non-marketable assets which are accepted as collateral but, being unmarketable, they cannot be used through a QE program unless they are securitised. Actually, we think that the easiest options to be activated by the ECB for a QE program could work in reverse to the size of the different asset components mentioned above.

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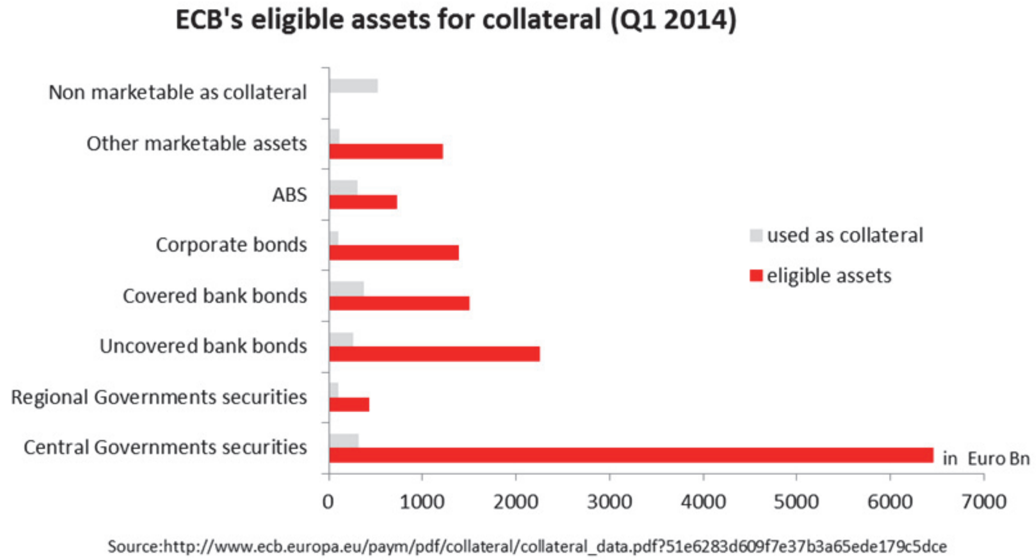

- The easiest option would be to start buying "other marketable assets". Buying EIB/EFSF-ESM bonds (around €500 billion) is indeed easy as it is seen as a proxy for European government bonds, carrying high credit ratings and therefore little credit risk for the ECB. While it will not have a major direct impact on government yields, it will offer more room to manoeuvre for European institutions to offer credit to support the recovery.

- A second possible option could be to buy corporate bonds & ABS. ECB President Draghi has been pointing in this direction for many months. This would have the advantage of directly targeting credit towards corporates, thereby enhancing the transmission of monetary policy. However, given the small size of the ABS market (and mainly residential), it does not sufficiently target the SME sector which is key in the euro area.

- Buying bank bonds could be more problematic at this stage. It will certainly have a major positive impact on banks' balance sheets/profitability and therefore on boosting credit growth. However, like for a targeted LTRO, it could be questionable to support potential insolvent banks in the middle of the AQR. So, this option could be in the pipeline when a proper restructuring/cleaning of the banking sector would have been made.

- Finally, buying government bonds would have a major impact on yields but the set-up of this type of program could be difficult (i.e., buying bonds according to ECB's national share, debt to GDP ratio…). This could also entail potential political pressures, question the baseline of the OMT and face legal hurdles.

- To conclude, lower rates as well as an extension for fixed rate allotment are very likely options in June. Beyond this, starting a QE program centred on other marketable assets/corporates bonds & ABS could also be a possibility. If the ECB wants to match the impact of Fed's QE3 ($80 billion buying per month and around 5% of GDP), it would mean a monthly purchasing program of around €40 billion. Beyond this, a targeted LTRO, QE programs on bank loans or the end of the SMP sterilisation are possible but at a later stage (after the end of the AQR) or linked to tensions in money market. Finally, a full QE program on government bonds looks possible only in the case of major renewed stress in financial markets.

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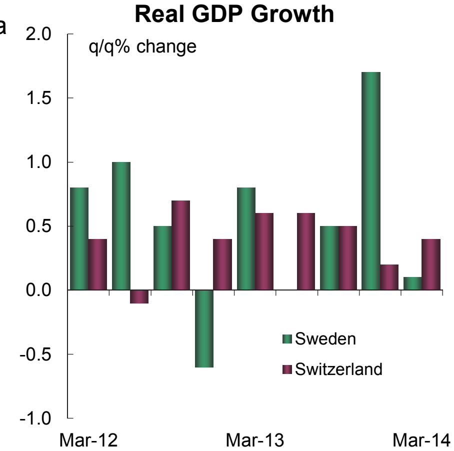
Key Data Preview

EUROPE

Next week real GDP estimates for the first quarter will be reported in Switzerland (May 28th) and Sweden (May 30th). In Switzerland, a modest rebound in net exports in the first quarter, following the sharp deterioration in the final quarter of 2013, will likely support a pick-up in the quarterly growth pace from 0.2% q/q to around 0.4% (1.8% y/y). Real exports grew 1.9% q/q in the January-February period (notwithstanding straight month-over-month drops in February and March), while imports fell 3.2%. Private consumption has been the major growth driver over the last year, and although conditions are still strong, there are some signs of fading momentum, including in the housing market. Nevertheless, we anticipate domestic demand to remain solid going forward, with a projected real GDP increase of 2.1% for 2014 overall. Sweden registered a surprisingly strong expansion of 1.7% q/q in the final quarter of last year, helped by a broad-based surge in domestic demand and considerable inventory accumulation (which accounted for half of the output rise). Although household activity remained positive, inventories likely worked against growth in the first quarter, since companies were left with high stockpiles after the last quarter and external demand has yet to experience a meaningful acceleration. On balance, we expect that output grew by only 0.1% q/q (2.4% y/y) in the January-March period. For the year as a whole, we expect growth of 2.7%.

