

## CAPITAL MARKETS RESEARCH

**Derek Holt** (416) 863-7707  
[derek.holt@scotiabank.com](mailto:derek.holt@scotiabank.com)

**Dov Zigler** (416) 862-3080  
[dov.zigler@scotiabank.com](mailto:dov.zigler@scotiabank.com)

# Daily Points

— Tracking the Numbers

## On Deck for Monday, August 13

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Indicator</u>	<u>Period</u>	<u>BNS</u>	<u>Consensus</u>	<u>Latest</u>
No major US or CDN economic data releases							

### KEY POINTS:

- Markets seeking direction on a dull day
- Fed's Williams backs QE3 this year
- Japan's economy hasn't really recovered from 2011 quake
- CAD's 5 cent appreciation partly on BoC comments posing further downsides to exporters
- Nothing from Canada or the US today
- Light earnings calendar in US and Canada today

### CANADA

There are no releases, events or auctions to consider in Canadian markets today. CAD continues to over-shoot as global vol traders get a hand from an uncertain BoC. I don't believe that the BoC is anywhere close to tightening, as per our forecast that they are on hold until early 2014, and instead believe that Governor Carney is only slowly backing away from the abruptly hawkish view in April through a whole lot of "may", "to the extent" and "over the medium term" before the World Cup kind of language with the usefulness to such comments confined to ruling out rate cuts at least in the absence of a renewed global funding and liquidity crisis in my opinion. The way to look at Canadian fundamentals is not with respect to ground already covered; by that measure, the US looked spectacular up to 2007 which motivated Fed tightening over 2004-07 – a policy path that the BoC should be wary of repeating. Rather, I continue to believe that the Canadian household sector faces sharp downside risks going forward precisely because of the over-bought binge it has driven over the past decade toward leveraged peaks across all variables in the housing and consumer sectors with the assistance of easier mortgage financing conditions in 2006-07 and easy money since then. The view that this transferred activity away from the future and toward the past may already be evident in moribund credit growth and rapidly softening housing markets in Toronto and Vancouver. Regardless, even as growth disappoints expectations and both inflation and job growth wane, a loosely hawkish bias is already tightening conditions against exporters at a questionable juncture just as US growth softens. CAD has appreciated by over five cents against the USD since early June and currently sits just a penny away from the peak at the end of April after the BoC's first hawkish twist. The implication here is that if you don't believe that Carney will actually pull the trigger on rate hikes any time soon then CAD is doing what it does best by way of over-shooting at least in terms of the rates argument.

Eight companies on the main TSX exchange release Q2 earnings reports today, particularly led by mining companies. Banks don't join the fray until the end of the month.

## 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:** Sept. 19 @ 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

## Scotia Economics

Scotia Plaza 40 King Street West, 63rd Floor  
 Toronto, Ontario Canada M5H 1H1  
 Tel: (416) 866-6253 Fax: (416) 866-2829

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## UNITED STATES

You may have missed his comments late Friday, but **San Francisco Fed President John Williams** (voting 2012) came out in favour of implementing QE3 this year before the fiscal 'cliff' hits the US economy. This is relevant because he is perceived to be more of a mainstream voice at the Fed, as opposed to the consistently dovish Chicago Fed President Charles Evans or the always hawkish Dallas Fed President Richard Fisher. His voice adds to Boston Fed President Eric Rosengren's "open-ended" QE musings (that Williams supports) defined as no expiration point or purchase target perhaps with an implementation period in line with nominal GDP targeting. Williams' comments are to be weighted more heavily than Rosengren's, however, because Williams gets an FOMC vote this year and Rosengren does not (although he does in 2013). Williams believes that the benefits to additional QE outweigh the costs. In response to the view that the Fed should wait for politics and fiscal tensions to become clearer, he sensibly noted "We want to position the economy to be strong in advance of that. If you are really worried about running out of ammunition, you want to act more aggressively, more quickly and better prepare yourself for that eventuality." My view remains that QE with an implementation period of a year or longer with an amount of monthly purchases that varies as circumstances dictate would be a useful way of managing the pros and cons to additional stimulus.

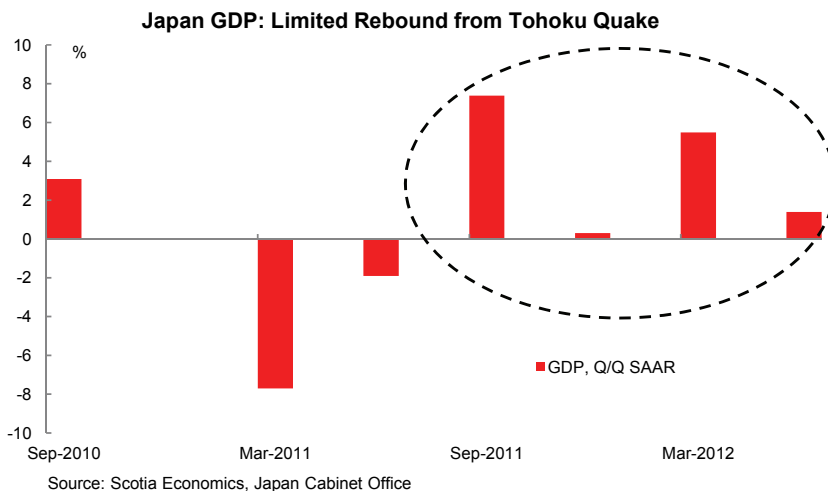
The earnings calendar is fairly light today with only one S&P500 company releasing (Sysco) and 170 other non-S&P500 companies releasing.

