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*With thanks for research support from:
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Next Week's Risk Dashboard

- Who's next? The UK is an outlier
- The UK's next choices are key to restoring credibility
- Australia's Budget won't repeat the UK disaster...
- ...but inflation and wages are the RBA's next risks
- BoC: A case for more rather than less
- ECB: Rates and the thorny issue of bank lending
- BoJ unlikely to alter course
- BanRep could deliver another jumbo hike
- Brazil's central bank likely to reaffirm its done
- Eurozone inflation likely to take off again
- Fed's preferred inflation gauge to follow CPI higher
- GDP: US, China, Canada, Eurozone, SK
- Global PMIs to inform supply chain developments
- Other global macro releases
- Earnings

The Stakes Remain High for the UK

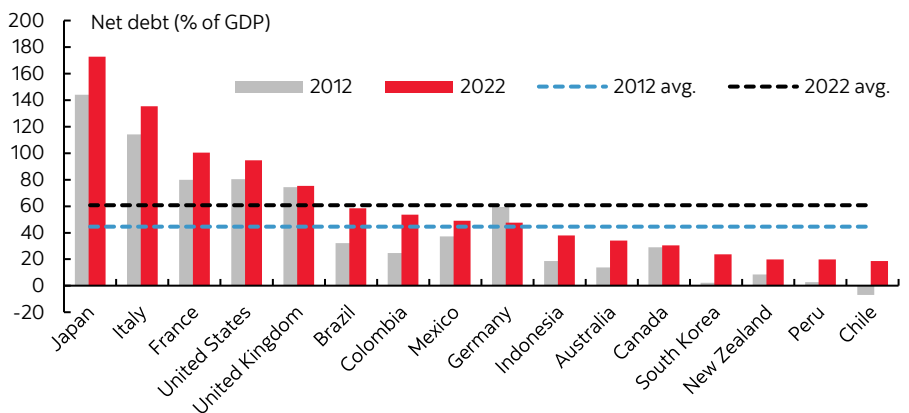
- [Introduction](#) 2
- [UK—You Again??](#) 2–3
- [Australia's Turn?](#) 4–5
- [Bank of Canada—A Case For More Rather Than Less](#) 5–6
- [ECB—Give Us Our Money Back!](#) 6–7
- [Bank of Japan](#) 7
- [BanRep—Another Jumbo Hike?](#) 7–8
- [Brazil's CB—You Said You Were Done!](#) 8
- [Key Global Indicators](#) 8–10

FORECASTS & DATA

- [Key Indicators](#) A1–A3
- [Global Auctions Calendar](#) A4
- [Events Calendar](#) A5
- [Global Central Bank Watch](#) A6

Chart of the Week

Australia's Budget Won't Follow the UK's Troubles



Source: Scotiabank Economics, IMF October 2022 WEO.

Chart of the Week: Prepared by: Marc Ercolao, Economic Analyst.

The Stakes Remain High for the UK

How political risk shapes fiscal policy developments in the UK and Australia will intersect with further policy tightening led by the ECB and the Bank of Canada while the Bank of Japan probably stands pat and a pair of LatAm central banks weigh in. Decisions taken by the ECB as they relate to funding programs to the banking sector could meaningfully impact broad market risk appetite as a key risk. Throughout all of this there will be a wave of key global updates to top shelf macro indicators such as PMIs, inflation reports and GDP readings as well as a deluge of earnings reports including about 160 S&P500 companies and releases across other markets.

UK—YOU AGAIN?!

Given the market focus upon fiscal stewardship in the context of tightening monetary policy, chart 1 serves as the first reminder about the need to differentiate across varying circumstances. Vast differences in deficit- and debt-to-gdp ratios across economies positions the UK as being in a more vulnerable position than, say, the reserve currency status enjoyed by the US and the stronger fiscal positions in places like Australia ahead of its budget (covered next) and Canada.

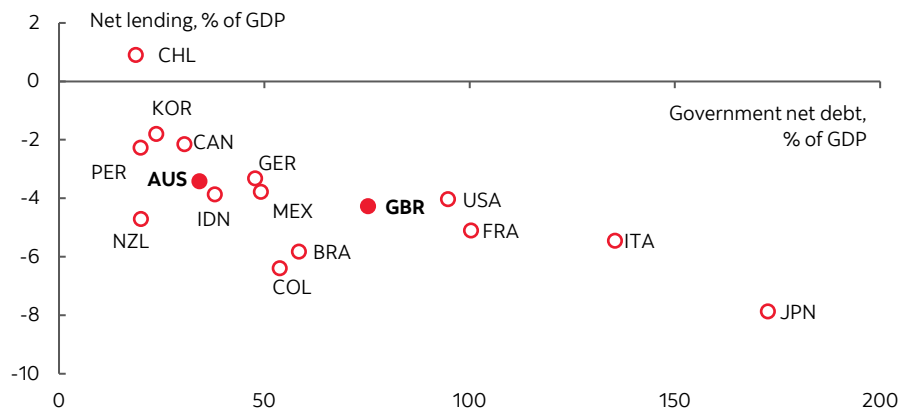
With that in mind, the week kicks off with ongoing focus upon the UK. The UK Conservatives have pledged to choose a new leader to replace ousted PM Truss by no later than Friday while holding forth the possibility that it could happen much sooner in the week and as early as Monday. Who they choose will hopefully avoid their previous disaster. One might question why anyone would want the job, but there seem to be a few candidates including at least two vying to make a comeback. Who is chosen will only be the first step to determining next steps in restoring some degree of credibility in markets with an awful lot of work to be done and risks ahead.

No more than three candidates can be advanced and no more than two go before a vote, and there may not even be more than one! Hats in the ring are thought to include former PM Boris Johnson who brings plenty of baggage with him of the sort that led to his resignation in the first place. Former Chancellor of the Exchequer Rishi Sunak is another one, after he lost to former PM Truss in the leadership run-off when the party disastrously opted for her tax cuts in seven weeks versus Sunak's seven years and after earlier controversy surrounding his wife's tax status. Chart 2 gives the odds that bookies are placing on each of them for what that's worth, though it's pretty apparent they have a few too many folks on the list!

This matters because next steps are likely to prove to be critical for UK markets and with potential further spillover effects upon world markets. Whomever is chosen faces the long and complex road back to credibility set against the backdrop of impatient markets dealing with impaired liquidity, an exiting Bank of England and recent concerns around systemic risk (e.g. pensions). The platform chosen by the ruling Conservatives is in a state of flux as Labour strongly outperforms in the polls by a record margin (chart 3) but with another election still some distance away and by no later than January 2025. The delays around introducing a fiscal plan will have to be quickly addressed by new leadership.

Chart 1

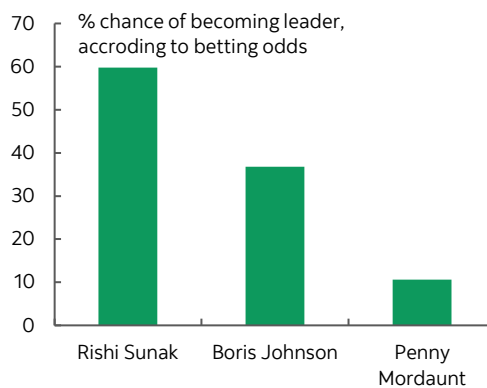
Government Net Debt vs Government Balance (2022)



Sources: Scotiabank Economics, IMF WEO Oct. 2022, IMF.

