

2012 Outlook



Securities

December 15, 2011

Financial Market Outlook and Trading Themes for 2012

Global Synthesis: Unbalanced Markets for an Unbalanced World (pg. 2)

While we may ultimately leave 2012 in a better position than when we started it, it will be a bumpy ride to get there. The all-consuming European crisis has almost certainly not yet reached its peak, and it will continue to weigh on risk assets until it is resolved. We think that the resolution will be constructive, but until then volatility is a given.

Europe: Economic Consequences of the Treaty (pg. 4)

The most recent summit did little to address the pressing issues facing the Eurozone, and we expect pressures to intensify in the first quarter of 2012, with broad ratings downgrades and further restructuring from Greece. We expect disaster will be averted, but this will require a more aggressive response from the ECB.

Dollar Bloc: The Tale of the Tortoise and the Slightly Faster Tortoise (pg. 6)

Developments in the US will remain secondary to those in Europe, but growth should pick up nicely in the second half of the year as it becomes apparent that Europe will not totally implode. Still, we look for more QE in the US and easier monetary policy in Australia, while the Bank of Canada and RBNZ watch and worry from the sidelines.

Emerging Markets: Euroquake Shakes, Not Breaks EMs (pg. 8)

Troubles in the Eurozone have weighed heavily on emerging markets. 2012 may be a difficult year, but it should be a relatively robust one for emerging markets with Latin America and Asia outperforming Europe. The EMEA countries that have been most heavily impacted by the euro crisis could see sharp rebounds in their currency.

FX and Commodities: Looking for Performers in a Slow Growth World (pg. 9)

Risk and uncertainty dominate the outlook, with high volatility and a weak macro backdrop. Look for the USD to outperform vs. higher beta currencies during the first half of the year, with commodities also weakening – though the second half of the year will be favourable to metals.

Top 12 Trades For 2012 (pg. 11)

Buy 9 month EUR put, 1.27 strike

Short US 30yr TIPS Breakevens

Long NOK/SEK

Buy US 30yr Swap Spread

Sell AUD/NZD

Sell Sept 2013 BAX, Buy Sept 2012 BAX

EUR/HUF Capped Zero-Cost Seagull

Canada 3s5s Steepener

Long Palladium with a Protective Put

Long Australia 10yr vs US 10yr

Long December 2012 WTI Strangle

Gilt 2s30s Flattener

Financial Market Forecasts (pg. 17)

Unbalanced Markets for an Unbalanced World

Global growth and inflation forecasts for 2012 are not sufficiently strong for risk assets to climb uninhibited in the face of financial and fiscal sensitivities. Global growth of 2.5%, with most of it coming from emerging markets as the mature economies slow to just 1.0%, is not enough to absorb the stock of spare capacity in the mature economies, so the inflation forecast is falling.

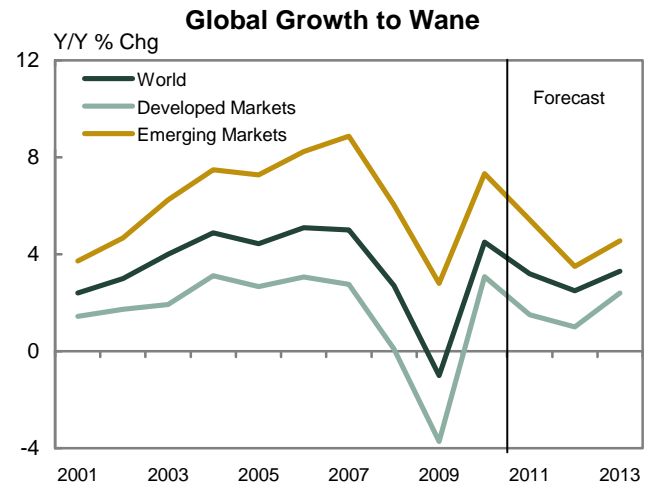
Financial markets are unwilling to move aggressively to a firm footing for risk until they see more in the way of growth. Nonetheless, there is pressure for risk assets to rise coming from a cash rate that remains well below most investors' hurdle rates. The market is desperate to take risk and find some positive returns. The late 2011 turn up in growth indicators in the United States, more plentiful liquidity provision in mature economies, and an easing of monetary policy in emerging markets saw equity markets rally strongly. But we need to be cautious.

Downside growth risks remain focused on Europe, and this remains the single biggest risk to the outlook for the global economy and risk asset markets. The need to stabilize expectations on the durability of the euro keeps the pressure on European leaders to accelerate the push for fiscal union necessary to steady the crisis. Political differences on the governance structure of that union have prevented a more decisive ECB intervention to stabilize sovereign debt yields. We are getting closer, but until that stabilizing intervention is executed, the euro crisis remains the key risk to the economic and financial outlook.

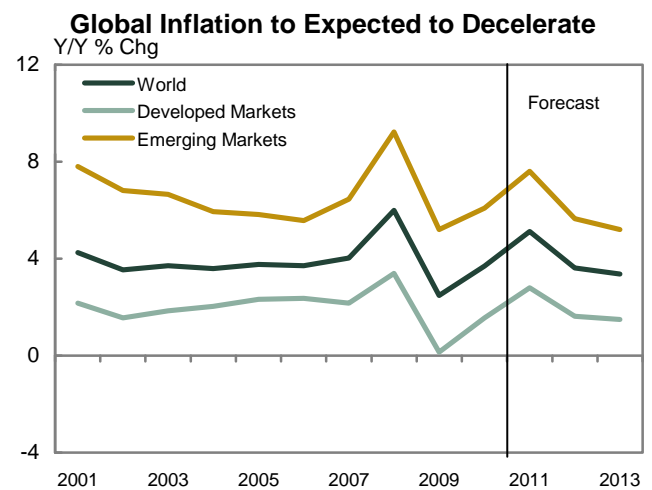
The world remains fundamentally unbalanced. The emerging world needs to save less just as mature economies need to save more, but if the adjustment must be borne entirely by deficit and debt reduction in the mature economies, growth sufficient to reduce high levels of unemployment will be difficult to find.

Other risks centre on emerging markets, which have secured rising living standards by using exports as a growth driver. They are reluctant to facilitate rapid domestic currency appreciation to favour domestic demand. Tensions to rebalance the global economy are unlikely to be resolved through decisive nominal exchange rate appreciation in 2012. Instead, the adjustment will likely come from higher rates of wage and price inflation in the emerging economies.