Sweden and Switzerland Real GDP Growth

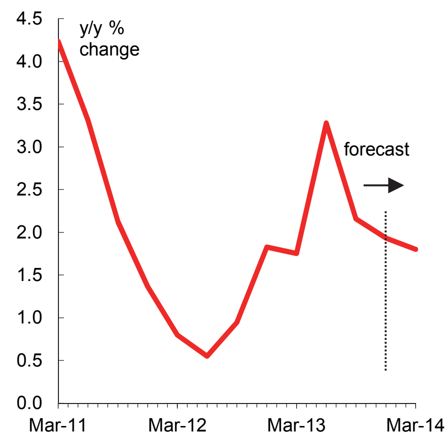


Source: Bloomberg, Scotiabank Economics.

LATIN AMERICA

Brazil's first-quarter GDP figures will be released on May 30th. Despite the expected bump from the upcoming FIFA World Cup, we expect Brazil's Q1 figures to come in soft with nearly flat q/q growth and a y/y expansion below 2% — low by global and domestic standards. High inflation has eroded consumers' spending power and contributed to the subdued economic performance. Additionally, persistent drought conditions have depressed agricultural output and put pressure on the country's power grid, which depends on hydroelectric dams for approximately 80% of electricity demand. We expect Brazilian real GDP to advance by 2% this year as a whole, followed by a modest acceleration to 2.5% in 2015.

Brazil Real GDP Growth

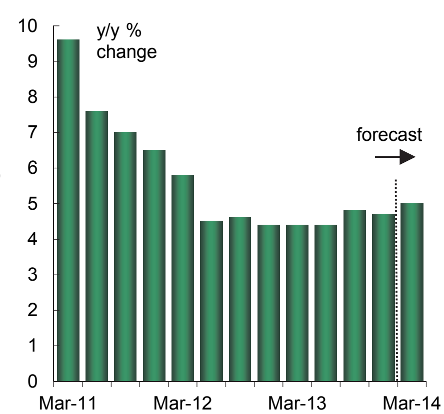


Source: Bloomberg, Scotiabank Economics.

ASIA

India will release first-quarter GDP data on May 30th. We estimate that the country's output growth picked up slightly to 5.0% y/y from the 4.7% gain in the final quarter of 2013. The economy will likely expand by 5.2% this year as a whole, followed by a 5.7% advance in 2015. Current performance remains muted by historical standards (the economy expanded by around 8% annually over the past decade) due to anemic growth in fixed capital formation that reflects a challenging local business environment. Nevertheless, the outlook is improving, given the fact that the Bharatiya Janata Party (BJP) succeeded in gaining a parliamentary majority in the general election that concluded on May 12th; for further insights regarding the election outcome, please refer to the article by Tuuli McCully and Neil Shankar earlier in this publication.

India Real GDP Growth



Source: Bloomberg, Scotiabank Economics.

Key Indicators for the week of May 26 – 30

North America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
MX	05/26	09:00	Trade Balance (US$ mn)	Apr P	--	-758.4	1026.6
US	05/27	08:30	Durable Goods Orders (m/m)	Apr	-0.5	-0.7	2.9
US	05/27	08:30	Durable Goods Orders ex. Trans. (m/m)	Apr	-0.1	-0.1	2.4
US	05/27	09:00	S&P/Case-Shiller Home Price Index (m/m)	Mar	--	0.7	0.8
US	05/27	09:00	S&P/Case-Shiller Home Price Index (y/y)	Mar	--	11.8	12.9
US	05/27	10:00	Consumer Confidence Index	May	82.0	83.0	82.3
US	05/27	10:00	Richmond Fed Manufacturing Index	May	--	5.0	7.0
US	05/27	10:30	Dallas Fed. Manufacturing Activity	May	--	9.2	11.7
US	05/28	07:00	MBA Mortgage Applications (w/w)	MAY 23	--	--	0.9
CA	05/29	08:30	Current Account (C$ bn a.r.)	1Q	--	-13.0	-16.0
US	05/29	08:30	Initial Jobless Claims (000s)	MAY 24	305	318	326
US	05/29	08:30	Continuing Claims (000s)	MAY 17	2670	2655	2653
US	05/29	08:30	GDP (q/q a.r.)	1Q S	-0.5	-0.5	0.1
US	05/29	08:30	GDP Deflator (q/q a.r.)	1Q S	--	1.3	1.3
US	05/29	10:00	Pending Home Sales (m/m)	Apr	0.5	1.0	3.4
CA	05/30	08:30	IPPI (m/m)	Apr	--	0.4	0.4
CA	05/30	08:30	Raw Materials Price Index (m/m)	Apr	--	0.4	0.6
CA	05/30	08:30	Real GDP (m/m)	Mar	0.0	0.1	0.2
CA	05/30	08:30	Real GDP (q/q a.r.)	1Q	1.5	1.8	2.9
US	05/30	08:30	PCE Deflator (m/m)	Apr	0.2	0.3	0.2
US	05/30	08:30	PCE Deflator (y/y)	Apr	1.6	1.7	1.1
US	05/30	08:30	PCE ex. Food & Energy (m/m)	Apr	0.2	0.2	0.2
US	05/30	08:30	PCE ex. Food & Energy (y/y)	Apr	1.4	1.4	1.2
US	05/30	08:30	Personal Spending (m/m)	Apr	0.1	0.2	0.9
US	05/30	08:30	Personal Income (m/m)	Apr	0.2	0.3	0.5
US	05/30	09:45	Chicago PMI	May	--	60.8	63.0
US	05/30	09:55	U. of Michigan Consumer Sentiment	May F	--	82.5	81.8