Chart 2

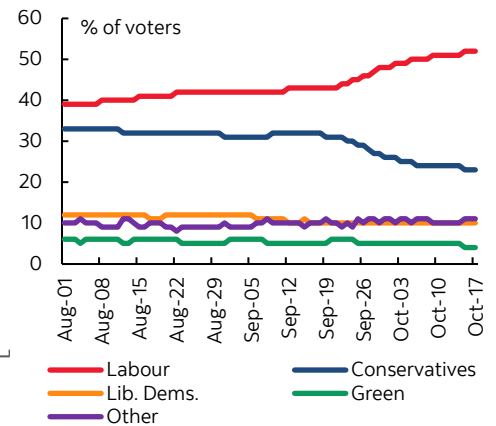
Sunak the Front Runner for the Next Permanent Conservative Party Leader



Sources: Scotiabank Economics, Oddschecker.

Chart 3

UK National Parliament Voting Intention



Sources: Scotiabank Economics, Politico.

October 21, 2022

Given that Conservatives have rather imprudently mismanaged fiscal policy, some believe that a Labour government could offer relatively more stability. The narrative posits that this isn't Labour under former leader Jeremy Corbyn's rather radical policy stances. Markets intrinsically view Labour platforms with skepticism and should probably continue to do so now.

UK Labour leader Starmer's platform seeks to distance himself from more extremist policies that he advocated a couple of years ago and even more so from former leader Corbyn's policies, claiming that Labour is now 'pro-business'. That's probably a big stretch. Starmer has very recently adopted a somewhat more pragmatic approach that emphasizes changed fiscal realities. Still, there are a lot of expensive items on their shopping list and no holistic fiscal plan as yet that costs it all out and prioritizes items on the menu.

You judge for yourselves based upon what I've pieced together from various sources and announcements below. A strong caution is that while I have attempted to update Starmer's plans with recent comments over the past couple of months, he has not updated everything and there is no overall singular plan to date. Overall, I'd say markets shouldn't be fooled by Starmer's tie and collar just yet.

- Starmer seeks to raise the minimum wage from £8.91 on average and depending on age, to £10 but with many in his party advocating an increase to £15/hr to be voted upon closer to a future election. Starmer would direct a Low Pay Commission to assess and factor in living costs that could further institutionalize wage-price spiral effects. Starmer would also ban so-called 'fire and rehire' policies.
- reduce the basic rate of income tax from 20% to 19% which is the same as that part of Truss's 'Growth Plan' that had this proposal costed at £5.5B through 5 years.
- Launch a £28 billion per year green investment program with emphasis upon battery gigafactories, home insulation, wind power etc.
- Create a new National Wealth Fund seeded with £8 billion to start, for energy investments and separately from the UK Infrastructure Bank
- Create 8 new battery factories, six clean steel plants, nine renewable-ready ports for offshore wind development, the world's largest hydrogen electrolyser and net-zero industrial clusters.
- Create a gov't owned energy company called "Great British Energy"
- Decarbonize electricity by 2030 which is 5 years sooner than planned.
- Challenge foreign ownership stakes in energy cos.
- Impose a windfall tax on North Sea oil cos.
- Eliminate small business taxation.
- Apply a 12% tax on 'big tech'.
- Equalize tax rates on earned and unearned income.
- Target rents, private equity and carried interest.
- "In-source" government services from private contractors
- Build an "Elizabeth Line for the north"
- Spend to create 1 million jobs
- Spend more on childcare and parental support
- Hire more health and education workers including 6,500 teachers, double med school spots to 15,000, double annual flow of new nurses, create 10,000 nursing and midwifery placements.
- Extend mat/pat leave without saying by how much

Starmer has said he would abandon his support for earlier plans to nationalize the rail companies (the services and operation, whereas the infrastructure is already public), energy and water and the Royal Mail. There is considerably opposition within his party to his changed stance.

AUSTRALIA'S TURN?

Australia presents its budget on Tuesday (4:30amET) and just ahead of Australia's Q3 CPI update which makes for a one-two punch of risks to local markets amid debate over whether this may carry spillover effects into correlated trades across other world markets.

Australia is very unlikely to be the next domino to tip over in the context of concerns within global markets that fiscally imprudent governments are complicating the fight against inflation.

One reason is its advantageous starting position. Australia is AAA rated. That's partly in recognition of a much lower ratio of gross- and net-debt to GDP (refer back to chart 1).

Another reason is generally sounder fiscal management and guidance that this is expected to remain the case. Australian Treasurer Jim Chalmers has been quoted saying the following:

"The lesson for us is we do what's right, responsible, solid, sensible and suited to the times because the stakes are relatively high at time when the global economy is a pretty uncertain place. So a premium for us is getting that balance right. I think we got things pretty nicely lined up between fiscal policy and monetary policy in the document I'll release on Tuesday night, and I hope markets think the same."

So do markets!! Expect targeted spending on infrastructure to feature, but largely in line with prior announcements and plans.

In fact, the UK is probably best treated as idiosyncratic risk but with the above-noted caveat about potential further systemic risk implications that could spill over abroad. Another example of this argument is that Canada's Finance Minister Freeland has guided that any requests for spending increases from within cabinet must be funded by cuts elsewhere. That reflects political choices on the composition of spending while perhaps avoiding further aggregate large-scale impulses. Of course, that depends upon whether the Finance Minister carries the day in the decisions. PM Trudeau needs to reaffirm this messaging especially in the wake of the circumstances regarding the departure of former Finance Minister Morneau and in the context of how the Liberal minority government needs to keep the NDP onside and given its penchant for spending and regulatory controls in labour markets including recently introduced anti-scab legislation.

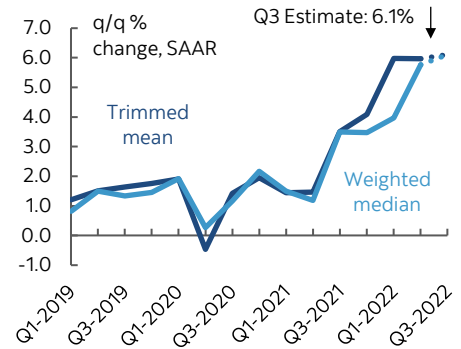
Fast forward a few hours, however, and Australia's local market risk could well flare when CPI gets updated with Q3 estimates. Year-over-year rates are expected to climb toward 7% for total inflation (from 6.1% prior) and also increase for trimmed mean (~5.5% y/y from 4.9%) and weighted median (4.8% from 4.2%) central tendency measures. Fresher estimates of inflationary pressures at the margin will focus upon annualized rates of trimmed and median measures that are expected to remain high and well above the RBA's 2-3% headline target range (chart 4). Australia's 5-year inflation breakeven proxy for market expectations has recently backed up but is broadly within the target range (chart 5).

Any upside surprises could impact pricing for the Reserve Bank of Australia's next policy decision on November 1st. Australian futures contracts presently have a 25bps hike priced for that meeting.

The next risk may be more instructive, however, when Australia updates Q3 wage growth on November 15th. To date, wage growth has been at a more modest pace than, say, in the US and Canada (chart 6) but it may just be a matter of time for very tight labour markets to begin driving faster wage growth. Australia's unemployment rate is at an all-time record

Chart 4

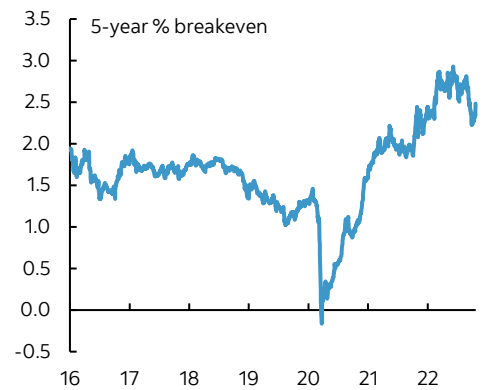
Australian Inflation Might Matter More Than the Budget



Sources: Scotiabank Economics, Australian Bureau of Statistics.