There are also risks in the mature economies. Inflation forecasts remain benign, and given the proximity of the 2008 financial crisis and widespread regulator-driven financial deleveraging, many continue to see deflation as the dominant risk. Yet, there are many empirical



Forecast by TD Economics; Source: IMF, TD Securities



Forecast by TD Economics; Source: IMF, TD Securities

irregularities. Goods and services price deflation is hard to find, and core inflation in many mature economies is at or above 2.0%, with headline inflation at or above 3.0%.

The mature economies are in the midst of a profound domestic and international economic rebalancing, which makes it difficult for them to generate strong job growth and rising incomes. Resources are being redirected from finance, construction and auto manufacturing to other growth sectors that are not immediately apparent. This process takes time, makes growth fragile during the interim, and risk asset returns become subject to strong reversals. In the end they are stronger for it, but getting there is plagued with uncertainty. 2012 will likely be kind to risk assets, but the road there will not be straight and smooth.

An Exercise in Asset Return Forecasting

In the past year, the best performing assets have been gold, emerging market and corporate bonds and US fixed income. Despite the push and the desire to take risk, risk asset values are mostly down from their start of year values. And it is not hard to understand why. Europe's existential crisis has sustained a speculative attack on the euro that only a reluctant ECB can quell. The spectre of European sovereign default keeps fears of another devastating financial crisis alive. The rest of the mature economies are going through an intense debt deleveraging that robs them of strong forward momentum, so growth is hard to find. Finally, central banks are unlikely to stand idle in such a world, and stalling growth is likely to be met with additional balance sheet expansion.

To be a good investor, you need to be a good forecaster of both the underlying economy and of financial assets. In a world of uncertainty, each forecast has an equal probability of being right, so the outcome is random. This is not a good place to be, but we will attempt to make a call based on some simplifying assumptions, notably that even though the European crisis will linger, the ECB will eventually quell the riot creating an environment where investors can take risk. Despite the wide error bands on economic forecasts, our Economics Department sees growth of about 1.8% in the US and Canada, and with some big corporate cash positions being put to work given recent intense M&A activity, corporate cash positions should be depleted into 2012.

But with economies flying so close to the ground, they are vulnerable to shocks and so that growth path is likely more volatile than it was prior to 2008. Finally, low inflation, and potentially more disinflation, is likely to prevail in 2012 and inflation volatility should also decline. With such intense uncertainty, gold should do well again in 2012 and we think a long bullion position could return nearly 35%, well ahead of other asset classes.

Our modelling of equity returns is largely driven by the equity discount rate, the premium that investors demand to expose themselves to uncertain future cash flows, and this rate is mostly determined by the path of GDP and its volatility. We then determine the equity risk premium set in a two-stage dividend discount model that makes a forecast of medium and long term earnings growth. Putting it all together, we estimate that with a dividend yield of about 1.8% the S&P500 should return about 7.0% in 2012. The same process applied to Canada equities derives an equity discount rate of about 4.25%, and with a dividend yield of 2.0% we think there is upside of a little over 10% in the TSX in 2012.

Fair Value Forecasts

Asset	Current Level (12/14/2011)	Forecasted Level (2012)	Expected Return*
S&P 500	1,212	1,280	7.20%
S&P/TSX	11,543	12,500	10.20%
US 10yr	1.90%	2.75%	-4.50%
US AA 5yr Credit Spread	76 bps	80 bps	0.50%
Oil	\$95/bbl	\$97.50/bbl	2.50%
Precious Metals	134	178	33.00%
Base Metals	113	107.5	-5.00%

Source: TD Securities. Forecasts are for end of period

* Long position, net of dividends/carry

What about bonds? Modelling US real interest rates on the basis of the going-in real rate of -2.0%, a corporate financing gap of -1.25% of GDP and inflation volatility of 1.5% gives us an equilibrium real rates of 0.75%, suggesting today's values are slightly rich. Adding in inflation expectations of about 2.0% implies a ten-year yield of about 2.75% and an annual 2012 nominal loss of about 4.5%. As for corporate credit, this asset class is highly sensitive to expected default rates and prevailing liquidity in capital markets. Sub-trend growth should push the default rate up slightly, and making cautious assumptions about liquidity leaves meagre upside of 0.5% in high grade credit.

And finally, commodities; for energy we are simply looking at crude oil and have created a fair value model around utilization rates (or demand/supply) and global real GDP growth. For 2012, we use our expectation of a 1.0 utilization rate and real GDP growth of around 2.5% to arrive at a fair value of \$97.50/bb. Average annual base metal prices are also forecast to fall by 5.0%, based on a fair value model that also incorporates real GDP and the utilization rate (expected to be 0.98). Base metals enter the model as a supply-based value-weighted index of copper, aluminum, nickel, lead and zinc, indexed to 100 in 2010.

We have also produced a similarly constructed index of precious metals (gold, silver, platinum, and palladium); our fair value model for precious metals uses the utilization rate (1.05 in this case), global real GDP growth, and 10 year US real yields. For 2012 we project an average annual fair value of 178.0—33% higher than its current level.

Europe: Economic Consequences of the Treaty

Get the Eurozone right, and everything else falls into place – for forecasts and for markets. Now if only getting the Eurozone right were easy. While the day-to-day, and even hourly, details are virtually impossible to predict, the big picture is slightly more manageable. Our strategy has been to allow the constraints to guide when actions must be taken and what is possible or not, and fade much of the rest as noise. Until there is a sustainable solution in place, continue to assume we have not seen the bottom in markets.

The Treaty establishing the Eurozone established a monetary union without a fiscal union. This has allowed imbalances to grow in the latter. The Treaty has established prohibitions on many of the potential actions that could soothe markets like bond purchases, the establishment of eurobonds, and fiscal burden sharing across borders. This has prevented the easier and earlier solutions. The economic consequences of the Treaty therefore put the Eurozone on a course for bonds – whether buying by the ECB via QE or issuing eurobonds by governments – or bust.

Eurozone - Out of the Woods and into the Woodshed?

There are three principal questions that must be answered for the European outlook in 2012. Does the financial crisis cause the Eurozone to dissolve? How bad of a growth slowdown will follow the financial market stress? How will policymakers respond?

