ScotiaMcLeod — Daily Market Summary

Market Data as of Friday September 3,2010 9:00 a.m.

World Indices

		Change	%	YTD
S&P / TSX Composite Index	12111.09	0.00	0.00%	3.28%
Dow Jones Industrial Average	10320.10	0.00	0.00%	-1.04%
S&P 500	1090.10	0.00	0.00%	-2.24%
Nasdaq	2200.01	0.00	0.00%	-3.05%
FTSE-100 (London)	5436.50	65.46	1.22%	0.44%
CAC 40 (Paris)	3696.70	65.27	1.80%	-6.09%
DAX (Frankfurt)	6165.01	81.16	1.33%	3.48%
Nikkei (Tokyo)	9114.13	51.29	0.57%	-13.58%
Hang Seng (H.K.)	20971.50	102.58	0.49%	-4.12%

Commodities Highest Volume Futures

	Bid	Change	%
Aluminum (lb)	0.98	0.01	0.60%
Copper (lb)	3.52	0.03	0.82%
Nickel (lb)	10.03	0.14	1.45%
Zinc (lb)	0.99	0.01	0.69%
Gold (oz)	1240.80	-10.70	-0.85%
Silver (oz)	19.56	-0.08	-0.40%
Crude (bbl)	75.12	0.10	0.13%
Nat. Gas (mmBtu)	3.83	0.08	2.24%
Lumber (Mbf)	206.80	-0.70	-0.34%

Canadian Bonds

	Bid	Change
3 Month	0.80	0.09
6 Month	0.97	0.06
2 Year	1.37	0.08
5 Year	2.21	0.10
10 Year	2.97	0.10
30 Year	3.59	0.07
BoC Overnight Rate	0.75	0.00
Prime Rate	2.75	0.00

U.S. Bonds

	Bid	Change
3 Month	0.14	0.00
6 Month	0.19	0.00
2 Year	0.53	0.04
5 Year	1.51	0.08
10 Year	2.74	0.12
30 Year	3.85	0.14
Fed Funds Rate	0.25	0.00
Prime Rate	3.25	0.00

Currencies

	Bid	Change
$CDN/$U.S.	1.0434	-0.0110
$U.S./$CDN	0.9584	0.0100
$U.S./£Sterling	1.5447	0.0039
$U.S./$Euro	1.2840	-0.0000
¥Yen/$U.S.	85.03	0.59

Index Futures

Dow Jones	10421.00	112.00
Nasdaq	1861.00	23.75
S&P 500	1101.00	11.40

Market Data is indicative. Source Reuters.

