

CAPITAL MARKETS RESEARCH

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Daily Points

— Tracking the Numbers

On Deck for Wednesday, August 8

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	08/08	07:00	MBA Mortgage Applications (w/w)	AUG 3	--	--	-1.8
US	08/08	08:30	Productivity (q/q a.r.)	2Q P	--	1.4	-0.9
US	08/08	08:30	Unit Labor Costs (q/q a.r.)	2Q P	--	0.5	1.3

- Markets mixed after yesterday's gains
- Japanese exports continue to weaken in June...
- ...adding pressure on the BoJ to weaken the currency?
- German industrial production, trade declined in June
- Germany sells 10-year notes
- BoE inflation report less dovish than hoped
- No major economic data releases in Canada or the US
- US to auction 10-year bonds
- 29 TSX Composite co's report earnings today
- Watch out for BoC Gov. Carney's remarks

INTERNATIONAL:

With no major catalyst to drive them aside from ongoing interpretation and reinterpretation of ECB President Draghi's remarks at his press conference last week, markets continued their see-saw, trading lower today in Europe on the major equity indices while EURUSD trades below 1.24. The Canadian dollar continues to trade on the stronger side of parity against the USD even as crude prices are selling off moderately following yesterday's gains. Futures in the US are indicating a moderately negative open on US equity exchanges following yesterday's close on the S&P above 1400. Asian markets were stronger overnight with the Nikkei leading the way higher on speculation that the BoJ might ease monetary policy tomorrow.

Japanese trade continued to weaken in June. While the current account balance improved in seasonally adjusted terms to +¥773bn from +¥282.2bn in May, or +174.1%, and the overall trade balance improved to a less negative -¥166.6 from -¥449.8, the improvement was entirely attributable to a decline in both exports and imports, with imports declining by more than exports thereby bolstering the overall trade balances even as shipments fell. Exports were down by 0.6% while imports fell by 5.5%. The fall in overall nominal trade levels is occurring in the context of the fairly strong JPY, which has traded at 80 USDJPY or lower essentially since May and perhaps more importantly is trading near all-time lows in terms of EURJPY (i.e. yen highs) with the all-time intraday low of 94.12 having been made on July 24. The strong currency is putting pressure on the Bank of Japan and Ministry of Finance (which is ultimately responsible for the currency) to undertake policies that will weaken the yen, with large-scale buying of foreign bonds being floated in the press.

To what extent is the strong yen impacting trade and to what extent is the weakness attributable to global factors? It's not exactly clear, as **German**

BoC Events

BoC Overnight Lending Rate

Current Rate: 1.0%
Next Move: September 5 @ 1.0%
Bias: Neutral

Fed Events

Fed Funds Target Rate

Current Rate: 0-0.25%
Next Move: Sept. 13 @ 0-0.25%
Bias: Dovish

Key International Events

BoJ

Current Rate: 0.10%
Next Move: August 9 @ 0.10%
Bias: Dovish

BoE

Current Rate: 0.50%
Next Move: Sept. 6 @ 0.50%
Bias: Dovish

ECB

Current Rate: 0.75%
Next Move: Sept. 6 @ 0.75%
Bias: Neutral

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trade numbers for June were also quite soft even as the weaker euro, which had fallen in May and June (average level of EURUSD in 1.32 in April, 1.28 in May, 1.25 in June), ought to have bolstered German trade and stimulated exports. And yet, much as in Japan, the trade balance numbers improved in Germany to +€16.5bn in terms of the current account and +€16.2bn on the overall trade balance – but only due to a fall-off in imports (-3% m/m) that exceeded the drop-off in exports (-1.5% m/m). Overall global trade seems to have fallen off during June due to a global slow-down, another symptom of which would be the general reduction in **German industrial production**, which declined by 0.9% m/m on broad weakness across all sectors with the exception of energy output. Capital goods output fell by 1.6% m/m and output of consumer goods by 0.9%. In short, the weakness is not confined to one country's economy but seems to be synchronous.

The BoE released its Monetary Policy Report revising down its economic growth projections to -0.2% y/y on average during 2012 and reducing its near-term inflation projection to slightly higher than 2% by year end. Scotia's UK economics team notes that the report was dovish, but not as dovish as it might have been. They think that the inflation projections open the door to a further expansion of QE in November, but it is less of a done deal than they previously thought. Moreover, BoE Gov. King noted that if the Funding for Lending Scheme is successful it could make it less likely that QE would be expanded further. Another important point is that King was asked whether reducing Bank Rate could be counterproductive – since it would hurt the very sector that it is relying on to extend new loans under the Funding for Lending scheme. He concurred and noted that this is why the Bank is not contemplating a cut in Bank Rate in the immediate future. This reinforces Scotia's view that hopes for a rate cut around the turn of the year are misplaced.