Chart 5

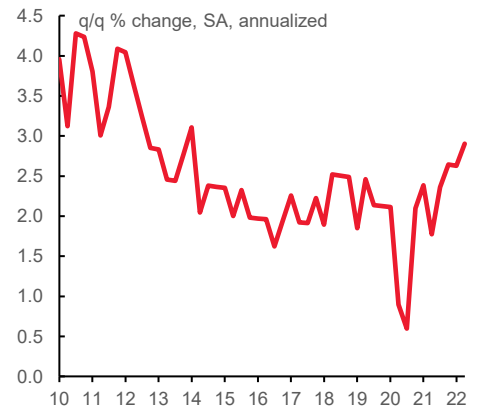
Australian Medium-Term Inflation Expectations



Sources: Scotiabank Economics, Bloomberg.

Chart 6

Australia's Wage Growth



Sources: Scotiabank Economics, Australian Bureau of Statistics.

low, its labour force participation rate is at an all-time record high, and job growth recently stalled probably because of difficulty getting enough workers even and not reduced hiring appetite given the country has not seen vacancies begin to roll to the same degree as in some other markets (chart 7). Should evidence surface that wage pressures are becoming more acute then it would raise concern toward another up-leg in wage-price induced inflationary pressures that would invite a potentially more hawkish monetary policy stance.

BANK OF CANADA—A CASE FOR MORE RATHER THAN LESS

The Bank of Canada issues another policy rate decision in the context of a full suite of updated communications on Wednesday. The statement and Monetary Policy Report including fresh forecasts land at 10amET and will be followed by a full press conference hosted by Governor Macklem and Senior Deputy Governor Rogers starting at about 11amET.

75 and Keep Going

I'm expecting another 75bps rate hike with further explanation provided later in the section.

That would take the cumulative rate hikes since March to 3¾ percentage points in just seven months which is a point in itself in that it's very early in terms of the ability to assess the full lagging effects upon the economy and inflation.

The speed and magnitude of rate hikes is because central banks totally misjudged inflation risk and are scrambling to thwart its institutionalization and prevent it from becoming embedded in attitudes including wage-setting exercises. Slow and steady rate hikes that rely upon merely cooling growth to rates below the economy's supply-side driven potential rate of growth in order to gradually open up disinflationary slack would probably take too long and risk failing further behind. Invoking as much damage in as short a period as possible is the essence of the bulked up and front-loaded experiment in order to prevent this next stage of transmission effects from taking root. By corollary, this may be the best hope for getting to the other side of easing expectations sooner than may otherwise be the case.

On the bias, I think they'll retain the guidance in the statement's concluding paragraph that says "the policy interest rate will need to rise further."

Forecast Changes

Watch for significant forecast changes mainly to growth expectations. If our own fresher forecasts are anywhere in the same ballpark as the BoC's thinking, then the forecasts from the July MPR need to be downgraded for GDP growth in 2023 and 2024 (chart 8). That would be consistent with upgraded expectations for a higher policy rate. There may be less revision risk to their inflation forecasts (chart 9).

Obviously, everyone has an awful lot of guesswork built into their numbers but with the magnitude and timing of a recession figuring prominently. It's likely premature to see any recession call codified in their numbers. The BoC only publishes quarterly Canadian GDP growth out one quarter at a time plus Q4/Q4 estimates that can be used to infer the full 2022H2 forecasts. We think GDP contracts into 2023 and so the Governor is likely to waffle around the issue again.

Enter the Currency and Revised Guidance

One key is whether the statement repeats the line in the September statement that said "...we will be assessing how much higher interest rates need to go to return inflation to target." That built expectations toward guidance on the terminal rate and the path toward it. It may have also been a hint at taking another stab at estimating the neutral policy rate that the BoC estimates to be 2–3%.

Chart 7

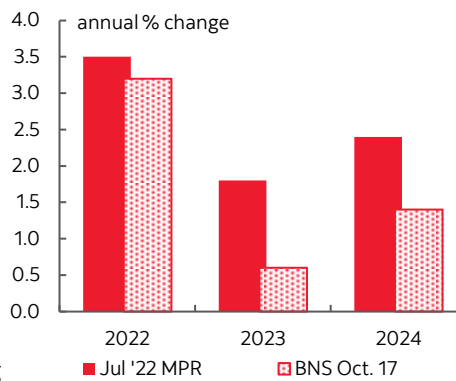
Australia Can't Find Enough Workers



Sources: Scotiabank Economics, Bloomberg.

Chart 8

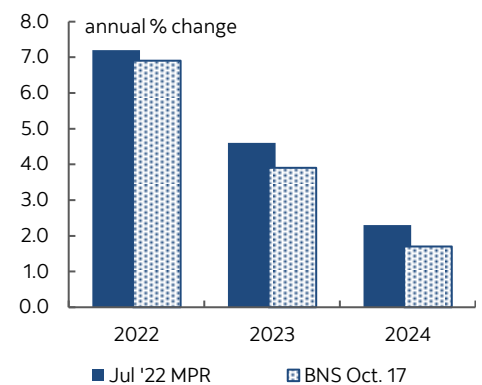
Expect Downward Growth Revisions in the October MPR



Sources: Scotiabank Economics, Bank of Canada Monetary Policy Report.

Chart 9

Expect Minor Inflation Revisions in the October MPR



Sources: Scotiabank Economics, Bank of Canada Monetary Policy Report.

Macklem's speech on October 6th, however, injected fresh uncertainty when he said "we will need additional information before we consider moving to a more finely balanced decision-by-decision approach." They've more hawkishly moved away from prior guidance toward getting mildly into restrictive territory and then taking it from there. Furthermore, his comments at the conclusion of IMF meetings emphasized the greater risk of underdoing rate hikes and placed added emphasis upon the weak currency which he says merits more hikes. In short, nothing that Macklem has recently said has indicated that he is open to a policy pivot just yet.

There should probably be about 75% odds attached to a 75bps hike and a slightly fatter tail risk slanted toward a bigger hike rather than a smaller one. As argued [here](#), the key case for a bigger move than a smaller one is slanted toward the BoC's CAD commentary, how markets would react and in relation to what the Fed is likely to do.

Start with the fact that Macklem is signalling a return to rate substitutes to CAD moves that, while perhaps debatable in terms of whether they should be thinking this way or at least doing so in such publicly explicit fashion, nevertheless signals a reaction function that is willing to do more to offset currency weakness. I think he risks being picked off and bumper dragged by FX markets as a currency targeter which is probably unwise, but it's what he's signalling that may matter more at least in the short run. Canada imports a lot and so price pass-through pressures are material but usually treated as modest and typically transitory. Then again, the long-held analyst forecast for USD weakening hasn't worked well and so serial frustration on the currency front is getting the BoC's attention. Macklem has said this formally on two separate occasions and so did SDG Rogers.

They are not intimating a return to the formal and ill-fated monetary conditions index of the past with its one-third and two-thirds CAD and rate equivalence arguments, but he is explicitly saying that a weak currency means they have to lean on rates harder. CAD has not been listening as it has been stuck in a 1.37–1.38 range throughout their cautions. Also noteworthy is no inclination toward embracing prior (also ill-fated) type 1 versus type 2 differences in assessing less concerning fundamental drivers of currency weakness versus factors to lean against if they are less fundamentally drive, but the implied tone is that the BoC does not view the CAD movements as just driven by fundamentals.

