

Market Data as of Tuesday February 7, 2012 9:00 a.m.

| World Indices                |          |        |        |        | Commodities Highest Volume Futures |         |        |        |
|------------------------------|----------|--------|--------|--------|------------------------------------|---------|--------|--------|
|                              |          | Change | %      | YTD    |                                    | Bid     | Change | %      |
| S&P / TSX Composite Index    | 12559.85 | 0.00   | 0.00%  | 5.09%  | Aluminum (lb)                      | 1.00    | -0.00  | -0.36% |
| Dow Jones Industrial Average | 12845.13 | 0.00   | 0.00%  | 5.14%  | Copper (lb)                        | 3.81    | -0.05  | -1.32% |
| S&P 500                      | 1344.33  | 0.00   | 0.00%  | 6.91%  | Nickel (lb)                        | 9.72    | -0.15  | -1.47% |
| Nasdaq                       | 2901.99  | 0.00   | 0.00%  | 11.41% | Zinc (lb)                          | 0.95    | -0.02  | -1.62% |
| FTSE-100 (London)            | 5892.20  | -8.87  | -0.15% | 5.85%  | Gold (oz)                          | 1721.30 | -1.50  | -0.09% |
| CAC 40 (Paris)               | 3391.76  | -13.51 | -0.40% | 7.34%  | Silver (oz)                        | 33.42   | -0.30  | -0.90% |
| DAX (Frankfurt)              | 6709.88  | -54.95 | -0.81% | 13.76% | Crude (bbl)                        | 96.05   | -0.86  | -0.89% |
| Nikkei (Tokyo)               | 8917.52  | -11.68 | -0.13% | 5.47%  | Nat. Gas (mmBtu)                   | 2.59    | 0.04   | 1.69%  |
| Hang Seng (H.K.)             | 20699.19 | -10.75 | -0.05% | 12.29% | Lumber (Mbf)                       | 274.60  | 2.10   | 0.77%  |

| Canadian Bonds     |      |        | U.S. Bonds     |      |        | Currencies       |        |         |
|--------------------|------|--------|----------------|------|--------|------------------|--------|---------|
|                    | Bid  | Change |                | Bid  | Change |                  | Bid    | Change  |
| 3 Month            | 0.86 | 0.00   | 3 Month        | 0.08 | 0.00   | \$CDN/\$U.S.     | 0.9965 | -0.0021 |
| 6 Month            | 0.91 | 0.01   | 6 Month        | 0.11 | 0.02   | \$U.S./\$CDN     | 1.0035 | 0.0021  |
| 2 Year             | 1.03 | 0.01   | 2 Year         | 0.25 | 0.01   | \$U.S./£Sterling | 1.5817 | 0.0021  |
| 5 Year             | 1.35 | 0.03   | 5 Year         | 0.79 | 0.02   | \$U.S./\$Euro    | 1.3168 | 0.0065  |
| 10 Year            | 2.00 | 0.03   | 10 Year        | 1.94 | 0.02   | ¥Yen/\$U.S.      | 76.71  | -0.06   |
| 30 Year            | 2.59 | 0.02   | 30 Year        | 3.12 | 0.02   |                  |        |         |
| BoC Overnight Rate | 1.00 | 0.00   | Fed Funds Rate | 0.25 | 0.00   |                  |        |         |
| Prime Rate         | 3.00 | 0.00   | Prime Rate     | 3.25 | 0.00   |                  |        |         |

| Index Futures |          |       |
|---------------|----------|-------|
| Dow Jones     | 12776.00 | 0.00  |
| Nasdaq        | 2520.25  | -5.50 |
| S&P 500       | 1335.70  | -3.40 |

Market Data is indicative. Source Reuters.