Our assumption has been that we would not see the bottom in the Eurozone crisis until the first quarter of 2012 – with the highest probability of Greek default, French – and now Eurozone – downgrades, the initial

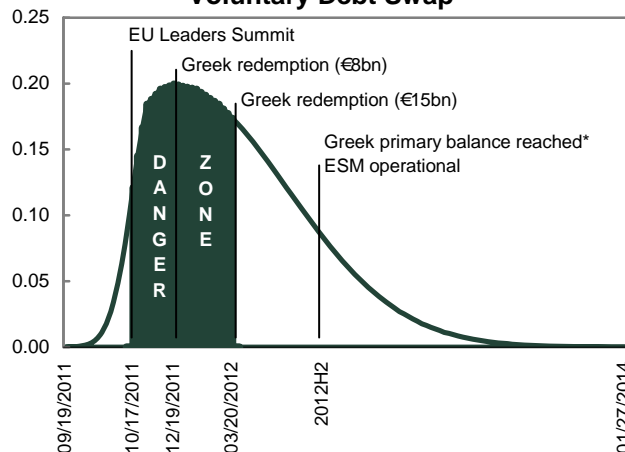
funding needs of the year, the initial effects of higher interest rates from the ECB hikes in early 2011 and fiscal tightening all falling in that timeframe and forcing a definitive response. But of course, there are still potential hurdles lingering into the end of 2012 – another Greek debt writedown if the first is too small, the long lag of fiscal adjustment over the Eurozone economy, uncertainties over how aggressive the policy response from the ECB will be, and the risks of vulnerabilities leading to full-blown crises in Belgium, Spain, et cetera.

The risks to our Eurozone outlook are huge, principally because of the risk that Eurozone leaders' responses fail to be as huge as needed. We long argued that we saw the risks of a Eurozone break-up or even a Greece exit as low given the costs of leaving far outweighed the costs of staying together. However, we failed to appreciate the animosity that would grow through the crisis as well as the vicious cycle of lower credit ratings and prolonged illiquidity increasing the costs and funding needs of Eurozone governments and companies faster than the funding can be found. Because of this, it now looks like there is a one-in-three chance that the Eurozone could dissolve or severely schism by the end of the spring, not because anyone chooses to but because the ability to respond simply lags the pace of the crisis.

On top of this enormous downside risk is a macro forecast that has now been lowered significantly. TD Economics recently downgraded their expectations for the Eurozone economy next year and now look for a contraction of -1.2%. The ECB is already at a 1.00% policy rate, which they have previously seen as the floor. The constraint driving our outlook here is simply that this is not enough. So the ECB will be forced to cut rates another 50bps in the first quarter, and with a need to find the equivalent of another 100-150bps of easing, we believe the ECB will have no choice but to begin QE in Q2. Given the downgrades in our growth forecasts, we now increase our estimate from €300bn to €750bn in buying from Q2-Q4. On top of this, we still see Eurozone leaders being forced by the market in Q1 to further the fiscal integration, potentially up to and including communal issuance of some form.

That then provides the context for how European markets are likely to trade. A strong risk on move that is fuelled solely by a stronger fiscal union is obviously about as bad of a profile as you can draw up for bund underperformance of other fixed income markets. But that seems to be the overwhelming consensus view for 2012, which makes us a bit wary.

Probability of Greek Default Without Voluntary Debt Swap



*Approximate based on July IMF Staff Report; Source: TD Securities

The kneejerk reaction of a fiscal union as we have already seen is likely to cause bunds to sell off; however, the trend need not go that direction. First, there is no guarantee that the solution has to see Germany assume existing liabilities and could be pooled into some other structure. Second, the market effectively traded as if there were a eurobond for the first decade of existence with almost no spreads, and while it just didn't know any better, the solution could see yields settle back into a similar dynamic well down the road. And most importantly, while we are programmed to think higher debt+higher deficit=higher yields, the context of recession and QE mean it need not come for a while.

The risk-off plays for the start of the year are a well-worn strategy for low safe haven yields and wide spreads off Germany all the way down to France. The huge downside risks make it hard to touch most risk-on ideas, but if the Eurozone can survive, there is a good chance it could be growing faster than the US economy by 2014 with fiscal tightening done, productivity enhancing reforms in place, and plenty of spare capacity to eat up after deleveraging. Looking at euro 2y3y forwards, though, they have remained in a 2.00-2.50% range that should be 150-200bps higher by end-2012.

The European contagion

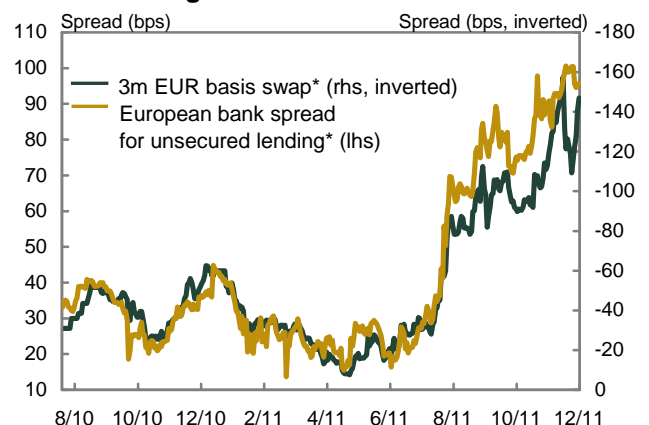
But of course none of this is meant to diminish the existential risks taken on by anyone buying into bunds. And few have benefitted more from this than gilts. For investors desiring or mandated to hold European assets and looking for a traditional safe haven, AAA, reserve currency asset, gilts have proven the popular choice, warts and all. With the Eurozone as principal trading partner and a member of the EU, obviously Eurozone economic woes will bleed heavily into the UK. But the BoE will have no qualms ramping up the size of QE to help offset this – and with the lower macro forecasts we now see not only another £50bn in QE in February, but an additional £50bn May – and sterling is able to depreciate as needed to provide a further external offset to domestic weakness. So in Q1, we still see 5s below 1.00%, 10s below 2.00%, and 30s below 3.00%, leaving the last two still legitimate long targets to ride out the risks in the beginning of the year.