Economic Releases

Canada

None scheduled

United States

Sep 3 — Avg Hourly Earning MOM All Emp. for Aug - EST: 0.1%

Sep 3 — Avg Weekly Hours All Employees for Aug - EST: 34.2

Sep 3 — Unemployment Rate for Aug - EST: 9.60%

Sep 3 — Avg Hourly Earning YOY All Emp. for Aug - EST: 1.6%

Sep 3 — Change in Manufact. Payrolls for Aug - EST: 10K

Sep 3 — Change in Nonfarm Payrolls for Aug - EST: -100K

Sep 3 — ISM Non-Manf. Composite for Aug - EST: 53.2

Sep 3 — Change in Private Payrolls for Aug - EST: 49K

Rating Changes

Company	New	Old
None to report		

Target Price Changes

Company	New	Old
Laurentian Bank of Canada	$54.00	$50.00

Companies Reporting Today

Company	Quarter	Scotia Estimates	Last Year	Previous Quarter

None to report

Canadian Equities

Artis REIT (AX.UN - $12.70) **Rating: 2-Sector Perform** **Target: $12.50**

- 2-SP Rating Reiterated; Index Inclusion Awaits

Resuming coverage post 7.6M unit raise ($12.20/unit, gross proceeds of $92.6M including o/a). $225M-$250M of acquisition capacity. Post equity raise and $52.5M of announced acquisitions, an estimated $110M of cash supports our Q4/10 $230M acquisition forecast; pro forma 56% debt/GBV is in line with the 54% avg. for its diversified peers. Index inclusion anticipated on September rebalance. Artis has performed in line with the sector, and outperformed Dundee by 5% post-Q2 results. We think AX will qualify for the index, although heavier recent trading suggests some investor pre-positioning. Nearterm trading aside, we view index inclusion as a positive, improving Artis' liquidity and investor mind share. Estimates mostly intact. Our 2011E YOY AFFOPU growth of 9% exceeds the ~7% REIT sector avg., primarily driven by external growth. One-year target modestly bumped to $12.50. We view the units as reasonably valued (12x 2011E AFFO/7.6% implied cap). — **Saric Mario**

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Andean Resources Limited (AND - $4.81) **Rating: 2-Sector Perform** **Target: $3.50**

- Multiple Bids: First Eldorado, Then Goldcorp

Last night, Eldorado Gold confirmed it has proposed a share exchange to Andean. Early this morning, Goldcorp and Andean announced Goldcorp's friendly offer to takeover the company. Eldorado's offer is 0.310 Eldorado shares per Andean share, or C$6.36, a 42% premium to the 10-day trading average, or a P/NAV of 2.36x. Goldcorp's offer is 0.14 Goldcorp shares or $6.50 cash, giving a 45% premium to the 10-day trading average, or P/NAV of 2.41x. Goldcorp and Andean are holding their conference call at 10:30 am ET (7:30 am PDT) at 866-223-7781 or 416-340-8018. Eldorado is holding a conference call at 11:30 am (8:30 am PDT) at 416-695-6622 or 1-800-335-4959. Prior to the calls, our initial view is that the Goldcorp offer is superior not just because of the price but because of the option to take cash rather than shares. In addition, we believe that with management and 21% shareholder Sentient onside, the Goldcorp offer is more likely to prevail. — **Gopinathan Indi**

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Eldorado Gold Corporation (EGO - U$19.46) Rating: 2-Sector Perform Target: U$20.00

- Starting the Battle

Eldorado announced that it has made an offer to purchase all the outstanding shares of Andean Resources to the Andean Board. Eldorado announced that it has approached the board of Andean Resources to combine the two companies at a significant premium. The proposal put to the Andean Board was for a share exchange transaction at a fixed exchange ratio of 0.310 of an Eldorado common share for each Andean ordinary share, through a friendly transaction supported by a majority of the Andean directors. The Andean management team, however, was in discussions with Goldcorp, who at 1:35 AM this morning, announced a friendly transaction with Andean. Goldcorp's cash and share bid is valued at C$6.50/share vs. Eldorado fs all share bid at C$6.36. We believe the Andean asset could have provided Eldorado with a platform in South America from which to grow and augment its base in Turkey, Brazil, and China. However, we believe the Goldcorp bid with a solid cash component will be more appealing to Andean shareholders. — **Christie David**

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Toronto-Dominion Bank (TD - $73.17) Rating: 1-Sector Outperform Target: $90.00

- Q3/10 Solid Earnings in Line

TD operating EPS declined 2% to $1.43, in line with expectations. Earnings were solid, driven by a strong performance at Canadian P&C (TDCT) with earnings up 24% YOY, followed by U.S. P&C up 19%, and Wealth Management up 10%, offset by a 45% decline in Wholesale. The bank viewed the Wholesale, earnings decline as normalization. The major weakness was in Wholesale driven by a decline in trading, although trading was solid in the context of the market. LLPs declined as credit trends improved. Retail margin was flat QOQ with overall margin declining. ROE was 13.6%, RRWA was 2.65%, Tier 1 Capital is 12.5%. TDCT continues to be the main driver in earnings with revenue growth of 8% driven by volume as the bank gained market share in both personal & business lending. Our 2010E EPS is unchanged at $5.85. We have reduced our 2011E EPS to $6.50 from $6.60 due to lower economic growth outlook and moderating net interest margin as the prospect for higher interest rates is delayed. Our one-year target price is unchanged at $90. We maintain our 1-SO rating based on strong retail franchise and improving earnings in the U.S. — **Choquette Kevin**