**Economic Releases**
 **Canada**

- Feb 7 — Building Permits MoM for Dec - EST: 0.00%
- Feb 8 — Housing Starts for Jan - EST: 195.0K
- Feb 9 — New Housing Price Index MoM for Dec - EST: 0.20%
- Feb 9 — New Housing Price Index YoY for Dec - EST: 2.50%
- Feb 10 — Int'l Merchandise Trade for Dec - EST: 0.70B

 **United States**

- Feb 7 — IBD/TIPP Economic Optimism for Feb - EST: 48.1
- Feb 7 — Consumer Credit for Dec - EST: \$7.000B
- Feb 7 — JOLTs Job Openings for Dec - EST: --
- Feb 8 — MBA Mortgage Applications for Feb 3 - EST: --
- Feb 9 — Initial Jobless Claims for Feb 4 - EST: 370K
- Feb 9 — Continuing Claims for Jan 28 - EST: 3505K
- Feb 9 — Wholesale Inventories for Dec - EST: 0.50%
- Feb 9 — Bloomberg Consumer Comfort for Feb 5 - EST: --
- Feb 10 — Monthly Budget Statement for Jan - EST: -\$45.0B
- Feb 10 — Trade Balance for Dec - EST: -\$48.5B
- Feb 10 — U. of Michigan Confidence for Feb - EST: 74

## Rating Changes

## Target Price Changes

| Company           | New                    | Old                 | Company                  | New       | Old       |
|-------------------|------------------------|---------------------|--------------------------|-----------|-----------|
| Mullen Group Ltd. | 1-Sector<br>Outperform | 2-Sector<br>Perform | Héroux-Devtek Inc.       | \$13.50   | \$13.00   |
|                   |                        |                     | Paramount Resources Ltd. | \$44.00   | \$43.00   |
|                   |                        |                     | TransForce Inc.          | \$18.50   | \$16.50   |
|                   |                        |                     | Weyerhaeuser Company     | US\$20.50 | US\$20.25 |

## Companies Reporting Today

| Company                                   | Quarter | Scotia<br>Estimates | Last<br>Year | Previous<br>Quarter |
|---|---------|---------------------|--------------|---------------------|
| Anadarko Petroleum Corporation            | 2       | n.a.                | US\$-0.08    | US\$0.73            |
| Bell Aliant Inc.                          | 4       | \$0.35              | \$0.41       | \$0.33              |
| Lincoln National Corporation <sup>1</sup> | 4       | n.a.                | n.a.         | n.a.                |
| Louisiana-Pacific Corporation             | 4       | US\$-0.18           | US\$-0.05    | US\$-0.24           |
| Yara International ASA                    | 4       | \$9.00              | \$5.42       | \$12.42             |

<sup>1</sup> Company reports after market close.

## Canadian Equities

### Telecommunications and Cable

#### ■ New Wireless Entrants: Public Mobile Update

Yesterday, we attended a meeting with Public Mobile's management team. PM finished 2011 with approximately 200k subs and believes it came in #2 with 45k net sub adds in Q4/11. This was in line with our estimates. Having achieved some scale in 2011, PM now believes it is time to look for ARPU leverage in 2012 through price increases and new revenue from data and roaming. Combined with other new entrants' and Koodo's recent price increases, we believe this is a relief from a price intensity perspective. However, the gap in U.S./Canada ARPU and Canadian incumbent-new entrants ARPU will continue to pressure voice ARPUs. No rush to consolidate. We believe PM is in no rush to consolidate and the company believes Wind-Mobilicity consolidation will likely take place in 2012. We believe this will likely only occur in 2H/F12, after auction rules are released and foreign ownership rules are eased (if at all). Our ratings and targets are unchanged. PM has been a pleasant surprise with respect to sub adds and cost control. While PM has had its growing pains like Mobilicity and Wind, the management team's strategic focus remains consistent and the sub trends appear to be moving in the right direction. — **Fan Jeff**