Europe

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
GE	05/26	02:00	GfK Consumer Confidence Survey	Jun	8.5	8.5	8.5
HU	05/27	08:00	**Base Rate (%)**	**May 27**	**2.40**	**2.40**	**2.50**
GE	May 27-31		Retail Sales (m/m)	Apr	--	0.2	0.1
SP	05/27		Budget Balance YTD (€ mn)	Apr	--	--	-9880.0
SZ	05/28	01:45	GDP (y/y)	1Q	1.9	1.9	1.7
FR	05/28	02:45	Consumer Spending (m/m)	Apr	0.6	0.5	0.4
FR	05/28	02:45	Producer Prices (m/m)	Apr	--	-0.1	-0.4
SP	05/28	03:00	Real Retail Sales (y/y)	Apr	--	--	0.6
GE	05/28	03:55	Unemployment (000s)	May	-15.0	-15.0	-25.0
GE	05/28	03:55	Unemployment Rate (%)	May	6.6	6.7	6.7
EC	05/28	05:00	Business Climate Indicator	May	--	0.3	0.3
EC	05/28	05:00	Economic Confidence	May	--	102.2	102.0
EC	05/28	05:00	Industrial Confidence	May	-4.0	-4.0	-3.6
FR	05/28	12:00	Total Jobseekers (000s)	Apr	3367.0	3354.7	3349.3
FR	05/28	12:00	Jobseekers Net Change (000s)	Apr	18.0	5.5	1.6
SP	05/29	03:00	Real GDP (q/q)	1Q F	0.4	0.4	0.4
UK	05/29	19:05	GfK Consumer Confidence Survey	May	--	-2.0	-3.0
SP	05/30	03:00	CPI (y/y)	May P	--	0.3	0.4
SP	05/30	03:00	CPI - EU Harmonized (y/y)	May P	0.3	0.2	0.3
SW	05/30	03:30	GDP (y/y)	1Q	2.4	2.3	3.1
PD	05/30	04:00	GDP (y/y)	1Q F	--	3.3	3.3
IT	05/30	05:00	CPI (m/m)	May P	--	0.0	0.2
IT	05/30	05:00	CPI (y/y)	May P	--	0.6	0.6
IT	05/30	05:00	CPI - EU Harmonized (m/m)	May P	0.1	0.1	0.5
IT	05/30	05:00	CPI - EU Harmonized (y/y)	May P	0.6	0.5	0.5
SP	05/30		Current Account (€ bn)	Mar	--	--	-2.8

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

Key Indicators for the week of May 26 – 30

Asia Pacific

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
NZ	05/25	18:45	Trade Balance (NZD mn)	Apr	--	634.0	920.4
NZ	05/25	18:45	Exports (NZD bn)	Apr	--	4.6	5.1
NZ	05/25	18:45	Imports (NZD bn)	Apr	--	4.0	4.2
SI	05/26	01:00	Industrial Production (y/y)	Apr	--	4.7	12.1
SK	05/26	17:00	Consumer Confidence Index	May	--	--	108.0
PH	05/26	21:00	Imports (y/y)	Mar	--	11.0	0.3
PH	05/26	21:00	Trade Balance (US$ mn)	Mar	--	-200.0	-66.0
TA	05/27	04:00	Leading Index (m/m)	Apr	--	--	0.2
TA	05/27	04:00	Coincident Index (m/m)	Apr	--	--	0.1
HK	05/27	04:30	Exports (y/y)	Apr	--	4.5	3.4
HK	05/27	04:30	Imports (y/y)	Apr	--	5.0	3.2
HK	05/27	04:30	Trade Balance (HKD bn)	Apr	--	-46.0	-50.4
CH	05/27	21:30	Industrial Profits YTD (y/y)	Apr	--	--	10.1
SK	05/28	19:00	Current Account (US$ mn)	Apr	--	--	7346.6
JN	05/28	19:50	Large Retailers' Sales (y/y)	Apr	--	-7.1	16.1
JN	05/28	19:50	Retail Trade (y/y)	Apr	--	-3.2	11.0
AU	05/28	21:00	HIA New Home Sales (m/m)	Apr	--	--	0.2
AU	05/28	21:30	Private Capital Expenditure	1Q	--	-1.9	-5.2
PH	05/28	22:00	Real GDP (y/y)	1Q	6.4	6.4	6.5
CH	May 28-31		Leading Index	Apr	--	--	99.6
SK	05/29	17:00	Business Survey- Manufacturing	Jun	--	--	86.0
SK	05/29	17:00	Business Survey- Non-Manufacturing	Jun	--	--	74.0
SK	05/29	19:00	Industrial Production (y/y)	Apr	--	2.9	2.7
SK	05/29	19:00	Cyclical Leading Index Change	Apr	--	--	-0.3
JN	05/29	19:30	Household Spending (y/y)	Apr	--	-3.7	7.2
JN	05/29	19:30	Jobless Rate (%)	Apr	3.6	3.6	3.6
JN	05/29	19:30	National CPI (y/y)	Apr	3.3	3.3	1.6
JN	05/29	19:30	Tokyo CPI (y/y)	May	--	3.0	2.9
JN	05/29	19:50	Industrial Production (y/y)	Apr P	--	4.6	7.4
AU	05/29	21:30	Private Sector Credit (y/y)	Apr	--	4.5	4.4
JN	05/30	00:00	Vehicle Production (y/y)	Apr	--	--	14.0
JN	05/30	01:00	Housing Starts (y/y)	Apr	--	-8.3	-2.9
JN	05/30	01:00	Construction Orders (y/y)	Apr	--	--	-8.8
TH	05/30	03:30	Exports (y/y)	Apr	--	--	-2.7
TH	05/30	03:30	Imports (y/y)	Apr	--	--	-13.7
TH	05/30	03:30	Trade Balance (US$ mn)	Apr	--	--	3480.0
TH	05/30	03:30	Current Account Balance (US$ mn)	Apr	--	120.0	2898.0
TH	05/30	03:30	Business Sentiment Index	Apr	--	--	49.4
IN	05/30	08:00	Real GDP (y/y)	1Q	5.0	4.7	4.7
IN	05/30	08:00	Annual GDP Govt. Estimate (y/y)	1Q P		4.7	4.9