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U.S. Equities

Freeport-McMoRan Copper & Gold Inc. (FCX - U$76.96) **Rating: Outperform** **Target: U$95.00**

- Why We Think FCX Will Be $95+ By Year-End

Given the recent rebound in FCX shares, we think its a good time to highlight the key catalysts we believe will take FCX shares to $95+ by the end of 2010. 1. A Top down catalyst: Chinese PMI-85% of the time, FCX shares move in the same direction as the metals products component of Chinese PMI over a 3 month period (since 2008). Further, there have been 3 meaningful trough's in the metal products component of the Chinese PMI since the beginning of 2008, and FCX shares have increased by an average of 12% during the 3 months after the trough. The metals product component of Chinese PMI hasn't troughed yet (August hit the lowest point since Feb 2010 @56.8), but we think it will soon, setting the stage for another leg up in FCX shares in our view. 2. Three bottoms up catalysts-We think three company specific events over the next six months will further boost FCX shares…a) Special dividends/share repurchases-FCX is on pace to be net debt negative by late 2010/early 2011. We believe management will restart paying special dividends and/or repurchasing stock. b) Accretive project pipeline announcements - We believe FCX management will begin to take concrete actions towards developing some of its project pipeline (Climax moly mine, Cerro Verde expansion, etc), which we believe have the potential to significantly boost earnings power and growth beyond 2011 (i.e. 50% incremental volume growth potential over the next 5-10 years in total). c) Nearterm quarterly earnings momentum - Given stronger 2H'10 gold & copper volumes AND the recent rebound in underlying prices, we estimate FCX's quarterly earnings will improve ~60% from Q2'10 to Q4'10. Valuation & Bottom Line - FCX shares are trading at only 3.7x our 2011 EBITDA estimate. Our $95 target price represents only 4.5x our 2011 EBITDA estimate…still conservative in our view, given a) FCX's free cash flow generation, and b) strategic position within the copper industry. In our view the combination of 1. A low valuation-based starting point, and 2. A number of potential positive near term catalysts positions FCX shares extremely well in the coming months. — **D. Gagliano**

China Economics

- Improved sentiment in the real estate sector - August non-manufacturing PMI at 57.6 (sa)

August non-manufacturing PMI dipped 0.2 p.p. to 57.6 (sa), with the expectation index falling 1 p.p. to 65.4 (sa). The moderation was led by weaker construction, but cushioned by retail sales and real estate. Stronger sentiment has emerged in the real estate sector, with expectation index up 2.4 p.p. to 57.8 (sa). This echoes the rebounding property transaction volumes and improved sentiment over the past weeks. The construction sector saw weaker activities. Input price was up 5.5 p.p., suggesting higher inflation. We think property sales in the coming two months will matter a lot to the Chinese economy. A strong rebound in sales would be positive for developers and home construction, but any meaningful rise in home prices probably will invite new (measured) tightening. This data and the manufacturing PMI suggest a manageable growth slowdown. The government can afford not to, and should not, launch new stimulus at this juncture. Higher retail prices remove any possibility of further monetary easing. — **D. Tao**

Fixed Income Morning Comments

Portfolio Advisory Group Fixed Income – Current Recommendations

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.

Sector Call – Underweight Canada's, overweight provincials, municipals and corporates

Currency Call – Investors should now sell Australian dollar exposures. With the AUD/CAD currency now trading above 0.95 (above Scotia Economics year end target of 0.90) we are now recommending investors take profits and exit the trade recommendation made back in April.

Alternative Strategies – Overweight high yield, overweight Emerging Markets Debt, underweight inflation protected.

See our overall recommendations below.