## INTERNATIONAL

Markets are seeking direction this morning and finding little by way of anything new to mull over. The USD is generally a touch stronger against most major crosses except for the euro and Swiss Franc. Bond markets are generally cycling flows out of the safe havens and into the strained European peripherals but not by a terribly great degree. Global equity markets are mixed as a weak Asian session handed off to European markets that have been oscillating on either side of zero thus far in the morning trade. Dow futures are flat with a volatile negative bias.

**Japan's economy** grew in Q2. That's the good news. The not so good news is that it did so by less than anticipated, although much of this miss was due to upward revisions to Q1 GDP growth that posed a higher base effect off of which to mount growth into Q2.

By Q2 of 2012, Japan's GDP was supposed to be in the midst of a major rebound as the economy and country recover from the Tohoku earthquake tragedy. (The first earthquake occurred on March 11, 2011 and – along with its aftershocks – paralyzed the country for more than a month, causing casualties estimated in the area of 25,000 dead, missing, and seriously injured, and an approximate US\$235bn in costs according to the World Bank's estimates.) Alas, data released overnight show that the economy expanded at a disappointing 1.4% q/q SAAR during the quarter that ended in June (compared to estimates of 2.4% in the Bloomberg poll) and was just 3.5% larger in inflation-adjusted terms than it was 12 months prior – after the quake. That is a highly disappointing rate of growth. Domestic demand is fairly muted (it contributed 0.4% q/q SAAR to growth) but the drop-off in GDP is ultimately not attributable to weak internal consumption alone: a) The heavy businesses associated with the export economy have been growing at a fairly muted pace with fixed capital formation contributing 0.3% to GDP amidst a general slow-down in the Asian trading economy as evinced by weak growth in Korea and China; b) Japan's large imports of fuels in the wake of the nuclear disasters that occurred last year have made it very difficult for Japan to maintain its traditional positive trade balance – irrespective of global energy prices. Reports in the Japanese press say that the government is planning a 'supplementary budget' to augment this quarter's weak spending, however in light of Japan's troubled fiscal situation, it's not clear if Japan can afford meaningful government-funded stimulus. The result is that Japan's economy remains challenged and the rebound from the losses that occurred as a result of the Tohoku tragedy has been weaker than might have been hoped for (see chart).



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	0.26	0.24	0.71	0.71	0.65	1.66	1.66	1.57	2.75	2.75	2.65
CANADA	1.13	1.13	1.11	1.37	1.36	1.32	1.80	1.78	1.75	2.33	2.32	2.30
GERMANY	-0.04	-0.07	-0.06	0.39	0.34	0.38	1.44	1.39	1.40	2.28	2.23	2.23
JAPAN	0.09	0.09	0.09	0.19	0.20	0.17	0.79	0.80	0.74	1.83	1.85	1.79
U.K.	0.14	0.11	0.07	0.56	0.52	0.49	1.59	1.54	1.50	2.95	2.90	2.89
	Foreign - U.S. Spreads (bps):											
CANADA	87	86	87	66	65	67	14	12	18	-42	-43	-36
GERMANY	-30	-34	-30	-31	-36	-27	-22	-27	-17	-47	-52	-42
JAPAN	-17	-17	-15	-52	-51	-48	-87	-86	-83	-91	-91	-87
U.K.	-12	-15	-17	-15	-18	-16	-7	-12	-7	20	15	23

Equities	Last	Change	% change:			
			1 Day	1-wk	1-mo	1-yr
S&P/TSX	11890.89	32.76	0.3	3.3	3.3	-5.2
Dow 30	13207.95	42.76	0.3	0.9	3.4	17.2
S&P 500	1405.87	3.07	0.2	1.1	3.6	19.3
Nasdaq	3020.86	2.22	0.1	1.8	3.9	20.4
DAX	6960.84	16.28	0.2	0.6	6.2	16.1
FTSE	5843.01	-4.10	-0.1	0.6	3.1	9.8
Nikkei	8885.15	-6.29	-0.1	1.8	1.8	-0.9
Hang Seng	20081.36	-54.76	-0.3	0.4	5.2	2.4
CAC	3444.64	9.02	0.3	1.3	8.3	7.2
Commodities			% change:			
			1 Day	1-wk	1-mo	1-yr
WTI Crude	93.66	0.79	0.9	1.6	7.5	9.7
Natural Gas	2.73	-0.04	-1.3	-6.0	-4.9	-32.7
Gold	1618.50	3.50	0.2	1.0	1.5	-8.7
Silver	28.05	0.17	0.6	1.2	2.1	-26.7
CRB Index	301.81	-3.00	-1.0	0.4	2.7	-7.6
Currencies			% change:			
			1 Day	1-wk	1-mo	1-yr
USDCAD	0.9908	-0.0003	-0.0	-0.9	-2.3	1.2
EURUSD	1.2354	0.0065	0.5	-0.4	0.9	-14.5
USDJPY	78.31	0.0300	0.0	0.1	-1.1	1.9
AUDUSD	1.0569	-0.0008	-0.1	0.0	3.4	0.6
GBPUSD	1.5703	0.0013	0.1	0.6	0.8	-4.2
USDCHF	0.9721	-0.0051	-0.5	0.3	-0.8	24.0

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.