

CAPITAL MARKETS RESEARCH

Derek Holt (416) 863-7707
derek_holt@scotiacapital.com

Karen Cordes (416) 862-3080
karen_cordes@scotiacapital.com

Daily Points

— Tracking the numbers



On Deck for Tuesday, March 9

Country	Date	ET	Indicator	Period	BNS	Consensus	Latest
US	03/09	(07:45)	ICSC Chain Store Sales - Weekly (w/w)	Mar. 06	--	--	-0.8
US	03/09	(10:00)	IBD/TIPP Economic Optimism Index	Mar	--	--	47
US	03/09	(17:00)	ABC Consumer Confidence (index)	Mar. 07	--	-48	-49

KEY POINTS:

- Own Canada: The Northern Tiger
- Global manpower surveys point to job growth
- UK trade deficit disappoints
- US auctions \$40 billion in 3s today
- Cdn bank earnings today: BNS
- No Canadian releases today
- No US releases today

OWN CANADA

Our regular readers know that we haven't always been bullish on Canada. In the early days of the crisis, a strong USD safe-haven argument, downsides to loftily valued commodities, and cracks in the domestic economy that made us the first shop to shift to a Canadian recession call had us bearish on the market.

That hasn't been the case for much of the past year, in which we recommended over-weighting Canada in portfolios. CAD's 25% y/y appreciation against the USD has generated stellar returns to those who can take the currency risk in their mandates, before even getting into the massive rally in risk-adjusted assets that occurred over this same time frame. The case for over-weighting Canada is still compelling now, so we're sticking with that advice. In fact, the country has much of what one would want in both a global portfolio and a physical presence as evidenced by the following strengths. We have put some market points first, but the general flow is in no particular order.

1. The BoC is the next major central bank to hike. Q3 is the Scotia Economics forecast, and I think Q2 is a material risk with a solid case existing for either the April or June announcements.
2. We continue to think CAD is going to parity and beyond against the USD with potentially greater strengths against non-USD crosses. The economy will not only survive in this climate as it has before, it will generally thrive.
3. The C\$ has the edge over the A\$ as the RBA likely sits within a half point of finishing its tightening cycle, but the BoC hasn't even begun and we think too little is priced in.
4. Canada will remain the poster child for fiscal health over the next five years relative to other major markets. Even the PBO's outlook has a deficit-to-gdp ratio of under 1% five years from now. Provincial finances are a bigger challenge, but general government net-debt-to-gdp still stands Canada in very good stead.

BoC Events

BoC Overnight Lending Rate

Current Rate: 0.25%

Next Move: April 20 @ 0.25%

Bias: Dovish

Fed Events

March 9

- Chicago Fed President Evans speaks in Virginia (09:30 ET).

Fed Funds Target Rate

Current Rate: 0-0.25%

Next Move: March 16 @ 0-0.25%

Bias: Dovish

Key International Events

ECB

Current Rate: 1.00%

Next Move: April 8 @ 1.00%

Bias: Dovish

BoE

Current Rate: 0.50%

Next Move: April 8 @ 0.50%

Bias: Dovish

BoJ

Current Rate: 0.10%

Next Move: March 17 @ 0.10%

Bias: Dovish

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Scotia Economics

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

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5. The domestic economy should witness strong corporate revenue growth mirroring the start of a strong recovery.
6. Canada has the commodities the world wants.
7. By 2012, Canada will have a virtually unbeatable global corporate tax regime. Who'd have thought that after years of painful dialogue that led to reforms.
8. Productivity growth may be lagging now, but it may well catch up ahead just as US productivity growth wanes from unsustainable peaks.
9. Housing is richly valued, but is a more containable risk to the economy than it was in the US and Europe.
10. Excellent nonfinancial corporate balance sheets with low leverage and high coverage.
11. A universally recognized best-in-class banking system.
12. Fewer messy policy exits, not having done Quantitative Easing
13. A relatively favourable regulatory environment
14. Tax incentives on equipment investment that should lure capital
15. Low political risk
16. No sovereign default risk
17. Untapped opportunities in seed capital and idea financing
18. Stream-lined venture capital paperwork in the Federal Budget
19. Strengths in diversity with a high foreign born population share and strong market ties.
20. A highly educated workforce

UNITED STATES

The biggest **auktion** in a smaller than usual weekly schedule is on tap for 1pm today. Today's \$40 billion in 3 year notes is the dominant share of the \$74 billion in total Treasury issuance that is expected this week, and the auctions for tomorrow and Thursday are openings.