Stronger than Expected Housing Data Lead Rates Higher Ahead of Today's Nonfarm Payroll Report

Steepening in the U.S. continued on the back off strong economic data. Yields were sent higher in the belly and long end of the curve yesterday; however the front end remained well bid with the Fed likely to hold on interest rates well into 2011. Pending Home Sales for July were reported much higher than expected, coming in at 5.2% versus consensus forecasts of -1.0%. While there were revisions to last month's print, which helped this month's gain, markets were happy to see some positive economic data from the U.S. Rounding out the economic releases, Non-Farm Productivity came in at -1.8% in Q2, while Factory Orders posted a gain of 0.1% during July. Claims data were released mostly inline with expectations, however we saw some downward revisions to today's Non-Farm Payroll forecasts after the release. Two-year notes were sent lower by 0.008%, while five-year yields moved higher by 0.026%, ten-year notes ended higher by 0.05% and long bonds finished higher by 0.068%.

Canada Sovereigns sold off as the economic picture in the U.S. improved. Domestic yields moved higher, generally off the back of the moves in Treasuries. There was no economic data to report yesterday, and the lone earnings release was TD coming in $0.01 lower than expected at $1.43. The focal point for our yield curve today will be the non-farm payroll report heading into the long weekend. Reminder that the Bank of Canada (BoC) will release its decision on the overnight rate on September 8th (Wednesday), with a 60% probability that they will raise 0.25% (based on OIS breakeven curves.) Scotia Capital Economics is forecasting that the BoC will raise next Wednesday, which should help flatten the curve after the recent steepening. Yields were sent higher on two-year notes by 0.016%, five-year notes moved higher by 0.01%, ten's trended higher by 0.013% and long bonds closed higher by 0.016%.

Risk markets benefited from the housing beat. Equities were able to trend higher by 0.49-0.89%, putting the weekly gain at 3.00% heading into today's session. This helped the IG14 push tighter by 0.0246% on the day, and a full 0.08% from the wides last week. The rally in our credit market continued, tightening in aggregate by 0.03% for the day. One major theme that started to develop yesterday was the newer-vintage Tier 1 paper caught a bid, as the market started to become more comfortable with the fact that these are highly unlikely to be called at par. Comments from the institutional desk note that participants are concluding these issues could be grandfathered in or given tender offers (above par).

All-eyes will be on the Non-Farm Payroll report at 8:30am. Given the recent worries about the faltering U.S. economy, participants will be eagerly awaiting the Non-Farm Payroll report. Consensus is forecasting a decline of -105,000 during the month of August, and as aforementioned they have been revised lower since the claims data yesterday. The unemployment rate is projected to come in at 9.6% for August, and we will get the ISM Non-Manufacturing Index at 10:00am.

Relative Value: Roger Quick, Scotia Capital

US 10s are marginally weaker ahead of nonfarm this morning, approaching key initial support near 2.67%. I still think we have likely seen the lows in US yields. A lot of bad news had already been priced in. The Fed's bond buying program is unlikely to be increased to a more expansionary policy anytime soon, not until the Fed has evidence that the economic outlook has deteriorated further and deflation becomes a bigger threat. And presumably a lot of the big adjustments to mortgage prepayment hedging have already been done after the big decline in market yields and mortgage rates in the past month or two. Last week we suggested US 10s were likely to be in a broad 2.45% - 2.85% range for the next few months, and are sticking with that view. The US auctions 3s, 10s, and longs next week.

BoC Wednesday September 8. Scotia Economics forecasts that the BoC raises to 1.0%,, then pauses until next year. Scotia Economics released a revised forecast for the BoC yesterday, and now sees rates reaching 1.75% next year, down from 2.25% previously. Implied expectations for BoC tightening have edged up to 60% for next week, based on OIS levels.

Swap spreads tightened a bit yesterday, on low volumes. We still think there is a great longer-term opportunity in paying spreads. I think 5-year spreads are far too tight and should easily move 10 to 15 bps wider in the next few months, as noted previously. We also reiterate the recommendation to asset-swap Dec 2014 and 2015 CMB. Attached is an update of the chart of 5-year constant-maturity swap spreads and 3-month CDOR/OIS.