For Norway and Sweden, the outlook for 2012 is simply that regardless of how strong the domestic story is and how strong the demand of foreign investors remains to diversify into bonds issued by countries where fiscal risks are well down the list of worries, they cannot avoid the fallout from the continent. If Eurozone leaders fail to make the necessary changes, the recessions and depressions across the Eurozone would imply

aggressive easing from the Norges Bank and Riksbank. In our happy scenario of stronger fiscal union and strong ECB QE, the lagged effects of economic weakness and pressures on the currency through spreads still necessitate easing. Both NOK and SEK should still hold up early in Q1, but with the macro concerns and easing from the central banks, EUR/NOK and EUR/SEK should then drift higher through 2012, with NOK outperforming SEK, until starting to strengthen against the EUR once again in 2013 after the crisis has passed.

We long for a lasting solution in the Eurozone as much as anyone. But the economic consequences of the Treaty have set us on this course and provided the constraints that limit potential responses. Ireland serves as the cautionary tale of simply responding with easy solutions without thinking through the potential costs, as government debt went from 25% of GDP in 2007 to likely 120% next year as guarantees of bank debt during the subprime crisis backfired in the sovereign crisis. We have to have a sustainable solution to a crisis where the economic consequences of the Treaty are that the pace of increase in funding needs may be increasing faster than the pace of increase in funding sources.

Euro Funding As Bad As Ever & USD Funding Shrugs Off Central Bank Lifeline



*3m Euribor-OIS; Source: Bloomberg

Dollar Bloc: The Tale of the Tortoise and the Slightly Faster Tortoise

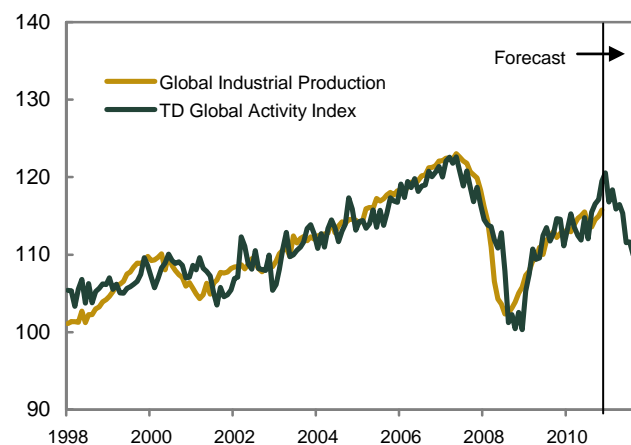
United States

The tables have turned. In 2008 the US brought the global economy (and financial system) to its knees. In 2012 it is the US that is being held hostage to global events which promise to undermine stronger economic momentum demonstrated over the second half of 2011. The underlying guts of this economy are looking pretty good. Credit growth is strengthening, household borrowing ex mortgages is now rising, vehicle sales are at cycle highs, corporations are now re-leveraging, retail sales and production have firmed, and the household employment survey has added an average 300k jobs over the past four months. The economy has clearly proven more resilient than most believed several months ago. That is not to say the US is poised for super charged growth north of 3%. After all, deleveraging, uncertainty and hoarding of private surpluses, fiscal austerity and an uncertain debt profile along with a moribund housing market persist as constraints on growth. The problem as we drift into 2012, however, is that the global growth backdrop is now deteriorating. Markets recognize that the US cannot grow in a vacuum, and our leading indicator for global production points to a worrisome deceleration in global demand. As systemic risks continue to percolate outward from Europe (with growing intensity) good economic data can quickly turn bad, a development we increasingly believe will take shape over H1 2012.

Slower global growth, a simmering European debt crisis that reduces the incentive to invest in the recovery, and fiscal austerity all point to US GDP growth slowing in H1 2012 to less than 1.5%. That compares to an average growth rate of 2.4% over the second half of 2011. The effects from Europe thus far have been largely indirect, reducing confidence in the recovery and restraining the flow of private sector surpluses toward productive activities. It is becoming increasingly direct. Export growth will slow, and while credit generation in the US has not yet been affected, a risk is that it will be. Foreign lending in the US has already declined, and lending standards have stopped easing. In addition, fiscal uncertainty persists as another negative factor. Even if the payroll tax relief from 2011 is extended in full, fiscal drag will increase in 2012. We therefore enter 2012 justifiably suspicious that the current strength in underlying data can be maintained. We also believe the US will avoid recession under the assumption that contagion from Europe will be limited by decisive policy action. If not all bets are off.

It is best to view 2012 as two distinct periods. The first half will be characterized by slower growth, risk aversion, and a European crisis coming to a boil. That raises the probability of QE3 to better than even. March

Global Growth Trajectory Set to Derail



Source: TD Securities

or April look to be a reasonable bet for a buying program (up to \$600B) more evenly sprinkled among MBS and Treasuries. The bias toward yields in the early months of 2012 will therefore be lower and flatter. That will be reinforced by our presumption that Europe goes to the brink before the ECB bites the QE bullet.

Even with an aggressive balance sheet expansion the Eurozone cannot avoid recession. However, further quantitative easing in the US and Europe, ongoing QE in the UK, and more accommodative policies in China (and possibly fiscal expansion) would effectively make global policy one of coordinated reflation. In that case, the 2012H2 puts risk assets on a more sound footing. In the US, prospects for investment and labour demand improve, domestic demand should regain its footing, and growth over the second half of the year will be poised to rise at an average 2.5% growth rate.

The US economy enters 2012 on a relatively firm footing. It should close 2012 on an equally firm footing with significant hiccups in between. If the US is not going into recession then longer term yields should be at least 75bps higher and if there is a less negative outcome on Europe the snap toward higher yields could be swift. However, the first step toward moving beyond the riot point in Europe will require another nerve rattling financial crisis. In that case, a flattening in the curve should provide better entry points for steepener trades in a world of aggressive monetary reflation.