### Canadian Pacific Railway Limited (CP - \$74.34)

Rating: 2-Sector Perform

Target: \$76.50

#### ■ Highlights from Pershing Meeting

We attended the meeting hosted by Pershing Square. Mr. Harrison's plan for CP is centered on culture change across the whole organization, which should help to drive operational improvements via better service reliability, higher labour productivity, fuel efficiency, and asset utilization. Mr. Harrison also suggested that the improvement can come without significant increase in, but improve LT predictability of capex. The 65% OR target by 2015 assumes reasonable volume growth and pricing in line with rail inflation. Divestment of non-core assets and excess real estate is not off the table; however, understandably it is difficult for Harrison to provide definitive comments on this. That said, Pershing does not believe that it is possible to extract value by breaking up the railroad. The improvements are likely to be back-end loaded as Mr. Harrison suggested that it is difficult to move

the needle in the first 12-18 months. Our view is not dissimilar, considering that culture change is, in our view, a time-consuming process. There is no change to our 2-SP rating or \$76.50 one-year target. — **Quettawala Turan**

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## U.S. Equities

None to report

## Fixed Income Morning Comments

### Current PAG Recommendations

1. Term Call – Given the recent decline in yields, we no longer see value in the mid to long end of the curve and recommend investors stay short at this time.
2. Sector Call – Underweight Canada's, overweight provincials, municipals and corporates
3. Currency Call – We recommend Canadian investors remain in Canadian dollars for their fixed income holdings.
4. Alternative Strategies – Market weight high yield, market weight emerging markets debt, underweight inflation protected debt.

### Bonds Traded Flat in Anticipation of Greek Debt Decisions

**Bonds sold off to start the day yesterday, as the market was still waiting in anticipation of any sort of news out of Greece.** It looked as though we were expecting some answers yesterday however a gathering of Greek political leaders was delayed until today as they struggled for a unified response. While equities kept some of their gains from last week, bonds traded relatively flat throughout the day and ended with yields lower in Canada by -0.02% to -0.04% and lower in the U.S. by -0.01% to -0.04%. It was a fairly uneventful day in the markets with no economic data out in either Canada or the U.S.

**Corporate credit markets saw very light activity yesterday,** however they did see some profit taking in shorter dated deposit notes which had tightened in approximately 12 basis points last week. Credit markets are softer this morning as Germany reported Industrial Production at a surprisingly weak level of -2.9% in December. Also, Greece continues to weigh on the markets again today, with more people believing that Greece could exit the Eurozone.

**Overnight,** Asian-Pacific markets were mixed with Shanghai stocks sliding as China's government failed to loosen monetary policy. China's Ministry of Industry and Information Technology said that Chinese industrial output growth would slow in Q1 2012. The ministry also noted that "China's industry development is facing an increasingly complex domestic and international environment with increased unstable and uncertain factors." All eyes will be on Greece today, as the leaders of Greece's three coalition parties are due to hold final talks with Prime Minister Lucas Papademos today. It is said that the full package must be agreed with Greece and approved by the euro zone, European Central Bank and International Monetary Fund before February 15th, to allow time for complex legal procedures involved in a bond swap deal.

**On tap for today** – Building permits will be released in Canada for December with expectations of 1.0%, and in the U.S., there will be economic optimism and consumer credit for December. The U.S. will also auction 3-year bonds at 1pm today. Bonds are starting the day off little changed with yields in Canada and the U.S. up by

+0.01% across the curve.

## **Scotiabank GBM Corporate Notes: Robert Follis**

We will be watching for the first of the telco earnings today, - Bell Aliant results expected later this morning.

Toyota is showing some signs of improvement in fiscal Q3, although we still expect to see a lot more strength in the coming quarters. A 9% y/y jump in Q3 sales helped to boost operating income to 149bn yen vs 99bn yen y/y, in spite of negative foreign exchange impacts. A large tax settlement actually saw net income fall to 81bn yen vs 93bn yen y/y.