Corporate Notes: Robert Follis, Scotia Capital

Laurentian Bank Q3 net earnings of $27 million was up 7$ from last quarter and up 4% from last year, in line with expectations. While overall provisions rose to $20 million, from $16 million both last year and last quarter, commercial provisions spiked to $9 million, up from $4 million last quarter and $2 million last year. Four commercial loans accounted for most of the increase, though management said that credit conditions seem to have stabilized lately, and provisions should return to a more typical level. The Tier 1 capital was off slightly from last quarter, at 10.7% from 10.9%. Results look just neutral for spreads.

Enbridge Inc. announced an expansion of its Athabasca pipeline system, to accommodate Cenovus' Christina Lake oil sand project output. The expansion will increase the Athabasca Pipeline capacity to 430,000 bpd, at a cost of $185 million, and is expected to be on-line in Q3 of 2013. We are restricted on Enbridge Inc. and Enbridge Pipelines Inc.

Sun Life will redeem all its $300 million 6.65% subordinated debentures Series 3, due October 12, 2015. This series was originally issued by Clarica. This is in line with expectations, and neutral for spreads.

Power Financial will all redeem its $150 million 5.20% non-cumulative preferred shares, series C, on October 31st. On July 30th, Power financial redeemed its $150 million Series J 4.70% preferred shares. In Q2, Power Financial issued $280 million of 4.40% 5 year rate reset preferred shares. We see this refinancing activity as neutral for bond spreads.

Portfolio Advisory Group Fixed Income – Current Recommendations

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.

Sector Call – Underweight Canada's, overweight provincials, municipals and corporates

Currency Call – Investors should now sell Australian dollare exposures. With the AUD/CAD currency now trading above 0.95 (above Scotia Economics year end target of 0.90) we are now recommending investors take profit and exit the trade recommendation made back in April.

Alternative Strategies – Overweight high yield, overweight Emerging Markets Debt, underweight inflation protected.

1. Term Call – Scotia Economics is forecasting a flatter yield curve over the next 12 months. Longer term yields have fallen by 0.11-0.15% since Scotia Economics predicted a flatter yield curve, and are now trading well below their 10 and thirty year targets. We do not expect the rally in bonds to contiune, 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 – Investors should now sell Australian dollar exposures. With the AUD/CAD currency now trading above 0.95 (above Scotia Economics year end target of 0.90) we are now recommending investors take profits and exit the trade recommendation made back in April.

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 continue to recommend investors maintain an overweight position in high yield debt. Although the yield pick up on this asset class has narrowed, we see still see some room for further narrowing, and absolute yields of over 8.5% remain attractive.

b) Emerging Markets – Similar to our outlook for high yield and equities, we continue to see value in this sector versus both investment grade and high yield, based both on absolute yields in excess of 5.5%, and based on positive underlying fundamentals. Hence, we continue to recommend maintaining an overweight exposure.

c) Inflation Protected Bonds – with current real yields in the area of 1.53%, and the market pricing in an effective long term inflation rate of 2.54%, we see limited value in Canadian Real Return Bonds, and hence recommend an underweight exposure to the sector.

Sean Casey – Associate, Portfolio Advisory Group – Fixed Income

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GMEXICO_B

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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The stock is expected to perform approximately in line with the average total return of the analyst's coverage universe by sector over the next 12 months.

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

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Low
Low financial and operational risk, high predictability of financial results, low stock volatility.

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

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

Caution Warranted
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Venture
Risk and return consistent with Venture Capital. For risk-tolerant investors only.

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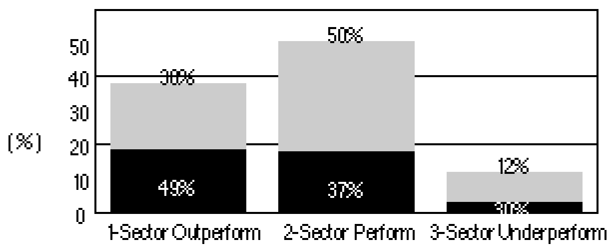

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