Latin America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
PE	05/26		GDP (y/y)	1Q	--	--	5.2
BZ	05/28		**SELIC Target Rate (%)**	**May 28**	**11.00**	**11.00**	**11.00**
BZ	05/30	08:00	GDP (IBGE) (y/y)	1Q	1.9	1.9	1.9
CL	05/30	09:00	Industrial Production (y/y)	Apr	--	--	0.8
CL	05/30	09:00	Retail Sales (y/y)	Apr	--	--	5.19
CL	05/30	09:00	Unemployment Rate (%)	Apr	--	6.7	6.5
CO	05/30	12:00	Urban Unemployment Rate (%)	Apr	--	9.8	10.6
CO	05/30		**Overnight Lending Rate (%)**	**May 30**	**3.75**	**3.75**	**3.50**

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

Global Auctions for the week of May 26 – 30

North America

Country	Date	Time	Event
US	05/27	11:00	U.S. Fed To Purchase USD2.25-2.75 Bln Notes
US	05/27	11:30	U.S. to Sell 3-Month Bills
US	05/27	11:30	U.S. to Sell 6-Month Bills
US	05/27	13:00	U.S. to Sell 2-Year Notes
US	05/28	11:00	U.S. Fed To Purchase USD0.85-1.10 Bln Notes
US	05/28	11:30	U.S. to Sell 52-Week Bills
US	05/28	11:30	U.S. to Sell 2-Year Floating Rate Notes Reopening
US	05/28	11:30	U.S. to Sell 4-Week Bills
CA	05/28	12:00	Canada to Sell 30-Year Bonds
US	05/28	13:00	U.S. to Sell 5-Year Notes
US	05/29	11:00	U.S. Fed To Purchase USD2.50-3.25 Bln Notes
US	05/29	13:00	U.S. to Sell 7-Year Notes
US	05/30	11:00	U.S. Fed To Purchase USD0.85-1.10 Bln Notes

Europe

Country	Date	Time	Event
GE	05/26	05:30	Germany to Sell EUR2 Bln 357-Day Bills
NE	05/27	04:30	Netherlands to Sell Up to EUR2.5 Bln 1.25% 2019 Bonds
IT	05/27	05:00	Italy to Sell Up to EUR3 Bln Zero 2016 Bonds
NO	05/27	05:00	Norway to Sell NOK3 Bln 4.5% 2019 Bonds
IT	05/27	05:00	Italy to Sell Up to EUR1 Bln 1.7% I/L 2018 Bonds
IT	05/28	05:00	Italy to Sell 182-Day Bills
GE	05/28	05:30	Germany to Sell EUR2 Bln 2.5% 2046 Bonds
UK	05/28	05:30	U.K. to Sell GBP1.1 Bln 0.25% I/L 2052 Bonds
IT	05/29	05:00	Italy to Sell 5-Year and 10-Year Bonds

Asia Pacific

Country	Date	Time	Event
CH	05/25	23:00	Agricul Dev Bank China to Sell CNY5Bln 1-Year Bonds
JN	05/26	23:45	Japan to Sell 40-Year Bonds
CH	05/27	23:00	China to Sell 5-Year Bonds
JN	05/28	23:35	Japan to Sell 3-Month Bill
JN	05/28	23:45	Japan to Sell 2-Year Bonds

Latin America

Country	Date	Time	Event
CL	05/27	12:00	10Y BTP Fixed Yield
CO	05/28	11:30	5Y Fixed Yield
CO	05/28	11:30	10Y Fixed Yield
CO	05/28	11:30	15Y Fixed Yield
BZ	05/29	11:00	Brazil to Sell Bills due 10/01/2014 - LTN
BZ	05/29	11:00	Brazil to Sell Bills due 4/1/2016 - LTN
BZ	05/29	11:00	Brazil to Sell Bills due 1/1/2018 - LTN
BZ	05/29	11:00	Brazil to Sell Fixed-rate bonds due 1/1/2021 - NTN-F
BZ	05/29	11:00	Brazil to Sell Fixed-rate bonds due 1/1/2025 - NTN-F
CL	05/29	12:00	20Y BTP Fixed Yield
CL	05/29	12:00	30Y BTP Fixed Yield

Source: Bloomberg, Scotiabank Economics.

Events for the week of May 26 – 30

North America

Country	Date	Time	Event
US	05/24	15:00	Democratic Leader Pelosi Speaks at Bard College
US	05/27	10:00	Russian Gas Markets, Brookings Event
US	05/27	12:00	FCC and Internet Governance, PPI Event
US	05/27	20:10	Fed's Lockhart Speaks to Students in Baton Rouge, Louisiana
US	05/28	09:00	U.S. FERC, NRC Commissioners Meeting on Grid Issues
US	05/28	09:00	Broadband Options, New America Fdn Event
US	05/28	11:00	Cybersecurity Policy, GW Event
US	05/28	12:30	Hydrofracking, World Bank Event
CA	05/28		Canadian Prime Minister Harper Hosts Maternal Summit
US	05/29	08:30	Cleveland Fed President Gives Welcoming Remarks to Conference
US	05/29	08:30	Cleveland Fed President Sandra Pianalto Gives Opening Remarks
US	05/29	21:30	Fed's George Speaks at Stanford
US	05/30	08:30	Cleveland Fed Chief Pianalto Speaks on 2nd Day of Conference
US	05/30	12:30	Incoming Cleveland Fed Chief Mester Speaks at Conference
US	05/30	14:00	Fed's Lacker Speaks at Stanford
US	05/30	17:00	Fed's Williams and Plosser Speak at Stanford
US	05/30	17:00	Fed's Williams to Speak on Monetary Policy in Stanford

