

CAPITAL MARKETS RESEARCH

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

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

Daily Points

— Tracking the Numbers

On Deck for Tuesday, July 26

Country	Date	Time	Event	Period	BNS	Consensus	Latest
US	07/26	09:00	S&P/CS 20 City SA (MoM)	MAY	--	0.0	-0.1
US	07/26	09:00	S&P/CS Composite-20 (YoY)	MAY	-4.6	-4.5	-4.0
US	07/26	10:00	Consumer Confidence	JUL	--	56.0	58.5
US	07/26	10:00	Richmond Fed Manufact. Index	JUL	--	5.0	3.0
US	07/26	10:00	New Home Sales	JUN	318	320.0	319.0
US	07/26	10:00	New Home Sales (MoM)	JUN	-0.3	0.3	-2.1

KEY POINTS:

- Rating agencies would flunk both Democrat and Republican plans
- Spanish, Italian auctions mildly disappoint
- Q2 UK GDP pleases pound sterling
- RBI hikes by more than expected
- US data risk scattered across consumer confidence, new home sales, home prices, and the Richmond Fed
- Will US 2s auction expose a fault line in debt ceiling talks?
- No Canadian releases today

CANADA

There are no Canadian releases on tap for today. As pointed out in our 'Week Ahead' column in this week's Global Views, only Friday matters to home grown risks with consensus expecting a mild m/m gain in GDP during the month of May.

UNITED STATES

The glass half full perspective on yesterday's political theatrics is that at least on paper, the Democrats and Republicans got closer to a deal. The Republicans have dropped their requirement for balanced budget legislation. That would have been pointless anyway, as far away from balance as the US is and given the malleable nature of such legislation anyway. The Democrats have dropped their demands that new sources of revenue need to be included in a long range package. Both moves reflect a desire to compromise.

But the half empty perspective points to major differences that still remain. Key among them is that the GOP still insists that it wants a two stage deal with one increase in the debt limit now followed by another early next year. The Democrats want one that carries them through to after the November 2012 election. Political pundits have pointed out that it may not even be in the interests of the Republicans to have to revisit a higher debt ceiling again early next year given that the GOP will be along the path of choosing one leader and running mate to run against the President and given the huge internal divisions within the GOP itself that could showcase that party's internal dissension. Yesterday's GOP press conference was telling in this regard as it took a cast of many to step up to the mic and repeat what each other had said, in contrast to the two Democrat senators that tag-teamed on their proposal. The GOP is showcasing its deep internal divisions, including the staunchly

BoC Events

BoC Overnight Lending Rate

Current Rate: 1.0%
Next Move: Sept. 7 @ 1.0%
Bias: Neutral

Fed Events

Fed Funds Target Rate

Current Rate: 0-0.25%
Next Move: August 9 @ 0-0.25%
Bias: Dovish

Key International Events

BoJ

Current Rate: 0.10%
Next Move: August 5 @ 0.10%
Bias: Dovish

BoE

Current Rate: 0.50%
Next Move: August 4 @ 0.50%
Bias: Dovish

ECB

Current Rate: 1.50%
Next Move: August 4 @ 1.50%
Bias: hawkish

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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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Daily Points

conservative but politically inexperienced Tea Party element. Another key division between Democrats and Republicans lies in where to cut; the Democrats wish to end the wars in Afghanistan and Iraq and slash military spending, whereas the traditional support base of the Republicans is opposed and seeks cuts elsewhere.

What is key in the debate, however, is that both the Republicans and Democrats are behaving like Europe's leaders did until recently in choosing to ignore rating agency guidance. That's because both of their proposals would fail to meet S&P's requirement for a bipartisan agreement toward about \$4 trillion in budgetary savings over the next ten years. Neither the GOP's \$3 trillion two-step dance with some delivered now and the rest after the creation of yet another committee oriented toward reaching agreement on further cuts early next year, nor the Democrats \$2.7 trillion vague outline (for example, unspecified savings at GSEs) would meet the bar. If either plan is the best that Washington can deliver, then a downgrade seems likely as they both fall short on the headline tally and the underlying details.

US data risk will be focused upon consumer confidence (10:00amET) that is expected to slip amidst soft jobs and growth, and market uncertainty. Home sales (10:00amET) will probably remain range-bound with monthly ups and downs more telling of white noise than anything trend worthy. Look for home prices to be flat to down again in May when the S&P/Case-Shiller measure is released (9:00amET), and consensus is expecting a slightly firmer reading for the Richmond Fed's manufacturing gauge.