Canada

With another year of private and public deleveraging upon us, slower growth in China and a deep recession in Europe, the headwinds facing the Canadian economy are likely to intensify in early 2012. Although Canada's direct trade links with Europe are relatively

small, the Canadian economy will be nonetheless impacted through the confidence and commodity price channels. Compounding matters, domestic spending is likely to decelerate and the housing sector is likely to cool over the next year. Hence, the outlook for Canada looks sluggish through the first half of next year – though the underlying fundamentals remain strong enough to forestall a recessionary scenario. We do however expect a smart pick-up in growth in the second half of the year as the European situation approaches a resolution, with GDP growth for 2012 expected at 1.7%

So what of the Bank of Canada? While the Bank has shown itself ready to take decisive action in the face of exigent threats in the past, sluggish growth is unlikely to produce a deflationary or near-deflationary outcome, and will therefore not be a sufficient condition for a return to emergency rates. Rather, we believe that further policy easing from the Bank of Canada (conventional or otherwise) would require either another deep US recession, or significant impairment in Canadian funding markets (i.e., financial contagion from Europe spreads to the US, and from there impacts Canada). While it would be foolish to rule out these outcomes – indeed, the probability of an adverse European event is higher today than its ever been – they are not part of our base case going forward. Thus, with the Bank of Canada unlikely to resort to rate cuts and the Canadian (and global) outlook looking less than vigorous, we expect the overnight rate to remain at 1.00% for the entirety of 2012.

With the BoC on hold for the foreseeable future, front-end yields are likely to remain bound at around 1.00% for the first half of the year, and while we expect yields in the belly and long-end to rise gradually as the outlook begins to brighten in 2012H2, rates should remain low in absolute terms, with continued diversification into Canadian dollar assets limiting any significant divergence from Treasuries.

Australia

Australia is expected to post 2% GDP growth this year. At face value this does not appear to be a particularly spectacular outcome, but in fact domestic demand is likely to top 4%, driven by a return to trend consumption growth and double digit business investment growth. The main drag on the economy was a natural-disaster-led slump in exports in 2011H1.

For 2012, we expect continued outsized business investment to be the key driver of growth, followed by exports. So far the mining investment theme remains intact, as the recent capital expenditure survey confirming \$A160b of investment is slated for this year, and we expect even higher growth for next year as

these massive projects are slowly completed. While many resource projects are already locked down, the deteriorating global outlook – a European recession and China posting sub-8% growth – means that non-resource exporters and manufacturers have a much worse outlook than thought previously. Subsequently our 2012 GDP growth target has been lowered to 3.5%, and at this stage the forecast is the same for 2013.

The inflation outlook has improved markedly. Next year we expect underlying inflation to dip below the critical 2-3% target band as commodity prices ease, the labour market softens, unit labour costs have peaked, and the AUD remains relatively elevated. The combination of lower global growth forecasts and the improved inflation outlook paves the way for the RBA to shift from their current neutral stance to outright accommodation. We now forecast an additional 75bp of easing to 3.5% by mid-2012, beyond the -50bp delivered in the last two months. Returning to the prior "emergency cash rate" of 3% appears unnecessary with Australia's major trading partners still set to outperform global growth.

Our short bond rate forecasts have been slashed to reflect the combination of the RBA delivering rate cuts as well as investor aversion to duration. 3yr yields are forecast to revisit 2008 lows. Longer bonds are expected to outperform our US Treasury forecast sell-off over 2012 given the RBA's easing mode, the improved inflation outlook and ongoing investor appetite for Australia's AAA-rated bonds (there aren't many left in this category). However, ructions in Europe imply that appetite for duration is on hold for quite some time, hence we expect a steeper curve (+100bp or so) to persist throughout most of 2012.

New Zealand

Let's be clear. If it weren't for the coming Christchurch earthquake reconstruction, the downside risks to global growth and commodity prices would bias the RBNZ towards easing, even with the cash rate already at a record-low of 2.5%. We forecast GDP growth of 2% for 2011, 3% for 2012 and 3.2% for 2013. However, those 3+% growth targets wholly rely on a near-30% surge in housing and non-housing construction next year and another 17% in 2013 as Christchurch is rebuilt.

Beyond the reconstruction effort, the housing sector and consumer spending have been lackluster despite very accommodative cash and mortgage rates. Add in recent downside surprises to the CPI, lower inflation expectations, and weaker growth in Australia and China, and there is ample reason for the RBNZ to leave the cash rate at 2.5% until the end of 2012. We now expect a "catch-up" +50bp in December 2012, followed by a gentle tightening cycle in 2013.

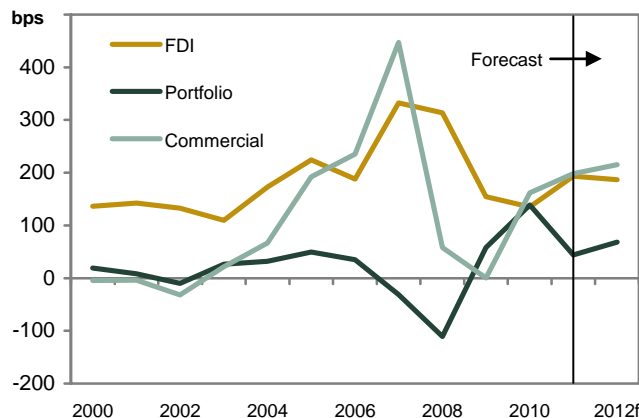
Emerging Markets: Euroquake Shakes, not Breaks EMs

Investor focus has dramatically shifted back onto the Eurozone's troubles. At the end of last year, emerging markets were still characterized by strong growth, tame but prospectively rising inflation, appreciating currencies and central banks pursuing unorthodox monetary policies. In spite of the intrinsic risks for DM growth, support from the "bold new world" appeared a reliable source of economic resilience.

On the contrary, 2011 developments have taken a firm turn for the worse. Now that the very existence of the euro is at risk, even the most resilient EMs can not remain immune from global developments. Year to date, EM stocks dropped by 18%, currencies fell up to 17% vs. USD, and 5-year CDS widened in the 50bp-300bp range. On a positive note, bond markets avoided dramatic sell-offs and the renewed easing bias of EM CBs helped local-market spreads to tighten 13bp in 2011.

Global growth has slowed, and monetary policy in both DMs and EMs has turned from focusing on higher inflation to reversing prior tightening. The IMF rightly pointed out that with global downside risks, EMs are also likely to face a sharp reduction in demand, a reversal in capital flows, and a rise in funding costs. Most leading EM sovereigns have built large forex reserve buffers to muddle through a prolonged period of economic stagnation in the DMs. Yet broad-based risk aversion and the reversal of capital flows could add strains to the financial soundness of domestic banks. This linkage is particularly evident in Eastern Europe where sovereigns have large exposure to FX loans. More generally, the spill over of the Eurozone debt crisis is likely to come with greater intensity in EMEA than elsewhere in the EMs. Risks are likely to continue adding pressure on currencies and keep the short-end of local yield curves persistently inverted.