Europe

Country	Date	Time	Event
EC	05/24	01:30	ECB's Mersch Speaks in Shanghai
GE	05/24	06:00	Merkel Gives Final EU Election Campaign Speech in Worms
EC	05/24	06:45	EU's De Gucht Speaks on International Affairs in Brussels
GE	05/24	18:00	European Parliament Holds Elections
PO	05/25		Portugal Holds European Parliament Elections
PO	05/25		ECB Conference on Central Banks Held in Portugal
GE	05/26		EU-Russia Talks on Ukraine's Gas Price Scheduled in Berlin
HU	05/27	02:45	Hungary's Central Bank Governor Matolcsy Speaks at Conference
EC	05/27	05:15	ECB's Nowotny Speaks After Austrian C.Bank's Annual Meeting
EC	05/27	05:30	EU Parliament Leaders Meet to Discuss Election Outcome
HU	05/27	08:00	**Central Bank Rate Decision**
EC	05/27		EU Leaders Hold Summit to Discuss High-Level Appointments
IT	05/28	05:00	Istat Presents Annual Report on Italian Economy in Parliament
PO	05/28		Bank of Portugal Releases Annual Report on Portuguese Economy
GE	05/29	05:00	Ukraine's Yatsenyuk to Speak at Charlemagne Prize in Aachen
SP	05/29	12:00	Spain Economy Minister Luis de Guindos Speaks in Sitges
IT	05/30	04:30	Governor Visco Speaks at Bank of Italy Annual Meeting

Asia Pacific

Country	Date	Time	Event
EC	05/24	01:30	ECB's Mersch Speaks in Shanghai
JN	05/25	19:50	Bank of Japan April 30 meeting minutes
JN	05/26	03:00	BOJ Deputy Governor Iwata Speech
JN	05/27	20:00	Kuroda Speaks at Conference at BOJ
CH	05/27	21:45	Westpac MNI China Consumer Sentiment Indicator
JN	05/28	21:30	BOJ's Shirai Speech & Press Conference

Latin America

Country	Date	Time	Event
CO	05/25		Colombian Presidential Elections
BZ	05/28		**Selic Rate**
CO	05/30		**Overnight Lending Rate**

Source: Bloomberg, Scotiabank Economics.

Global Central Bank Watch

North America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Canada – Overnight Target Rate	1.00	June 4, 2014	1.00	--
Federal Reserve – Federal Funds Target Rate	0.25	June 18, 2014	0.25	0.25
Banco de México – Overnight Rate	3.50	June 6, 2014	3.50	--

BoC: After hitting 2%, inflation has now reached the Bank of Canada's target faster than the BoC had anticipated. Core inflation remains better behaved but has not courted downside risks that the BoC feared. The pressure is therefore rising on the BoC to soften its references to downside risks to inflation and therefore lessen its emphasis upon the possibility of rate cuts.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	0.25	June 5, 2014	0.10	--
Bank of England – Bank Rate	0.50	June 5, 2014	0.50	0.50
Swiss National Bank – Libor Target Rate	0.00	June 19, 2014	0.00	--
Central Bank of Russia – One-Week Auction Rate	7.50	June 16, 2014	7.50	--
Hungarian National Bank – Base Rate	2.50	May 27, 2014	2.40	2.40
Central Bank of the Republic of Turkey – 1 Wk Repo Rate	9.50	June 24, 2014	9.50	--
Sweden Riksbank – Repo Rate	0.75	July 3, 2014	0.75	--
Norges Bank – Deposit Rate	1.50	June 19, 2014	1.50	--

Statements at and since the last policy-setting meeting of the **Hungarian central bank** indicate that the authorities are not yet willing to affirm an end to the easing cycle in place since August 2012. Real GDP expanded by 1.1% q/q in the first quarter, resulting in the fastest yearly growth pace since the fourth quarter of 2006. However, despite the economy's positive trajectory, the modest improvement in external risks, combined with the strong probability that the European Central Bank will ease policy conditions in the coming weeks, will likely give reason for a further 10 basis point reduction in the base rate to 2.40% next week. Inflation dropped from +0.1% y/y to -0.1% in April (an all-time low), however this is expected to be a temporary result of reduced energy prices.

Asia Pacific

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Reserve Bank of Australia – Cash Target Rate	2.50	June 3, 2014	2.50	--
Reserve Bank of New Zealand – Cash Rate	3.00	June 11, 2014	3.25	--
People's Bank of China – Lending Rate	6.00	TBA	--	--
Reserve Bank of India – Repo Rate	8.00	June 3, 2014	8.00	--
Bank of Korea – Bank Rate	2.50	June 11, 2014	2.50	--
Bank of Thailand – Repo Rate	2.00	June 18, 2014	2.00	--
Bank Indonesia – Reference Interest Rate	7.50	June 12, 2014	7.50	--

Latin America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	11.00	May 28, 2014	11.00	11.00
Banco Central de Chile – Overnight Rate	4.00	June 12, 2014	4.00	--
Banco de la República de Colombia – Lending Rate	3.50	May 30, 2014	3.75	3.75
Banco Central de Reserva del Perú – Reference Rate	4.00	June 12, 2014	4.00	4.00

Brazil's SELIC target rate and Colombia's overnight lending rate will be announced on May 28th and 30th, respectively. Still attempting to combat persistent inflation, the **Central Bank of Brazil** will likely maintain tight monetary conditions; the benchmark interest rate has risen 375 basis points (bps) over the past year from 7.25% in April 2013 to 11% now. However, recent statements by Brazilian policymakers indicate that inflation is expected to slow and that current interest rates are doing their job; for this reason, we believe that the SELIC rate will be held steady at 11% this month. **The Central Bank of Colombia** increased its policy rate by 25 bps in April from 3.25% to 3.5%, the first time it had done so in over two years. We expect gradual monetary tightening to continue, with the rate rising a further 25 bps this month to 3.75% on the back of higher-than-expected consumer price inflation.