So, if the BoC were to hike by, say, 50bps and the Fed hikes by 75bps on November 2nd as widely expected and priced, then a negative rate differential would open up across policy rates. All else equal (ha!) that could mean further CAD weakness especially in relation to what is priced which would go against their messaging and look highly inconsistent. So, do you want a stronger currency or not? Are you substituting higher rates for a weak currency or not? The messaging and consistency around this issue would look rather erratic.

Furthermore, going just 50 at this point after 75 and before that 100 would risk an RBA style downshifting reaction in markets that eases financial conditions which seems counter to what they wish to happen. You'd get markets saying they're done or almost there which seems to be against most of their messaging. I think the BoC still needs to appear hawkish and then be open to pivoting later if needed. Unlike Australia and the RBA's signals, Canada has much firmer trend wage growth, greater attachment to the Fed, ongoing Fed/prov stimulus from Trudeau bucks to Ontario's Ford bucks to Quebec's vote bucks etc etc, different commodities, less direct exposure to China, fresher and firmer inflation readings and a job market that remains incredibly tight.

So the case for 75bps mostly boils down to a) how serious they are about CAD and credibility around those communications, b) managing markets which admittedly they're not terribly good at, and c) the Fed's influences. That's all in addition to the many other parts of the Canada narrative I've been plugging in marketing this season that go beyond just the one call.

If the BoC hikes 75bps next week, then they probably have a terminal rate in mind that is in the ballpark of what the FOMC has guided for theirs (4.5–5%). It's hard to imagine that after a 75bps hike they either stop or downshift to just a 25bps and then perhaps done. In fact, if the BoC is truly serious about the currency, then hiking more than 75bps and cumulatively more than the Fed cannot be ruled out.

ECB—GIVE US OUR MONEY BACK!

The European Central Bank is widely expected to hike all of its policy rates by 75bps on Thursday and for the second consecutive time. Inflation's surge to 9.9% y/y in September with core CPI at 4.8% sealed the deal for market participants. Multiple Governing Council members have leaned toward the jumbo hike option at this meeting.

Anticipation of the deposit facility rate's move from -50bps up to July to probably 1.5% this week has been a significant driver of the near elimination of global negative-yielding debt that has declined by about US\$17 trillion from 2020–21 peaks toward just over US\$1 trillion now. President Lagarde's press conference will be closely watched for what she states or intimates with respect to forward rate guidance in relation to market pricing for another 150bps of policy tightening into 2023.

But there is something arguably more important to markets and especially the banking system. **Chart 10**

A complicating factor alongside the interest rate increases that are designed to cool inflation involves reassessing the concomitant surge in ECB interest payments to banks in order to a) incentivize them to lend, and b) reduce what has turned into a large and rising subsidy. The pandemic-era's explosive growth in the ECB's loans to banks through Targeted Longer-Term Refinancing Operations has magnified the challenge in a rising rate environment by now paying out tens of billions of euros in interest payments to banks (chart 10).

The initial objective in making such ECB TLTRO loans to banks at low to negative rates was to provide them with cheap funds to lend out and invest with the aim being to quickly restore stability to the economy and markets during exceptionally uncertain times. For a time, the four-fold rise in loan balances helped. With inflation now raging and rates rising, however, banks are being paid somewhat handsomely to simply keep their borrowed TLTRO money at the ECB earning the rising deposit rate which means more outflows from the ECB and hence pressure on its capital and less going back toward states' budgets, less incentive to lend out in relation to simply keeping the TLTRO proceeds at the ECB earning a risk-free rate of return amid present turmoil in markets and the economy and, well, stinky optics especially outside of the part of the world that pays attention to monetary policy considerations like you and I.

At recent IMF meetings, an ECB source told Reuters that "We are very close and a decision is going to come soon. The ultimate design is going to hurt banks, and that is very much our intention." Well! Spit in your Christmas 'nog too then! One option that has been indicated may be to reduce the interest paid on TLTRO loans either by lowering it below the deposit rate or treating the TLTRO proceeds as if they are minimum reserves kept at the ECB. Another option could be to tier the rate paid on balances such that it declines beyond certain thresholds which lowers the disincentives to lend. It's not clear what option or options may be pursued and whether it is announced at this meeting or discussed by Lagarde in her press conference for implementation at a later date.

Of course, whether reducing the interest payments on TLTRO loan proceeds parked at the ECB will actually incentivize banks to lend remains a big uncertainty. Hoping that banks will lend out at a faster rate into a downturn could be tantamount to steering a dingy right into a hurricane just for kicks. That could mean that the only net outcome may be less of a transfer from the ECB to the banking system.

BANK OF JAPAN

The Bank of Japan is expected to leave its -0.1% policy balance rate and around 0% 10-year yield target with its implied 25bps ceiling when it delivers its fresh decisions on Friday. It's unlikely that Governor Kuroda will change his tune that Japan is not getting the kind of inflation he wants or in favour of yen intervention.

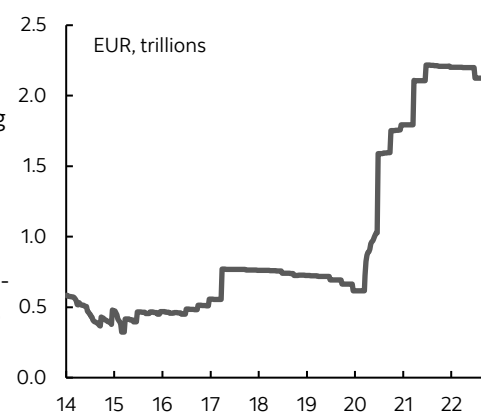
Friday sparked speculation that the Ministry of Finance was intervening to strengthen the yen but government sources refused to comment. If so, then it appears to have been alone without the help of either policy shifts at the BoJ or international coordination which severely limits the odds of any sustained success.

Recall that Kuroda wishes to see sustained 2% inflation over the medium-term. The current 3% rate of inflation is not the type that he wants as it is fed by transitory factors such as yen weakness and oil prices. Absent wage growth—that remains much weaker in Japan than, say, the US—it is unlikely for inflationary pressures to be sustainable (chart 11). This is why Kuroda recently emphasized that he expects inflation to peak toward the end of this year and then gradually cool.

BANREP—ANOTHER JUMBO HIKE?

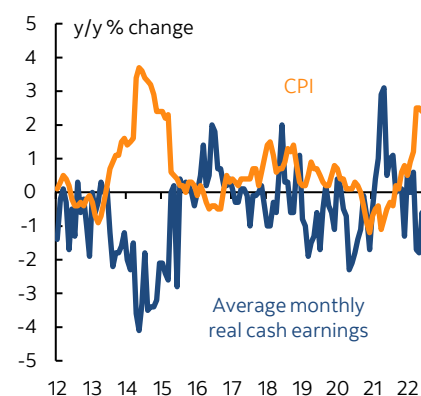
Colombia's central bank is widely expected to launch another big rate hike on Friday. Most of consensus expects a hike of 100bps with some going as high as 200bps. Our Bogota-based economists worry about the real side damage to the economy and tilt their preferences toward a smaller hike.

Chart 10
Eurozone Banks' TLTRO Borrowings



Sources: Scotiabank Economics, Bloomberg.

Chart 11
Japan: Rising Inflation, Low Wages



Sources: Scotiabank Economics, Bloomberg.

BanRep nevertheless faces fresh challenges via the suddenly sharply depreciating peso that raises inflation risk and stability concerns (chart 12). The COP is now at its weakest level and rapidly deteriorating. Furthermore, September inflation surprised higher than expected with a jump of over ½% to just shy of 11½%.

BRAZIL’S CB—YOU SAID YOU WERE DONE!