EM Capital Flows - IIF Forecasts (USDbn)



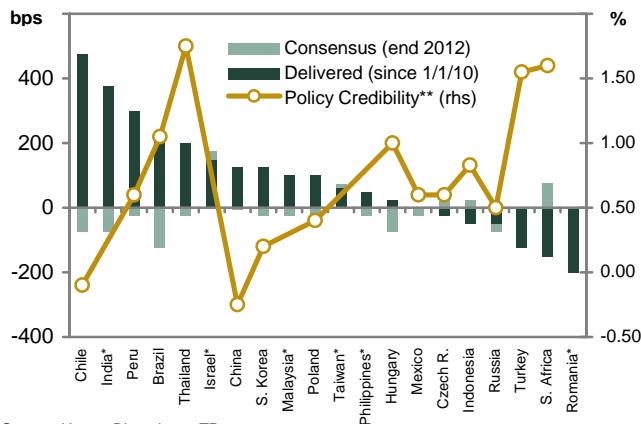
Source: IIF, TD Securities

Even with the US outperforming other DMs, European linkages will outweigh positive factors in 2012H1. The continued pressure on core sovereign ratings will keep reverberating through EMEA assets. However, as regional prices are already mirroring heavy stress in Europe, the silver lining is the potential strong rebound in countries such as Hungary and Poland, with currencies potentially rallying 8-10% vs. the euro and yields to one year falling up to 50bp. But this will require credible political solutions within the EU to restore confidence.

The impact on EM capital flows has been much milder than during the 2008-2009 recession. When looking at the EMs in 2011, one must admit that the pace of inflows has merely flattened out, and we have yet to see any evidence of outright capital outflows like we did during the last crisis in the bond sector. Since current market tensions are due largely to fiscal issues, EM economies are looking like a much more stable option, with lower debt/GDP ratios than the major developed economies. Even in the midst of the turmoil, EMs remain creditworthy as an asset class, with Asia and Latam outperforming Europe.

Asian strengths are the Chinese flywheel, low indebtedness, strong demographics, and top-of-the-range growth rates even in adverse conditions. When risk-off dominates, Indonesia and Malaysia outperform India, still burdened with high inflation and budget deficits. Latin America is also growing stronger around the firming of Brazil as a global leading economy. But economic strength is not matched by equal financial resilience. When capital outflows intensified, the government unwound part of the IOF tax to stem BRL weakness. Medium-term risks persist, but Brazil will remain central to EM investment strategies. Similarly, Mexico will continue to attract capital due to its highly liquid assets, US links and legacy of credit soundness.

Monetary Policy vs. Policy Credibility



Source: Haver, Bloomberg, TD
* Consensus not available
**2012 CPI expectations - CPI target

Source: Thomson Reuters Datastream

Foreign Exchange and Commodities: Looking for Performers in a Slow Growth World

Foreign Exchange

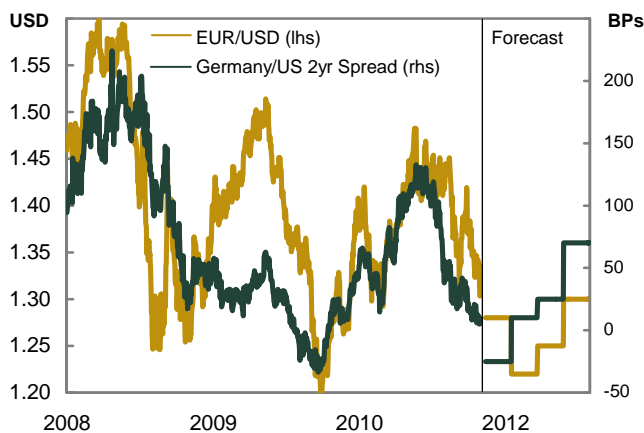
Risk and uncertainty will dominate the major currency and commodity space in the early stages of 2012. At this point, the uncertainties facing Europe and the binary reaction sequence of the markets to the ebb and flow of Eurozone developments make it very difficult to make a high conviction directional call on the markets.

However, our macro outlook does imply that the global economy will experience slow growth, with a deep recession in the Eurozone and the US economy progressing at no more than potential. Chinese output is expected to slow significantly, which will bear on the broader economic performance of the region. Inflation and interest rates will be low. Volatility will remain high. This suggests to us that the relatively richly-valued, high beta currencies (such as the AUD and CAD) are liable to struggle somewhat versus the USD at least initially in 2012 until the growth outlook improves.

The still relatively cheap-looking, low beta and highly liquid USD on the other hand should regain some broader altitude in this environment although the uncertain fiscal backdrop and loose monetary policy settings in the US may preclude a significant rise. Given the aggressive central bank actions in Switzerland and Japan to prevent renewed appreciation in their respective currencies, a dearth of viable safe havens in highly uncertain times should also help underpin the USD. We are reluctant to challenge either the Swiss National Bank or the Bank of Japan and, in fact, expect modest gains for EUR/CHF and USD/JPY over the next few quarters.

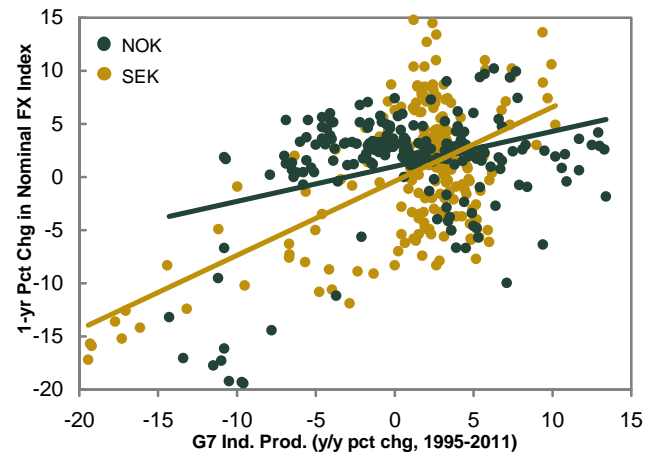
Closer fiscal union is required to tame the Eurozone debt crisis. But this implies major political concessions being made by all parties involved. Timely success is not guaranteed and things may have to get a lot worse

EUR/USD Weighed By Spreads and Debt Crisis



Source: Thomson Reuters Datastream

SEK The Higher "High Beta" Relative to NOK



Source: Thomson Reuters Datastream

before they have a chance of getting any better. We expect a hard default by Greece at some point in the first quarter of 2012.