Africa

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
South African Reserve Bank – Repo Rate	5.50	July 17, 2014	5.50	--

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

Forecasts as at May 1, 2014*	2000-12	2013	2014f	2015f	2000-12	2013	2014f	2015f
Output and Inflation (annual % change)		Real GDP				Consumer Prices[2]		
World[1]	3.7	3.0	3.3	3.6				
Canada	2.2	2.0	2.2	2.5	2.1	0.9	1.7	1.8
United States	1.9	1.9	2.6	3.2	2.5	1.5	1.7	1.9
Mexico	2.4	1.1	2.7	3.7	4.7	4.0	4.2	4.0
United Kingdom	1.7	1.8	2.8	2.1	2.3	2.0	1.7	1.9
Euro Zone	1.3	-0.4	1.1	1.4	2.1	0.8	1.0	1.3
Japan	0.9	1.5	1.4	1.2	-0.3	1.6	2.3	1.9
Australia	3.1	2.4	2.7	2.9	3.0	2.7	2.9	2.9
China	9.3	7.7	7.3	7.0	2.4	2.5	2.8	3.5
India	7.2	4.6	5.2	5.7	6.7	6.4	5.5	6.5
South Korea	4.2	3.0	3.6	3.2	3.1	1.1	2.2	2.5
Thailand	4.2	2.8	2.5	4.0	2.7	1.7	2.5	2.8
Brazil	3.4	2.3	2.0	2.5	6.5	5.9	6.0	5.5
Chile	4.5	4.1	3.6	4.3	2.9	2.9	3.5	3.1
Peru	5.5	5.6	5.3	5.6	2.6	2.9	3.0	2.5
Central Bank Rates (%, end of period)	13Q4	14Q1f	14Q2f	14Q3f	14Q4f	15Q1f	15Q2f	15Q3f
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	0.50	0.75
European Central Bank	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Bank of England	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.25
Swiss National Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Reserve Bank of Australia	2.50	2.50	2.50	2.50	2.75	3.00	3.25	3.50
Exchange Rates (end of period)								
Canadian Dollar (USDCAD)	1.06	1.11	1.10	1.11	1.12	1.14	1.14	1.12
Canadian Dollar (CADUSD)	0.94	0.90	0.91	0.90	0.89	0.88	0.88	0.89
Euro (EURUSD)	1.37	1.38	1.37	1.33	1.30	1.28	1.26	1.25
Sterling (GBPUSD)	1.66	1.67	1.70	1.68	1.67	1.65	1.63	1.61
Yen (USDJPY)	105	103	104	107	109	110	111	112
Australian Dollar (AUDUSD)	0.89	0.93	0.93	0.94	0.92	0.89	0.89	0.89
Chinese Yuan (USDCNY)	6.1	6.2	6.2	6.2	6.1	6.1	6.0	6.0
Mexican Peso (USDMXN)	13.0	13.1	13.1	13.2	13.4	13.5	13.5	13.5
Brazilian Real (USDBRL)	2.36	2.27	2.38	2.40	2.45	2.48	2.48	2.50

Commodities (annual average)	2000-12	2013	2014f	2015f
WTI Oil (US$/bbl)	60	98	99	92
Brent Oil (US$/bbl)	62	109	108	106
Nymex Natural Gas (US$/mmbtu)	5.45	3.73	5.20	4.75
Copper (US$/lb)	2.22	3.32	3.08	3.00
Zinc (US$/lb)	0.78	0.87	0.95	1.25
Nickel (US$/lb)	7.64	6.80	7.90	9.50
Gold, London PM Fix (US$/oz)	745	1,410	1,335	1,375
Pulp (US$/tonne)	730	941	985	985
Newsprint (US$/tonne)	585	608	607	630
Lumber (US$/mfbm)	274	356	385	400

[1] World GDP for 2003-12 are IMF PPP estimates; 2013-15f are Scotiabank Economics' estimates based on a 2012 PPP-weighted sample of 38 countries.
[2] CPI for Canada and the United States are annual averages. For other countries, CPI are year-end rates.

* See Scotiabank Economics 'Global Forecast Update' report for additional forecasts & commentary.

North America

Canada	2013	13Q4	14Q1	Latest	
Real GDP (annual rates)	2.0	2.9			
Current Acc. Bal. (C$B, ar)	-60.7	-64.0			
Merch. Trade Bal. (C$B, ar)	-7.3	-9.5	2.6	1.0	(Mar)
Industrial Production	0.4	0.5	2.4	2.7	(Mar)
Housing Starts (000s)	188	194	175	195	(Apr)
Employment	1.3	1.0	0.8	0.8	(Apr)
Unemployment Rate (%)	7.1	7.0	7.0	6.9	(Apr)
Retail Sales	3.2	4.0	3.9	3.9	(Mar)
Auto Sales (000s)	1744	1758	1698	1695	(Mar)
CPI	0.9	0.9	1.4	2.0	(Apr)
IPPI	0.4	0.5	2.4	-2.7	(Mar)
Pre-tax Corp. Profits	-2.6	2.9			

Mexico					
Real GDP	1.1	0.7	1.8		
Current Acc. Bal. (US$B, ar)	-22.3	-30.2	-18.1		
Merch. Trade Bal. (US$B, ar)	-1.0	7.4	-4.8	12.3	(Mar)
Industrial Production	-0.7	-0.4	1.6	3.4	(Mar)
CPI	3.8	3.7	4.2	3.5	(Apr)

United States	2013	13Q4	14Q1	Latest	
Real GDP (annual rates)	1.9	2.6	0.1		
Current Acc. Bal. (US$B, ar)	-379	-324			
Merch. Trade Bal. (US$B, ar)	-704	-687	-726	-729	(Mar)
Industrial Production	2.9	3.5	3.8	3.2	(Apr)
Housing Starts (millions)	0.93	1.03	0.92	1.07	(Apr)
Employment	1.7	1.8	1.7	1.7	(Apr)
Unemployment Rate (%)	7.4	7.0	6.7	6.3	(Apr)
Retail Sales	4.3	3.8	2.4	4.2	(Apr)
Auto Sales (millions)	15.5	15.6	15.6	16.0	(Apr)
CPI	1.5	1.2	1.4	2.0	(Apr)
PPI	1.2	0.8	1.5	3.1	(Apr)
Pre-tax Corp. Profits	3.4	4.8			