The BCB held its policy rate unchanged at 13.75% at its September meeting and we expect the same on Wednesday. The Bank offset this pause decision with a signal that it is ready to quickly resume its hiking cycle if inflation maintains an upward trajectory. Until new data becomes available, we maintain our view that the Selic rate will remain at 13.75% until Q2-2023, where monetary easing will then take place. Headline inflation has now fallen for four of the last five months, when it peaked in April at 12.1% y/y compared to the current rate of 7.2% y/y. Core inflation has also begun to move lower, declining from 10.7% y/y in June to its current 9.7% y/y level.

Additionally, second-round voting for the presidential election is just around the corner on October 30th. It will likely not be discussed, but the race between Bolsonaro and Lula is closer than expected and with that are potential feedback effects on monetary policy should there be significant market effects.

KEY GLOBAL INDICATORS

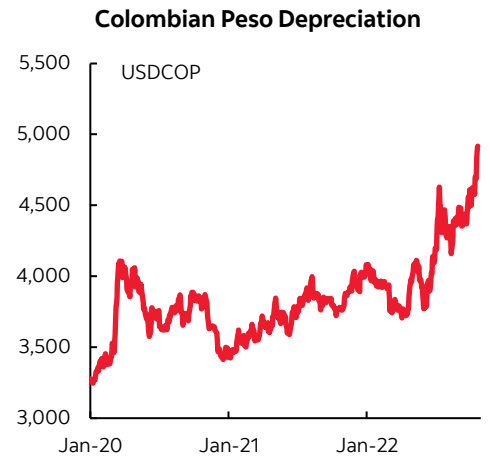
And if that’s not enough as my fingers start typing their way out the door then we’ve good a few key indicators to consider including global PMIs, inflation updates and GDP growth estimates.

Eurozone CPI for October’s will only arrive on Halloween and hence the week after this coming week’s ECB decisions which may limit its impact. The same holds true across individual countries as each of France, Germany, Italy and Spain update CPI this coming Friday. Strong month-over-month gains are expected in each case with Germany and France expected to be up by around ½% m/m and Italy by about a percentage point more. That will keep the heat on soaring inflation rates (chart 13).

Canada updates GDP growth on Friday including August’s final estimate and the preliminary ‘flash’ estimate for September that will help to round out the full quarter. Statcan had guided back on September 29th that August GDP was “essentially unchanged.” A simple model that I run estimates 0.1% m/m. Statcan ‘flash’ guidance can have significant revision risk attached to it (chart 14) and lagging and less complete services data may be part of the problem. For September GDP, I’m getting a small negative so far but it’s early in terms of tracking incoming information. If both estimates are correct, then on balance I’m tracking +¾% q/q annualized GDP growth using the monthly GDP accounts as opposed to the quarterly accounts that more fully take into account inventory and trade swings. So, the economy is essentially stalling and to this stage mostly on brought-forward momentum arguments as it’s too soon to get getting much of the lagging rate effects (some, but not much). This follows 5.7%, 6.7%, 3.6% and 4.2% annualized q/q growth rates from 2021Q3 through to 2022Q2 when the economy was on fire that pushed Canada wildly into excess aggregate demand. The economy is still in excess demand and thus generating inflationary pressures. A protracted period of growth being much weaker than potential GDP estimates that are likely somewhere in the ballpark of 1½% per year is needed in order to open up slack.

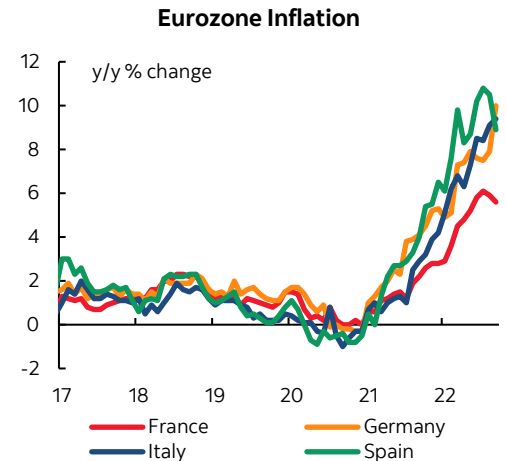
A round of global purchasing managers indices is also on tap and will inform in-quarter Q4 GDP growth tracking, inflation risk and developments across supply chains. Each of the

Chart 12



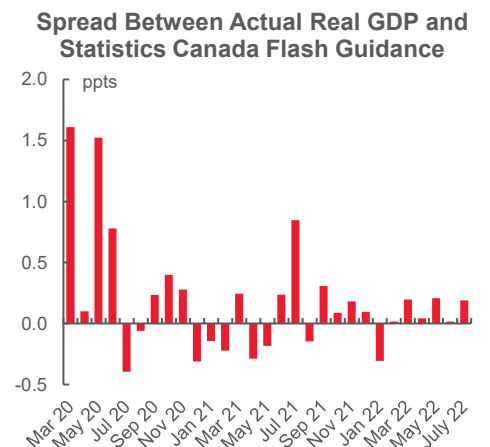
Sources: Scotiabank Economics, Bloomberg.

Chart 13



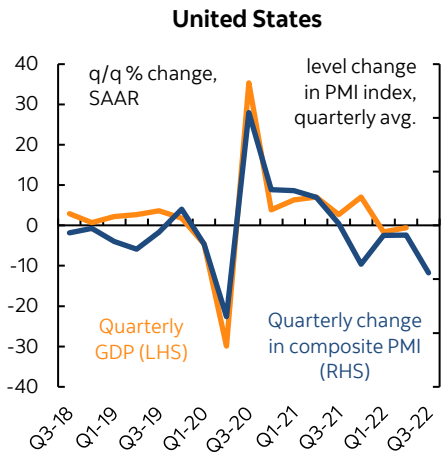
Sources: Scotiabank Economics, Bloomberg

Chart 14



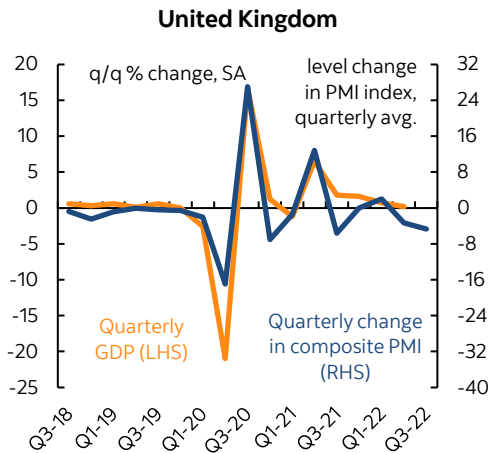
Sources: Scotiabank Economics, Statistics Canada.

Chart 15



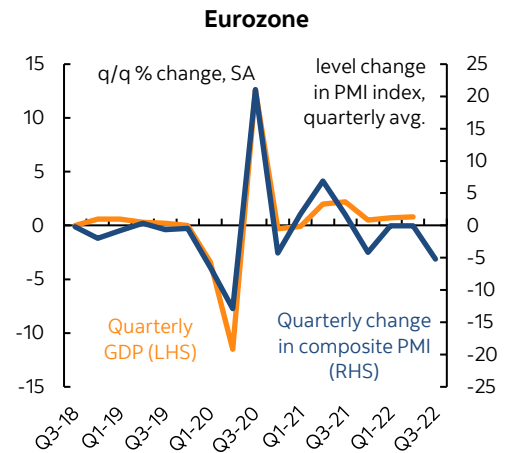
Sources: Scotiabank Economics, S&P Global, Bloomberg.