INTERNATIONAL

UK's trade deficit widened in January to the largest point since August 2008 as exports collapsed (-7% m/m) at a faster pace than imports (-1.6% m/m) after growth on both sides of the ledger in December. While the widening was slightly more than expected in January, part of the miss was due the revision to December's deficit, coming in much narrower than previously reported. Some have argued that harsh weather is to blame for the weakness. If this is the case, we should see a rebound in February. Nonetheless, UK trade has been volatile for several months despite continued weakness in the pound, highlighting the growth problems plaguing the UK and putting the BoE in a difficult position.

Global hiring intentions continued to improve as the Manpower surveys for Australia, New Zealand, Singapore, Taiwan, Hong Kong, China and Germany experienced an increase in Q2, suggesting further employment growth is on the horizon in those countries. Japan and India, while still expected to experience a gain in employment in Q2, didn't show an improvement over the Q2 survey.

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.	0.86	0.90	0.79	2.32	2.37	2.27	3.68	3.72	3.61	4.65	4.69	4.57
CANADA	1.53	1.51	1.34	2.79	2.76	2.67	3.50	3.47	3.40	4.09	4.06	4.02
GERMANY	0.96	1.00	0.95	2.12	2.18	2.13	3.12	3.17	3.12	3.92	3.94	3.88
JAPAN	0.15	0.15	0.17	0.47	0.48	0.50	1.31	1.33	1.30	2.32	2.34	2.32
U.K.	1.25	1.32	1.00	2.84	2.89	2.78	4.05	4.10	4.02	4.58	4.60	4.57
	Foreign - U.S. Spreads (bps):											
CANADA	67	62	55	46	39	40	-19	-25	-21	-56	-63	-55
GERMANY	10	10	16	-20	-19	-3	-56	-55	-49	-73	-75	-69
JAPAN	-71	-75	-63	-185	-189	-176	-237	-239	-230	-234	-235	-225
U.K.	39	42	21	51	52	51	37	38	41	-8	-8	0

Equities	Last	Change	% change:			
			1 Day	1-wk	1-mo	1-yr
S&P/TSX	11963.84	-11.30	-0.1	2.0	6.1	58.1
Dow 30	10552.52	-13.68	-0.1	1.4	4.9	61.2
S&P 500	1138.50	-0.20	-0.0	2.0	6.4	68.3
Nasdaq	2332.21	5.86	0.3	2.6	8.4	83.8
DAX	5565.58	-41.14	-0.7	1.5	8.9	57.1
FTSE	5842.09	-33.82	-0.6	1.1	6.3	58.2
Nikkei	10567.65	-18.27	-0.2	3.4	6.4	49.1
Hang Seng	21207.55	10.68	0.1	1.4	7.2	86.9
CAC	3879.37	-24.17	-0.6	1.8	7.4	54.0
Commodities			% change:			
WTI Crude	80.25	-1.62	-2.0	0.7	8.8	70.5
Natural Gas	4.53	0.01	0.1	-3.7	-14.3	17.3
Gold	1125.75	-9.25	-0.8	1.1	5.8	20.3
Silver	17.33	0.08	0.5	5.0	14.5	28.8
CRB Index	276.71	-0.22	-0.1	1.5	4.4	32.8
Currencies			% change:			
USDCAD	1.0311	0.0039	0.4	-0.4	-3.2	-20.8
EURUSD	1.3555	-0.0079	-0.6	-0.4	-1.8	7.5
USDJPY	89.8000	-0.5100	-0.6	1.1	0.1	-9.1
AUDUSD	0.9058	-0.0034	-0.4	0.3	3.1	43.4
GBPUSD	1.4949	-0.0117	-0.8	-0.1	-4.9	8.5
USDCHF	1.0791	0.0059	0.5	0.4	1.4	-6.8

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.

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