Europe

Euro Zone	2013	13Q4	14Q1	Latest	
Real GDP	-0.4	0.5	0.9		
Current Acc. Bal. (US$B, ar)	288	474	228	346	(Mar)
Merch. Trade Bal. (US$B, ar)	230.3	283.3	192.4	313.1	(Mar)
Industrial Production	-0.7	1.5	1.4	0.5	(Mar)
Unemployment Rate (%)	11.9	11.9	11.8	11.8	(Mar)
CPI	1.4	0.8	0.6	0.7	(Apr)

France					
Real GDP	0.4	0.8	0.8		
Current Acc. Bal. (US$B, ar)	-36.6	-13.1	-59.6	-43.4	(Mar)
Merch. Trade Bal. (US$B, ar)	-46.3	-46.1	-42.1	-42.9	(Mar)
Industrial Production	-0.5	0.7	-0.2	-0.8	(Mar)
Unemployment Rate (%)	10.3	10.2	10.4	10.4	(Mar)
CPI	0.9	0.6	0.7	0.7	(Apr)

Italy					
Real GDP	-1.8	-0.9	-0.5		
Current Acc. Bal. (US$B, ar)	21.1	58.4	0.5	16.7	(Mar)
Merch. Trade Bal. (US$B, ar)	40.3	58.6	37.8	64.2	(Mar)
Industrial Production	-3.1	-0.4	0.0	-0.1	(Mar)
CPI	1.2	0.6	0.4	0.4	(Apr)

Germany	2013	13Q4	14Q1	Latest	
Real GDP	0.5	1.4	2.3		
Current Acc. Bal. (US$B, ar)	273.9	342.4	265.7	323.4	(Mar)
Merch. Trade Bal. (US$B, ar)	265.5	284.4	263.7	248.6	(Mar)
Industrial Production	0.1	3.1	4.1	3.0	(Mar)
Unemployment Rate (%)	6.9	6.9	6.7	6.7	(Apr)
CPI	1.5	1.3	1.2	1.3	(Apr)

United Kingdom					
Real GDP	1.7	2.7	3.1		
Current Acc. Bal. (US$B, ar)	-111.5	-138.5			
Merch. Trade Bal. (US$B, ar)	-168.5	-172.8	-176.7	-169.1	(Mar)
Industrial Production	-0.3	2.3	2.5	2.3	(Mar)
Unemployment Rate (%)	7.6	7.2		6.8	(Feb)
CPI	2.6	2.1	1.7	1.8	(Apr)

Russia					
Real GDP	1.3	2.0			
Current Acc. Bal. (US$B, ar)	32.8	8.9			
Merch. Trade Bal. (US$B, ar)	15.0	15.7	17.0	19.7	(Mar)
Industrial Production	0.4	1.4	1.1	2.4	(Apr)
CPI	6.8	6.4	6.4	7.3	(Apr)

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

Source: Bloomberg, Global Insight, Scotiabank Economics.

Asia Pacific

Australia	2013	13Q4	14Q1	Latest
Real GDP	2.4	2.8		
Current Acc. Bal. (US$B, ar)	-44.0	-41.6		
Merch. Trade Bal. (US$B, ar)	20.1	20.6	30.1	59.7 (Mar)
Industrial Production	3.6	2.8		
Unemployment Rate (%)	5.7	5.8	5.9	5.8 (Apr)
CPI	2.4	2.7	2.9	

Japan	2013	13Q4	14Q1	Latest
Real GDP	1.6	2.5	2.7	
Current Acc. Bal. (US$B, ar)	33.6	-56.5	-32.6	13.7 (Mar)
Merch. Trade Bal. (US$B, ar)	-117.1	-149.0	-176.2	-98.8 (Apr)
Industrial Production	-0.6	5.8	8.3	7.5 (Mar)
Unemployment Rate (%)	4.0	3.9	3.6	3.6 (Mar)
CPI	0.4	1.4	1.5	1.6 (Mar)

South Korea	2013	13Q4	14Q1	Latest
Real GDP	3.0	3.7	3.9	
Current Acc. Bal. (US$B, ar)	79.9	99.4	60.5	88.2 (Mar)
Merch. Trade Bal. (US$B, ar)	44.1	53.2	20.8	53.5 (Apr)
Industrial Production	0.2	0.6	1.3	2.8 (Mar)
CPI	1.3	1.1	1.1	1.5 (Apr)

China	2013	13Q4	14Q1	Latest
Real GDP	7.7	7.7	7.4	
Current Acc. Bal. (US$B, ar)	182.8			
Merch. Trade Bal. (US$B, ar)	259.2	360.3	67.1	221.4 (Apr)
Industrial Production	9.7	9.7	8.8	8.7 (Apr)
CPI	2.5	2.5	2.4	1.8 (Apr)

Thailand	2013	13Q4	14Q1	Latest
Real GDP	2.9	0.6		
Current Acc. Bal. (US$B, ar)	-2.8	3.0	8.2	
Merch. Trade Bal. (US$B, ar)	0.5	1.3	2.2	3.5 (Mar)
Industrial Production	-3.1	-6.7	-7.1	-10.6 (Mar)
CPI	2.2	1.7	2.0	2.4 (Apr)

India	2013	13Q4	14Q1	Latest
Real GDP	4.6	4.7		
Current Acc. Bal. (US$B, ar)	-49.3	-4.2		
Merch. Trade Bal. (US$B, ar)	-12.8	-10.2	-9.5	-10.1 (Apr)
Industrial Production	0.6	-0.8	-0.5	-0.5 (Mar)
WPI	6.3	7.1	5.3	5.2 (Apr)

Indonesia	2013	13Q4	14Q1	Latest
Real GDP	5.8	5.7		
Current Acc. Bal. (US$B, ar)	-29.1	-4.3		
Merch. Trade Bal. (US$B, ar)	-0.3	0.8	0.4	0.7 (Mar)
Industrial Production	6.0	1.5	3.8	4.9 (Mar)
CPI	6.4	8.0	7.8	7.3 (Apr)