Chart 16



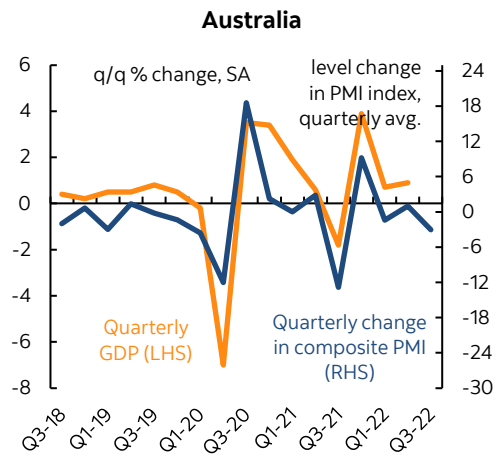
Sources: Scotiabank Economics, S&P Global, Bloomberg.

Chart 17



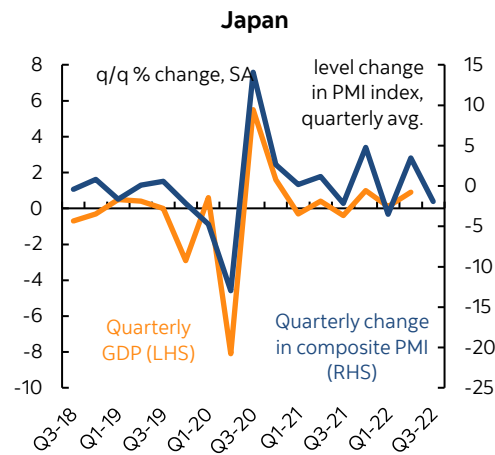
Sources: Scotiabank Economics, S&P Global, Bloomberg.

Chart 18



Sources: Scotiabank Economics, S&P Global, Bloomberg.

Chart 19



Sources: Scotiabank Economics, S&P Global, Bloomberg.

Eurozone, US, UK, Australia and Japan update estimates on Monday. Charts 15–19 show the GDP connections.

The US calendar will also include:

- Repeat home sale prices for August (Tuesday): This matters because it serves as a leading indicator for what to expect to happen to owners' equivalent rent in CPI that carries about a one-third basket weight. It is expected to be the second outright monthly decline.
- Consumer confidence for October (Tuesday): Confidence probably slipped again as market turmoil and higher gasoline prices take root.
- Richmond Fed manufacturing gauge for Oct (Tuesday).
- Advance goods trade balance during September (Wednesday): Little change is expected.
- New home sales during September (Wednesday): after the surprise 28.8% m/m surge in August, many expect sales to plunge back downward in September and partly given advance indicators like model home foot traffic.
- Q3 GDP (Thursday): We've estimated growth of 2.5% q/q at an annualized rate. Most shops lie within about a 1.5–3% range. This would end back-to-back quarterly contractions of 0.6% in Q1 and 1.6% in Q2, for now.
- Weekly jobless claims (Thursday)
- The Employment Cost Index for Q3 (Friday): Another powerful gain in all-in employment costs is expected which could make for the fifth consecutive quarterly non-annualized rise of 1% or just over that rate.

October 21, 2022

- Personal income and spending during September (Friday): I've estimated bottom-up income growth of 0.3% m/m without adjusting for inflation. Real income growth would be negative. Consumption probably grew at a similar pace to incomes given the already known gain in the retail sales control group.
- PCE inflation during September (Friday): The Fed's preferred inflation gauge (core PCE inflation) is expected to broadly follow core CPI higher and land at about 0.5% m/m with headline PCE inflation up by 0.3%.
- Pending home sales during September (Friday).

China's economy might be front-and-center on the week as a slew of major economic indicators is expected at any time up to Halloween. Q3 GDP is expected to rebound at a pace close to 3% q/q non-annualized after Covid Zero restrictions drove a Q2 contraction of 2.6%. Also watch for September updates that will help to inform momentum into Q4 for exports, industrial output, retail sales and the jobless rate.

Other Asian releases will focus upon Tokyo CPI during October (Thursday) and Japan's jobless rate during September (Thursday) plus Q3 South Korean GDP (Wednesday ET) that is expected to post mild growth.

Finally, Eurozone Q3 GDP growth starts to arrive at the same time as CPI on Friday across individual countries before the following week's Eurozone add-up. Germany's economy is expected to mildly contract while France and Spain are expected to post mild expansions.

Key Indicators for the week of October 24 – 28

NORTH AMERICA

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
MX	10-24	07:00	Bi-Weekly Core CPI (% change)	Oct 15	--	0.4	0.2
MX	10-24	07:00	Bi-Weekly CPI (% change)	Oct 15	--	0.5	0.1
US	10-24	09:45	S&P Global US Manufacturing PMI	Oct P	--	51.0	52.0
US	10-24	09:45	S&P Global US Services PMI	Oct P	--	49.6	49.3
US	10-24	09:45	S&P Global US Composite PMI	Oct P	--	49.3	49.5
MX	10-25	07:00	Global Economic Indicator IGAE (y/y)	Aug	--	3.0	1.3
US	10-25	09:00	S&P/Case-Shiller Home Price Index (m/m)	Aug	--	-0.8	-0.4
US	10-25	09:00	S&P/Case-Shiller Home Price Index (y/y)	Aug	--	14.1	16.1
US	10-25	10:00	Consumer Confidence Index	Oct	106	105.5	108.0
US	10-25	10:00	Richmond Fed Manufacturing Index	Oct	--	-5.0	0.0
US	10-26	07:00	MBA Mortgage Applications (w/w)	Oct 21	--	--	-4.5
US	10-26	08:30	Wholesale Inventories (m/m)	Sep P	--	1.0	1.3
CA	10-26	10:00	BoC Interest Rate Announcement (%)	Oct 26	4.00	3.75	3.25
US	10-26	10:00	New Home Sales (000s a.r.)	Sep	580	580.0	685.0
MX	10-27	07:00	Trade Balance (US\$ mn)	Sep	--	-4938.0	-5498.2
MX	10-27	07:00	Unemployment Rate (%)	Sep	--	3.5	3.5
US	10-27	08:30	Durable Goods Orders (m/m)	Sep P	0.8	0.6	-0.2
US	10-27	08:30	Durable Goods Orders ex. Trans. (m/m)	Sep P	0.2	0.2	0.3
US	10-27	08:30	GDP (q/q a.r.)	3Q A	2.5	2.3	-0.6
US	10-27	08:30	GDP Deflator (q/q a.r.)	3Q A	--	5.3	9.0
US	10-27	08:30	Initial Jobless Claims (000s)	Oct 22	220	225	214
US	10-27	08:30	Continuing Claims (000s)	Oct 15	1,375	1,400	1,385
CA	10-28	08:30	Real GDP (m/m)	Aug	0.1	0.0	0.1
US	10-28	08:30	Employment Cost Index (q/q)	3Q	1.3	1.2	1.3
US	10-28	08:30	PCE Deflator (m/m)	Sep	0.3	0.3	0.3
US	10-28	08:30	PCE Deflator (y/y)	Sep	6.2	6.3	6.2
US	10-28	08:30	PCE ex. Food & Energy (m/m)	Sep	0.5	0.5	0.6
US	10-28	08:30	PCE ex. Food & Energy (y/y)	Sep	5.2	5.2	4.9
US	10-28	08:30	Personal Spending (m/m)	Sep	0.4	0.4	0.4
US	10-28	08:30	Personal Income (m/m)	Sep	0.3	0.3	0.3
US	10-28	10:00	Pending Home Sales (m/m)	Sep	--	-5.0	-2.0
US	10-28	10:00	U. of Michigan Consumer Sentiment	Oct F	--	59.7	59.8