Eurozone recession will require an aggressive response from the European Central Bank (ECB) sufficient to forestall worries about a negative growth feedback loop which sustains pressure on sovereign bonds, undermines confidence in the Eurozone banking system and sparks contagion concerns. The anticipation of ECB QE may provide some modest support for risk assets but not necessarily the EUR. EUR stabilization may come later in 2012 as the fiscal situation is brought under control.

Negative EUR bets are becoming consensus for 2012. We have to concur with the herd that more EUR weakness looks the most likely course for the coming year. The risk of a downside overshoot is not negligible in the event of policy makers failing to get control of the crisis and sovereign or systemic fears rising rapidly again.

Elsewhere, we see some opportunity for selective out-performance on the crosses (CAD and GBP against the EUR, for example) and feel that the focus on creditworthiness within the shrinking pool of AAA sovereigns favours the NOK (relative to the SEK). Furthermore, even with both the NZD and AUD coming under pressure, there looks to be some scope the NZD to outperform vs the AUD, as we are looking for the RBA to slash its cash rate by an additional 75 bps while the RBNZ is likely to remain on hold. Consequently, our end-2012 AUD/NZD target of 1.23 remains unchanged.

For emerging market currencies, the European crisis remains a major risk, but also provides plenty of opportunities. Risks of a Eurozone collapse belong to the

First Half Slowdown in Global Growth to Weigh on China and Industrial Commodities



Source: Bloomberg, TD Securities

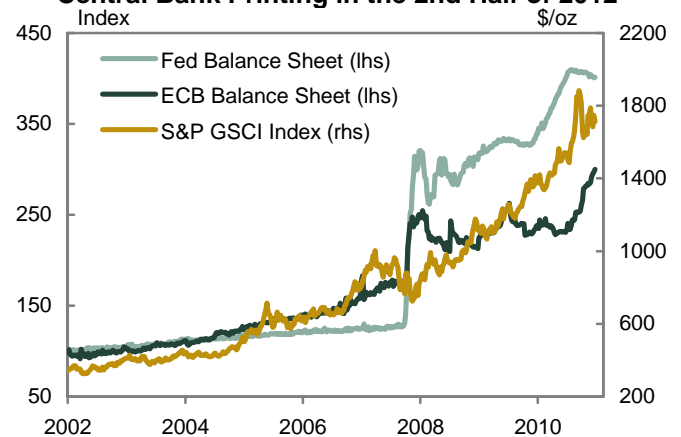
category of 'low probability with destructive impact' type of events. In a 'euro break-up' scenario, no European asset would be spared. Yet, the less EU-centric names such as Turkey, South Africa and Russia – which have suffered capital haemorrhage over the course of 2011 – would be marginally less exposed. As solutions to the crisis may start peeping through by Q1 2012, risk reversal could become the dominant theme from Q2 onwards. Therefore, we see opportunities that risk-off underperformers emerge as the most successful risk-on trades. Currencies in Hungary and Poland are likely candidates, but ZAR, TRY and RUB also look cheap and could rally on risk retracement before domestic data comes back into market focus again.

Commodities

Global macroeconomic developments, where Europe is mired in recession, North America is struggling to achieve sustained growth and the developing world economies are slowing sharply, will very likely have a negative impact on commodities. Industrial commodities, such as oil and copper, are particularly at risk for a material move lower next year. Financial market risks, which are expected to build towards a level that could threaten the very viability of the financial system itself, are projected to serve as an additional strong negative for the commodity space in the early part of 2012.

Slowing demand growth for base metals, industrial precious metals and energy will no doubt materially loosen supply/demand conditions next year, relative to what was expected only a short while ago. The expectations that China will only grow some 7.8% next year and that there will be a material slowdown in other developing nations with high propensities to use raw materials are perhaps the most potent fundamental reason why TD Securities has downgraded the commodity outlook for 2012, particularly in the first quarter.

Gold Will Benefit Nicely From Friendly Central Bank Printing in the 2nd Half of 2012



Source: Bloomberg, TD Securities

Fed Dec 18, 2002, \$698bn = 100
ECB Dec 20, 2002, \$820bn = 100

In addition to fundamental drivers, rising systemic risks and uncertainties related to the European sovereign debt crisis will also likely prompt investors to aggressively move away from risky assets, such as commodities, and into the safety of the US Treasury market in early-2012. This powerful combination of fundamental drivers and risk-off trading should see the first quarter of 2012 record the lowest prices of the year for copper, oil, palladium, platinum and silver. Even gold, which is a traditional safe-haven asset, is very likely to come under further selling pressure, as investors build liquidity.

In sharp contrast, the latter part of 2012 looks much more robust for commodities, with prices moving sharply higher into Q3-12. We expect the worst of the financial crisis to be over in the second half of the year and see China undertaking aggressive fiscal and monetary action to jump start growth, which should send commodity demand sharply higher. Various supply concerns in the base metals and PGMs space and geopolitical risks in the Middle East will be additional factors supporting copper, palladium and crude oil.

At the same time, it is likely that the ECB will use its balance sheet to be the lender of last resort. This, along with more quantitative easing from the Fed and the BoE should also help physical demand, as well as help drive capital into commodity-based assets. Gold, in particular, may respond well to central bank balance sheet expansion and a prolonged low interest rate environment.

12 Trades for 2012

Trade 1

**Buy 9 month EUR put, 1.27 strike
(spot: 1.2982)**

Specifics

Entry Cost: 4.6%

Although we are hopeful that a resolution to the Eurozone fiscal mess can be found, it may not be found quickly and the downside risks related to any failure in reaching a deal are significant. We are bearish on the EUR for fundamental reasons – a deep recession and the need for an aggressive policy response from the ECB in 2012 – but the additional threats surrounding the Eurozone situation strongly suggest to us that hoping for the best and planning for the worst is not a bad thing.

The option trade allows us to express a long-term directional bet without the risk of being stopped out by volatile trading conditions. The tenor covers the timeframe where risks may peak and still allows for some opportunity to trade around the position before expiry. The cost is not cheap but, considering what the potential fall out from a mishandling of the sovereign situation might be, nor does it seem hugely expensive.