Latin America

Brazil	2013	13Q4	14Q1	Latest
Real GDP	2.1	1.7		
Current Acc. Bal. (US$B, ar)	-81.1	-83.3	-100.7	
Merch. Trade Bal. (US$B, ar)	2.6	16.7	-24.3	6.1 (Apr)
Industrial Production	2.4	0.2	-0.5	-1.3 (Mar)
CPI	6.2	5.8	5.8	6.3 (Apr)

Chile	2013	13Q4	14Q1	Latest
Real GDP	4.1	2.7	2.6	
Current Acc. Bal. (US$B, ar)	-4.3	-9.7	-3.2	
Merch. Trade Bal. (US$B, ar)	8.0	3.1	8.3	11.4 (Apr)
Industrial Production	3.0	2.5	0.7	1.0 (Mar)
CPI	1.9	2.3	3.2	4.3 (Apr)

Peru	2013	13Q4	14Q1	Latest
Real GDP	2.2	5.1		
Current Acc. Bal. (US$B, ar)	-10.2	-2.2		
Merch. Trade Bal. (US$B, ar)	0.1	0.2	-0.3	-0.4 (Mar)
Unemployment Rate (%)	5.9	5.8	6.8	6.3 (Apr)
CPI	2.8	2.9	3.4	3.5 (Apr)

Colombia	2013	13Q4	14Q1	Latest
Real GDP	4.3	4.9		
Current Acc. Bal. (US$B, ar)	-12.7	-3.4		
Merch. Trade Bal. (US$B, ar)	0.2	0.1		-0.5 (Feb)
Industrial Production	-1.8	0.2	4.4	9.8 (Mar)
CPI	2.0	1.8	2.3	2.7 (Apr)

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

Source: Bloomberg, Global Insight, Scotiabank Economics.

Interest Rates (%, end of period)

Canada	13Q4	14Q1	May/16	May/23*	United States	13Q4	14Q1	May/16	May/23*
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	0.92	0.89	0.93	0.93	3-mo. T-bill	0.07	0.03	0.02	0.03
10-yr Gov't Bond	2.76	2.46	2.26	2.30	10-yr Gov't Bond	3.03	2.72	2.52	2.53
30-yr Gov't Bond	3.23	2.96	2.80	2.84	30-yr Gov't Bond	3.97	3.56	3.35	3.40
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US$B)	71.8		77.0	(Feb)	FX Reserves (US$B)	133.5	133.2	133.2	(Mar)
Germany					**France**				
3-mo. Interbank	0.24	0.27	0.26	0.29	3-mo. T-bill	0.15	0.19	0.13	0.12
10-yr Gov't Bond	1.93	1.57	1.33	1.41	10-yr Gov't Bond	2.56	2.08	1.79	1.81
FX Reserves (US$B)	67.4	66.8	66.8	(Mar)	FX Reserves (US$B)	50.8	53.1	53.1	(Mar)
Euro Zone					**United Kingdom**				
Refinancing Rate	0.25	0.25	0.25	0.25	Repo Rate	0.50	0.50	0.50	0.50
Overnight Rate	0.45	0.69	0.17	0.27	3-mo. T-bill	0.40	0.39	0.38	0.39
FX Reserves (US$B)	331.0	338.2	338.2	(Mar)	10-yr Gov't Bond	3.02	2.74	2.56	2.64
					FX Reserves (US$B)	92.4	97.3	97.3	(Mar)
Japan					**Australia**				
Discount Rate	0.30	0.30	0.30	0.30	Cash Rate	2.50	2.50	2.50	2.50
3-mo. Libor	0.09	0.07	0.07	0.07	10-yr Gov't Bond	4.24	4.08	3.72	3.78
10-yr Gov't Bond	0.74	0.64	0.58	0.59	FX Reserves (US$B)	49.7	54.1	54.1	(Mar)
FX Reserves (US$B)	1237.2	1247.5	1247.5	(Mar)					

Exchange Rates (end of period)

USDCAD	1.06	1.11	1.09	1.09	¥/US$	105.31	103.23	101.50	101.90
CADUSD	0.94	0.91	0.92	0.92	US¢/Australian$	0.89	0.93	0.94	0.92
GBPUSD	1.656	1.666	1.681	1.684	Chinese Yuan/US$	6.05	6.22	6.23	6.24
EURUSD	1.374	1.377	1.369	1.363	South Korean Won/US$	1050	1065	1024	1025
JPYEUR	0.69	0.70	0.72	0.72	Mexican Peso/US$	13.037	13.058	12.903	12.866
USDCHF	0.89	0.88	0.89	0.90	Brazilian Real/US$	2.362	2.272	2.215	2.220

Equity Markets (index, end of period)

United States (DJIA)	16577	16458	16491	16597	U.K. (FT100)	6749	6598	6856	6808
United States (S&P500)	1848	1872	1878	1897	Germany (Dax)	9552	9556	9629	9745
Canada (S&P/TSX)	13622	14335	14515	14695	France (CAC40)	4296	4392	4456	4481
Mexico (IPC)	42727	40462	41899	41965	Japan (Nikkei)	16291	14828	14097	14462
Brazil (Bovespa)	51507	50415	53976	52768	Hong Kong (Hang Seng)	23306	22151	22713	22966
Italy (BCI)	1041	1181	1120	1113	South Korea (Composite)	2011	1986	2013	2017

Commodity Prices (end of period)

Pulp (US$/tonne)	990	1030	1030	1030	Copper (US$/lb)	3.35	3.01	3.15	3.17
Newsprint (US$/tonne)	605	605	605	605	Zinc (US$/lb)	0.95	0.90	0.93	0.95
Lumber (US$/mfbm)	372	354	347	347	Gold (US$/oz)	1204.50	1291.75	1291.50	1291.50
WTI Oil (US$/bbl)	98.42	101.58	102.02	104.06	Silver (US$/oz)	19.50	19.97	19.33	19.42
Natural Gas (US$/mmbtu)	4.23	4.37	4.41	4.37	CRB (index)	280.17	304.67	305.92	307.92

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

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