The improvement in production during the quarter (+8.2% y/y) was due almost entirely to the recovery in Japan, which more than offset the reduced Asian production (due to Thai flooding). Japan still losing a bit of money in Q3, but the loss is materially lower (30bn yen vs 122bn yen y/y). Financial Services actually saw profits decline y/y to 63bn yen vs 92bn yen, but this was due to unusual gains (provision reversals) taken in the previous year. Management is raising its full year forecast for the current fiscal year, with net income expected to come in 11% higher than previously forecast (up to 200bn yen vs 180bn yen previously forecast). Net - we don't see these results as removing any of the negative outlooks, but the improvement seen, and the expectation for further upside (raised guidance) should keep the current ratings intact for a while.....but we still feel the company needs to show much more progress in both production and sales levels - neutral for bond spreads.

The January air traffic levels should be music to the ears of airport executives (and bondholders) - Air Canada revenue passenger miles (RPM's) up 9.1% y/y for the month, while WestJet was up 11.5%. Net - no specific data about which airports or regions saw the increases, but the heavier volumes, combined with increases in the size of the fleets (more people, and more airplanes) is good news for the airports (GTAA), and also issuers like NAV CANADA. Net - we see this as keeping the bid for GTAA bonds, and neutral for NAV CANADA bonds (already expensive).

Some good news out of Suncor, as it reports that its January oil sands production was up to 345,000bpd, up from the 316,000bpd of the previous month, and also up from the 329,000 bpd of the previous January. Net - good start to the year - at current prices, more production is always good.

(Please contact your investment executive for a copy of the original report)

## **Current PAG Recommendations**

1. Term Call – Scotia Economics is forecasting a flatter yield curve over the next 12-15 months. With current 10 and 30 year yields trading well below Scotia Capital's current rate forecast, we do not expect the rally in bonds to continue; therefore we recommend investors stay short at this time.

2. Sector Call – We recommend investors look to the provincial, municipal, and corporate sectors for yield enhancement. Credit spreads (the yield pick-up over Canada bonds) still remain attractive.

3. Currency Call – Scotia Economics' and consensus forecast expectations are for the Canadian dollar to outperform most major currencies over the next year, therefore we recommend Canadian investors remain in Canadian dollars for their fixed income holdings at this time.

4. Alternative Strategies: Within a broadly diversified portfolio our recommendations are as follows:

a) High Yield – In conjunction with our continued positive equity market outlook for the next 12 months (based on the outlook for economic recovery), we recommend investors maintain a market weight position in high yield debt.

b) Emerging Markets – Emerging markets sovereign debt has rallied significantly over the past 12 months. With the benchmark JPMorgan Emerging Markets Bond Index Plus (EMBI+) at a yield-to-maturity of 6.19% and a return of 7.61% for the last year, we now feel this sector is fairly valued. There remains value in the corporate and local currency sectors; however we suggest being market weight high yield and emerging markets debt at this juncture.

c) Inflation Protected Bonds – with current real yields in the area of 0.39%, and the market pricing in an effective long term inflation rate of just 2.12%, we see limited value in Canadian Real Return Bonds, and hence recommend an underweight exposure to the sector,

Amy Billingham – Associate, Portfolio Advisory Group – Fixed Income

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| Company | Ticker | Disclosures* |
|---------|--------|--------------|
|---------|--------|--------------|

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The stock is expected to outperform the average total return of the analyst's coverage universe by sector over the next 12 months.

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Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

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High financial and/or operational risk, low predictability of financial results, high stock volatility.

##### Caution Warranted

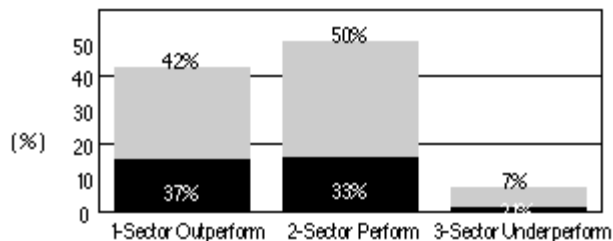
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\* As at January 31, 2012.

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