EUROPE

Country	Date	Time	Indicator	Period	Consensus	Latest
FR	10-24	03:15	Manufacturing PMI	Oct P	47.0	47.7
FR	10-24	03:15	Services PMI	Oct P	51.5	52.9
GE	10-24	03:30	Manufacturing PMI	Oct P	47.0	47.8
GE	10-24	03:30	Services PMI	Oct P	44.9	45.0
EC	10-24	04:00	Composite PMI	Oct P	47.6	48.1
EC	10-24	04:00	Manufacturing PMI	Oct P	47.9	48.4
EC	10-24	04:00	Services PMI	Oct P	48.2	48.8
UK	10-24	04:30	Manufacturing PMI	Oct P	48.0	48.4
UK	10-24	04:30	Services PMI	Oct P	49.0	50.0
GE	10-25	04:00	IFO Business Climate Survey	Oct	83.5	88.6
GE	10-25	04:00	IFO Current Assessment Survey	Oct	92.4	94.5
GE	10-25	04:00	IFO Expectations Survey	Oct	74.9	75.2
GE	10-27	02:00	GfK Consumer Confidence Survey	Nov	-42.0	-42.5
GE	10-27	02:00	Retail Sales (m/m)	Sep	-0.7	-1.8
SP	10-27	03:00	Unemployment Rate (%)	3Q	--	12.5
EC	10-27	08:15	ECB Main Refinancing Rate (%)	Oct 27	2.00	1.25

Forecasts at time of publication.

Sources: Bloomberg, Scotiabank Economics.

Key Indicators for the week of October 24 – 28

EUROPE (continued from previous page)

Country	Date	Time	Indicator	Period	Consensus	Latest
FR	10-28	01:30	Consumer Spending (m/m)	Sep	1.1	0.0
FR	10-28	01:30	GDP (q/q)	3Q P	0.2	0.5
FR	10-28	02:45	CPI (m/m)	Oct P	0.5	-0.6
FR	10-28	02:45	CPI (y/y)	Oct P	5.7	5.6
FR	10-28	02:45	CPI - EU Harmonized (m/m)	Oct P	0.6	0.0
FR	10-28	02:45	CPI - EU Harmonized (y/y)	Oct P	6.4	6.2
FR	10-28	02:45	Producer Prices (m/m)	Sep	--	2.7
SP	10-28	03:00	CPI (m/m)	Oct P	--	-0.7
SP	10-28	03:00	CPI (y/y)	Oct P	8.0	8.9
SP	10-28	03:00	CPI - EU Harmonized (m/m)	Oct P	--	-0.2
SP	10-28	03:00	CPI - EU Harmonized (y/y)	Oct P	8.0	9.0
SP	10-28	03:00	Real GDP (q/q)	3Q P	0.3	1.5
GE	10-28	04:00	Real GDP (q/q)	3Q P	-0.2	0.1
EC	10-28	05:00	Economic Confidence	Oct	92.4	93.7
EC	10-28	05:00	Industrial Confidence	Oct	-1.5	-0.4
IT	10-28	05:00	CPI (m/m)	Oct P	--	0.3
IT	10-28	05:00	CPI (y/y)	Oct P	9.6	8.9
IT	10-28	05:00	CPI - EU Harmonized (m/m)	Oct P	1.4	1.6
IT	10-28	05:00	CPI - EU Harmonized (y/y)	Oct P	9.7	9.4
RU	10-28	06:30	One-Week Auction Rate (%)	Oct 28	7.50	7.50
GE	10-28	08:00	CPI (m/m)	Oct P	0.6	1.9
GE	10-28	08:00	CPI (y/y)	Oct P	10.1	10.0
GE	10-28	08:00	CPI - EU Harmonized (m/m)	Oct P	0.5	2.2
GE	10-28	08:00	CPI - EU Harmonized (y/y)	Oct P	10.9	10.9
UK	10-28		Nationwide House Prices (m/m)	Oct	--	0.0

ASIA PACIFIC

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
JN	10-23	20:30	Markit/JMMA Manufacturing PMI	Oct P	--	--	50.8
TA	10-24	04:00	Industrial Production (y/y)	Sep	--	1.3	3.7
TA	10-24	04:00	Unemployment Rate (%)	Sep	--	3.6	3.7
SK	10-24	17:00	Consumer Confidence Index	Oct	--	--	91.4
TH	10-24	23:30	Customs Exports (y/y)	Sep	--	4.4	7.5
TH	10-24	23:30	Customs Imports (y/y)	Sep	--	20.0	21.3
TH	10-24	23:30	Customs Trade Balance (US\$ mn)	Sep	--	-2,580	-4,215
SI	10-25	01:00	CPI (m/m)	Sep	--	0.4	0.9
SI	10-25	01:00	CPI (y/y)	Sep	--	7.5	7.5
JN	10-25	01:30	Nationwide Department Store Sales (y/y)	Sep	--	--	26.1
JN	10-25	02:00	Machine Tool Orders (y/y)	Sep F	--	--	4.3
HK	10-25	04:30	Exports (y/y)	Sep	--	--	-14.3
HK	10-25	04:30	Imports (y/y)	Sep	--	--	-16.3
HK	10-25	04:30	Trade Balance (HKD bn)	Sep	--	--	-13.3
SK	10-25	17:00	Business Survey- Manufacturing	Nov	--	--	75.0
SK	10-25	17:00	Business Survey- Non-Manufacturing	Nov	--	--	81.0
SK	10-25	19:00	Discount Store Sales (y/y)	Sep	--	--	9.9
SK	10-25	19:00	Department Store Sales (y/y)	Sep	--	--	24.8
AU	10-25	20:30	Consumer Prices (y/y)	3Q	--	7.0	6.1
AU	10-25	20:30	Consumer Prices (q/q)	3Q	--	1.6	1.8
VN	10-25		CPI (y/y)	Oct	--	4.4	3.9
VN	10-25		Industrial Production (y/y)	Oct	--	--	13.0

Forecasts at time of publication.

Sources: Bloomberg, Scotiabank Economics.

Key Indicators for the week of October 24 – 28

ASIA PACIFIC (continued from previous page)

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
JN	10-26	01:00	Coincident Index CI	Aug F	--	--	101.7
JN	10-26	01:00	Leading Index CI	Aug F	--	--	100.9
JN	10-26	01:00	New Composite Leading Economic Index	Aug F	--	--	100.9
SI	10-26	01:00	Industrial Production (m/m)	Sep	--	--	2.0
SI	10-26	01:00	Industrial Production (y/y)	Sep	--	2.1	0.5
SK	10-26	19:00	GDP (q/q)	3Q A	--	0.2	0.7
SK	10-26	19:00	GDP (y/y)	3Q A	--	2.9	2.9
CH	10-26	21:30	Industrial Profits YTD (y/y)	Sep	--	--	0.8
PH	10-26		Budget Deficit/Surplus (PHP bn)	Sep	--	--	-72.0
NZ	10-27	17:00	ANZ Consumer Confidence Index	Oct	--	--	85.4
JN	10-27	19:30	Jobless Rate (%)	Sep	--	2.5	2.5
JN	10-27	19:30	Tokyo CPI (y/y)	Oct	--	3.3	2.8
AU	10-27	20:30	Producer Price Index (q/q)	3Q	--	--	1.4
AU	10-27	20:30	Producer Price Index (y/y)	3Q	--	--	5.6
TA	10-28	04:30	Real GDP (y/y)	3Q A	--	3.5	3.1
JN	10-28	20:00	BoJ Policy Rate (%)	Oct 28	-0.10	-0.10	-0.10

LATIN AMERICA

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
BZ	10-24	08:30	Current Account (US\$ mn)	Sep	--	--	-4,136
BZ	10-25	08:00	IBGE Inflation IPCA-15 (m/m)	Oct	--	--	-0.4
BZ	10-25	08:00	IBGE Inflation IPCA-15 (y/y)	Oct	--	--	8.0
BZ	10-26	17:30	SELIC Target Rate (%)	Oct 26	13.75	13.75	13.75
CL	10-28	08:00	Industrial Production (y/y)	Sep	--	--	-4.0
CL	10-28	08:00	Retail Sales (y/y)	Sep	-13	--	-13.2
CL	10-28	08:00	Unemployment Rate (%)	Sep	8.0	--	7.9
CO	10-28	14:00	Overnight Lending Rate (%)	Oct 28	10.50	11.00	10.00

Forecasts at time of publication.