Germany auctioned just under €4bn of 10-year notes in a decently bid auction (bid-to-cover: 1.8) at an average yield of 1.42%.

UNITED STATES:

There will be no major economic data releases today in the U.S. Earnings season continues to wind down, with 13 S&P 500 companies reporting earnings today including retailers Macy's Inc. and Ralph Lauren Corp. and media outlet News Corp. That will bring the total 446/500.

The US will auction 10-year bonds today.

CANADA:

Canada will be similarly quiet with no major economic data releases scheduled for today leaving markets to turn their attention to the tide of corporate earnings announcements on the docket. 29 companies will announce earnings including a number of prominent mining companies with a focus on the gold space, RONA Inc., Onex Corp, BCE Inc., and Sun Life Financial Inc., amongst others.

Governor Carney will be speaking in London today, where he will address the FT's "Business Leaders Day" on the subject of the "Economic Outlook: Finding Opportunity in Today's Changing Economic Environment."

Fixed Income	Government Yield Curves (%):											
	2-YEAR			5-YEAR			10-YEAR			30-YEAR		
	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk
U.S.	0.26	0.27	0.23	0.71	0.71	0.64	1.62	1.63	1.52	2.72	2.72	2.60
CANADA	1.16	1.17	1.09	1.40	1.41	1.29	1.83	1.84	1.71	2.36	2.37	2.29
GERMANY	-0.06	-0.03	-0.08	0.41	0.45	0.36	1.44	1.49	1.37	2.28	2.32	2.22
JAPAN	0.09	0.10	0.10	0.20	0.19	0.18	0.80	0.77	0.78	1.85	1.82	1.81
U.K.	0.12	0.12	0.10	0.55	0.57	0.52	1.56	1.60	1.52	2.93	2.98	2.93
	Foreign - U.S. Spreads (bps):											
CANADA	90	91	86	69	70	66	21	21	18	-36	-35	-30
GERMANY	-31	-30	-31	-30	-26	-28	-18	-14	-16	-43	-40	-38
JAPAN	-17	-17	-13	-51	-51	-46	-81	-86	-74	-87	-91	-79
U.K.	-14	-15	-13	-16	-14	-12	-5	-3	-1	21	26	33

Equities	Last	Change	% change:			
			1 Day	1-wk	1-mo	1-yr
S&P/TSX	11863.50	200.91	1.7	0.9	1.7	1.6
Dow 30	13168.60	51.09	0.4	1.2	3.1	21.8
S&P 500	1401.35	7.12	0.5	1.6	3.4	25.2
Nasdaq	3015.86	25.95	0.9	2.6	2.7	27.9
DAX	6927.54	-40.41	-0.6	2.6	8.1	17.0
FTSE	5808.93	-32.31	-0.6	1.7	2.6	14.6
Nikkei	8881.16	77.85	0.9	2.8	-1.5	-2.4
Hang Seng	20065.52	-7.03	-0.0	1.2	1.3	-2.1
CAC	3429.12	-24.16	-0.7	3.2	8.2	9.7
Commodities			% change:			
			1 Day	1-wk	1-mo	1-yr
WTI Crude	93.17	-0.50	-0.5	4.8	10.3	14.6
Natural Gas	2.98	0.01	0.4	-6.2	7.2	-24.4
Gold	1611.00	1.00	0.1	-0.7	1.5	-2.9
Silver	27.84	-0.16	-0.6	-0.1	1.9	-30.2
CRB Index	303.87	2.12	0.7	1.5	5.9	-4.4
Currencies			% change:			
			1 Day	1-wk	1-mo	1-yr
USDCAD	0.9964	-0.0006	-0.1	-0.9	-2.2	0.2
EURUSD	1.2368	-0.0031	-0.3	1.2	0.4	-12.8
USDJPY	78.35	-0.2600	-0.3	-0.1	-1.5	0.7
AUDUSD	1.0560	0.0006	0.1	0.9	3.4	3.7
GBPUSD	1.5668	0.0047	0.3	0.8	0.9	-4.0
USDCHF	0.9713	0.0024	0.2	-1.2	-0.4	28.6

Source: Bloomberg. All quotes reflect Bloomberg data as at the time of publishing. While this source is believed to be reliable, Scotia Capital cannot guarantee its accuracy.