The US auctions 2 year notes today (1:00pmET). Optimism that funding pressures may not be as glued to Treasury's August 2nd deadline as previously thought has provided a bit of an optimistic offset to the deal gridlock that exists such that 2s were reasonably well behaved last night and going into today's auction. As we argued in our note "No Free Lunch In the U.S. Debt Ceiling Debate" released last Friday, August 2nd is likely more symbolic than it is a hard and fast deadline.

INTERNATIONAL

UK GDP came in bang on top of Consensus expectations for growth of 0.2% q/q in Q2. Yes that's a further slow down from Q1's disappointing 0.5% pace. The National Statistics Office figures that if temporary disruptions like Japan's disasters and their effects on global supply chains, unseasonably warm weather in early Spring and the Royal Wedding were all excluded, then growth could have come in a half point higher. Thus, the results were a bit of a relief to markets as evidenced by pound sterling's slight appreciation immediately following the report.

Spanish and Italian auctions were on the soft side, but not a disaster by any means. The country sold €2.89 of 3- and 6-month debt, slightly lower than the targeted €3 billion maximum. But the yield climbed to 1.9% on 3-month bills, and 2.52% on 6 month debt. The three month yield was the highest since December 2008 and the six month was the highest the end of last year. Italy's auctions of six month bills and 2013 bonds went similarly. Overall, Spanish and Italian bond yields were up only moderately overnight except for at the front end of the curves as both countries witnessed a modest bear flattener.

The **Reserve Bank of India** hiked by 50 bps, or twice consensus estimates. An RBI concern has been that poor data quality and outdated CPI basket weights based upon old spending patterns has left the RBI behind the curve in combating inflation risk. This WSJ article is the latest such explanation (subscribers go here: <http://online.wsj.com/article/SB10001424053111903591104576467400077831450.html?KEYWORDS=reserve+bank+india>).

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
US	0.41	0.41	0.37	1.55	1.53	1.44	3.02	3.00	2.88	4.33	4.32	4.19
CANADA	1.50	1.50	1.48	2.19	2.19	2.20	2.93	2.93	2.89	3.40	3.40	3.35
GERMANY	1.34	1.33	1.24	1.94	1.94	1.85	2.76	2.76	2.68	3.49	3.51	3.38
JAPAN	0.16	0.16	0.15	0.38	0.38	0.37	1.10	1.10	1.07	2.02	2.01	2.00
UK	0.73	0.71	0.70	1.79	1.77	1.77	3.03	3.05	3.05	4.12	4.09	4.11
	Foreign- US Spreads (bps):											
CANADA	109	109	111	64	67	76	-10	-7	1	-94	-93	-85
GERMANY	93	92	87	39	42	42	-27	-24	-20	-85	-82	-81
JAPAN	-24	-25	-22	-16	-14	-17	-13	-11	-11	-232	-231	-219
UK	32	30	33	25	24	33	6	5	17	-21	-23	-8

Equities	Last	Change	% change:			
			1 Day	1-wk	1-mo	1-yr
S & P/TSX	13435.95	-58.68	-0.4	1.4	4.1	14.4
Dow 30	12592.80	-88.36	-0.7	1.7	5.5	19.6
S & P 500	1337.43	-7.59	-0.6	2.5	5.4	19.9
Nasdaq	2842.80	-16.03	-0.6	2.8	7.2	23.8
DAX	5924.26	-1.00	-0.0	2.3	4.0	10.7
FTSE	7345.78	1.24	0.0	2.1	3.2	18.6
Nikkei	10097.72	47.71	0.5	2.1	4.3	6.3
Hang Seng	22572.08	278.79	1.3	3.1	1.8	8.3
CAC	3790.32	-22.65	-0.6	2.6	0.1	4.2
Commodities			% change:			
WTI Crude	99.79	0.59	0.6	2.3	9.5	26.3
Natural Gas	4.36	-0.02	-0.5	-3.8	3.2	-5.4
Gold	1613.50	11.50	0.7	0.9	6.5	35.5
Silver	40.34	-0.44	-1.1	0.0	16.2	124.0
CRB Index	345.89	-2.04	-0.6	0.6	4.9	29.7
Currencies			% change:			
USDCAD	0.9423	-0.0049	-0.5	-0.8	-4.4	-8.7
EURUSD	1.4481	0.0104	0.7	2.3	1.4	11.4
USDJPY	78.0900	-0.2000	-0.3	-1.4	-3.5	-10.1
AUDUSD	1.0945	0.0100	0.9	2.0	4.8	21.3
GBPUSD	1.6398	0.0121	0.7	1.7	2.6	5.9
USDCHF	0.8035	-0.0026	-0.3	-2.5	-3.8	-23.4

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.