Sources: Bloomberg, Scotiabank Economics.

Global Auctions for the week of October 24 – 28**NORTH AMERICA**

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
US	10-25	13:00	U.S. To Sell 2-Year Notes
US	10-26	13:00	U.S. To Sell 5-Year Notes
CA	10-27	12:00	Canada to Sell 30 Year Bonds
US	10-27	13:00	U.S. To Sell 7-Year Notes

EUROPE

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
EC	10-24	05:30	EU to Sell Bonds
BE	10-24	06:00	Belgium to Sell Bonds
GE	10-25	05:30	Germany to Sell EUR 4 Bln of 1.3% 2027 Bonds
IT	10-26	05:00	Italy to Sell Bonds
NO	10-26	05:00	Norway to Sell Bonds
UK	10-26	05:00	U.K. to Sell 0.50% 2029 Bonds
IT	10-28	05:00	Italy to Sell Bonds

ASIA-PACIFIC

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
CH	10-23	22:35	China Plans to Sell CNY 1Y Bond
CH	10-23	22:35	China Plans to Sell CNY 30Y Bond

LATIN AMERICA

No Scheduled Auctions.

Events for the week of October 24 – 28

NORTH AMERICA

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
CA	10-26	10:00	Bank of Canada Rate Decision
CA	10-26	10:00	Bank of Canada Releases Monetary Policy Report
CA	10-26	11:00	Bank of Canada's Macklem Speaks to Reporters After Decision

EUROPE

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
UK	10-22	14:00	BOE's Catherine Mann speaks
UK	10-25	04:55	BOE's Huw Pill speaks
EC	10-27	08:15	ECB Main Refinancing Rate
EC	10-27	08:15	ECB Marginal Lending Facility
EC	10-27	08:15	ECB Deposit Facility Rate
EC	10-27	08:45	ECB President Christine Lagarde Holds Press Conference
UK	10-27	11:30	BOE's Sam Woods speaks
EC	10-28	04:00	ECB Survey of Professional Forecasters

ASIA-PACIFIC

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
AU	10-23	18:05	RBA's Kent-Speech
JN	10-27	00:00	BOJ Policy Balance Rate
JN	10-27	00:00	BOJ 10-Yr Yield Target

LATIN AMERICA

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
BZ	10-26	17:30	Selic Rate
CO	10-28	14:00	Overnight Lending Rate

Global Central Bank Watch

NORTH AMERICA

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
Bank of Canada – Overnight Target Rate	3.25	October 26, 2022	4.00	3.75
Federal Reserve – Federal Funds Target Rate	3.25	November 2, 2022	4.00	4.00
Banco de México – Overnight Rate	9.25	November 10, 2022	10.00	10.50

Bank of Canada (BoC): A 75bps rate hike is expected along with a full suite of updated forecasts and communications on Wednesday. The case for another larger rather than a smaller hike is significantly conditioned upon the Governor's concerns toward the currency alongside persistent inflationary pressure and a still hawkish Federal Reserve.

EUROPE

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
European Central Bank – Refinancing Rate	1.25	October 27, 2022	2.00	2.00
European Central Bank – Marginal Lending Facility Rate	1.50	October 27, 2022	2.25	2.25
European Central Bank – Deposit Facility Rate	0.75	October 27, 2022	1.50	1.50
Bank of England – Bank Rate	2.25	November 3, 2022	3.25	3.25
Swiss National Bank – Sight Deposit Rate	0.50	December 15, 2022	1.25	1.25
Central Bank of Russia – One-Week Auction Rate	7.50	October 28, 2022	7.50	7.50
Sweden Riksbank – Repo Rate	1.75	November 24, 2022	2.50	2.50
Norges Bank – Deposit Rate	2.25	November 3, 2022	2.75	2.75
Central Bank of Turkey – Benchmark Repo Rate	10.50	November 24, 2022	12.00	12.00

European Central Bank (ECB): The ECB is expected to raise interest rates by 75 bps next week, which follows their 75 bps jumbo hike in September. Inflation remains stubbornly elevated at a hair less than 10% y/y. Lagarde explicitly stated that interest rates will rise over the next several meetings and that they will overshoot the terminal rate if needed. Expect somewhat more guidance around quantitative tightening plans and rule changes on soaring interest payments affecting TLTRO loans that could carry significant implications for banks. **Central Bank of Russia (CBR):** No changes to the 7.50% policy rate are

ASIA PACIFIC

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
Bank of Japan – Policy Rate	-0.10	October 28, 2022	-0.10	-0.10
Reserve Bank of Australia – Cash Rate Target	2.60	October 31, 2022	2.85	2.85
Reserve Bank of New Zealand – Cash Rate	3.50	November 22, 2022	4.00	4.00
People's Bank of China – 1-Year Loan Prime Rate	3.65	November 20, 2022	3.65	3.65
Reserve Bank of India – Repo Rate	5.90	December 6, 2022	6.15	6.00
Bank of Korea – Base Rate	3.00	November 24, 2022	3.00	3.00
Bank of Thailand – Repo Rate	1.00	November 30, 2022	1.25	1.25
Bank Negara Malaysia – Overnight Policy Rate	2.50	November 3, 2022	2.75	2.75
Bank Indonesia – 7-Day Reverse Repo Rate	4.75	November 17, 2022	4.50	4.50
Central Bank of Philippines – Overnight Borrowing Rate	4.25	November 17, 2022	4.50	4.50

Bank of Japan (BoJ): The BoJ is once again expected to leave its policy rate on hold at -0.10% and continues to favour growth support at the expense of yen depreciation, slight inflation risk, and divergent policy with the hawkish Fed. Inflation's rise to 3% is likely to continue to be viewed as transitory and not in keeping with the desire for durable achievement of the 2% inflation target.

LATIN AMERICA

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
Banco Central do Brasil – Selic Rate	13.75	October 26, 2022	13.75	13.75
Banco Central de Chile – Overnight Rate	11.25	December 6, 2022	11.25	11.25
Banco de la República de Colombia – Lending Rate	10.00	October 28, 2022	10.50	11.00
Banco Central de Reserva del Perú – Reference Rate	7.00	November 10, 2022	7.25	7.25

Banco Central do Brasil (BCB): The BCB held its policy rate unchanged at 13.75% its September meeting and we expect the same for next week. The Bank offset this pause decision with a signal that it is ready to quickly resume its hiking cycle if inflation maintains an upward trajectory. Until new data becomes available, we maintain our view that the Selic rate will remain at 13.75% until Q2-2023, where monetary easing will then take place. **Banco de la República de Colombia (BanRep):** Recent inflation surprises and the sharp depreciation of the peso will keep the central bank in its tightening cycle and perhaps draw out another jumbo hike of 100bps or more.

AFRICA

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
South African Reserve Bank – Repo Rate	6.25	November 24, 2022	6.50	6.50

Forecasts at time of publication.

Sources: Bloomberg, Scotiabank Economics.

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