Trade 2

Short 30yr TIPs Breakeven

Specifics:

Entry: +214bps

P&L

Target: +175bps

Stop: +230bps

Our forecast for headline inflation is that it has peaked at 3.8% and at 3.5% last is headed toward 1% by the middle of next year. We assume slightly lower crude oil prices and a significant base effect takes the y/y rate back to the lows of mid-2010. We do not, at this point, envisage a move into negative territory such as that seen when CPI moved to -2% in mid-2009, but this is the risk as the risk of a euro break-up increases. In this scenario and with 30 year TIPS break-evens at 218bp and a recent low of 187bp in late September, we would expect to see a re-test of that low and a possible test of 175bp sometime in Q1, most likely coinciding with the 30 year TIPS auction in February.

30 year real yields will likely go lower in absolute terms, possibly testing 50bp, but with Twist continuing into mid-2012 and the nominal yield curve still historically steep, we think 30 year nominal yields will continue to move lower and flatter. Consequently, we recommend short 30 year TIPS break-evens into 2012.

* Note: All entry points are as of market close on December 14, 2011

Trade 3

Long NOK/SEK

Specifics

Entry: 1.1692

P&L

Target :1.24

Stop loss: 1.15

Risk/reward: 3.5:1

We expect the NOK to outperform the SEK in 2012. Both currencies are sensitive to trends in the global economy though history suggests that the NOK is more immune to softer developed economy growth trends than the SEK. In addition, while the global economy is slowing, we expect commodity prices to remain firm. Only in the case of a major European financial crisis will commodities weaken significantly.

With (Brent) oil prices liable to hold up, the NOK will remain relatively better supported. While we expect both central banks to relax monetary policy, the Riksbank ultimately has larger scope and need to cut rates than the Norges Bank, so spreads should move in favour of the NOK. Finally, as the global pool of AAA sovereigns continues to shrink, asset managers will channel more cash to the highly-rated Scandinavian currencies. The less liquid NOK will reflect inflows more obviously.

Trade 4

Buy 30yr U.S. Swap Spread

Specifics

Entry: -29.5

P&L

Target: 0bps

Stop: -45bps

Carry: +0.3bps/month

This is a trade premised on better growth over 2012H2 and no ratings action on US debt. The long-end of the US swap curve has rallied as investors have priced out growth expectations. At the same time, falling yields have forced liability managers to hedge their liabilities by receiving in longer-dated swaps. As a result, swap spreads have collapsed in the long-end of the curve. The case for longer maturity yields to remain at the current low levels requires persistent weakness in the economy and a dire outcome of the European fiscal crisis. This is not impossible, but a lot worse needs to happen for rates to rally further. Longer maturity yields are already looking rich based on our fair value models. On the other hand, even a continued below-trend growth rate (our baseline scenario) in 2012 will cause the downward pressure on long yields to dissipate. Investors will likely question the wisdom of lending at sub-3% yields for 30yr period when headline inflation is running above 2%. We don't expect longer-maturity yields to rise sharply, but a 50-100 bps selloff will restore the yields to their pre-crisis levels that we were seeing before this past summer. The rise in yields will ease pressure on liability hedging and may even result in slight unwinding of the hedges. We like this trade because throughout the past three years, it never went below -43 bps. We feel that the trade offers limited downside and can perform well if the uncertainty premium is removed from longer-maturity yields.

* Note: All entry points are as of market close on December 14, 2011

Trade 5

Sell AUD/NZD

Specifics

Entry: 1.3205

P&L

Target: 1.23

Stop loss: 1.34

Risk/reward: 4.5:1

It's all about relative cash rates, not about relative long-term debt fundamentals, when it comes to our AUD/NZD cross forecast for 2012. There is a historically strong correlation (-70%, not bad for extremely volatile variables) between the Australia-New Zealand cash rate spread (inverted) and the AUD/NZD cross-rate. As we forecast the RBA to cut the cash rate by 75bp to 3.5%, while the NZ OCR remains unchanged at 2.5% until December, this naturally lends support to the NZD over the AUD. The trading range for 2011 was 1.23 to 1.38, average 1.30, hence we are merely arguing for a downtrend within existing ranges, operating within a likely similar uncertain and volatile trading environment.

Trade 6

Sell Sept. 2013 BAX, Buy Sept 2012 BAX

Specifics

Entry: +16bps (BAU3-BAU2 spread)

P&L

Target: +100bps

Stop loss: -5bps

Risk/Reward: 4:1

As it stands, the Canadian BAX curve implies modest policy easing through 2012 and early 2013, with the overnight rate returning to 1.00% in 2013Q3 or Q4, depending on your assumption for the CDOR-OIS spread.

Overnight rates are likely to be much higher by the end of 2013, and with the economy on sounder-footing by next autumn, we should see policy rate expectations for 2013H2 rise sharply.

* Note: All entry points are as of market and/or pit session closes on December 14, 2011

Trade 7

EUR/HUF Capped Zero-Cost Seagull

Specifics

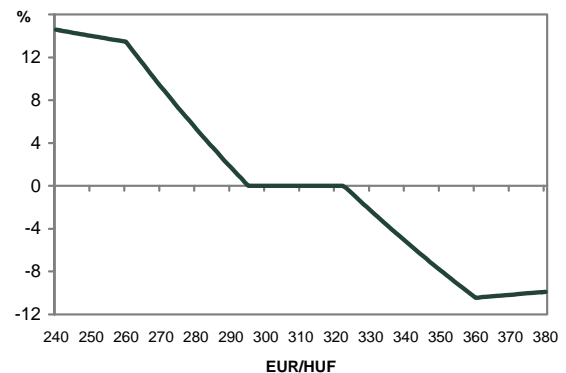
Buy EUR put / HUF call 295.00
 Sell EUR put / HUF call 260.00
 Sell EUR call / HUF put 322.40
 Buy EUR call / HUF put 360.00

P&L

Target: EUR/HUF: 277
 Stop loss: EUR/HUF: 360
 Max Risk/Reward: 1.3:1

EUR/HUF has moved abruptly higher starting in August 2011. While the environment is deteriorating, we think the currency is not discounted for the fact that an IMF program early next year is increasingly likely and should cap any downside risks until strong QE from the Fed and ECB that we expect will bring a stronger risk-positive tone as we move through the year. So we look for a structure that limits our downside from the risk of a crisis in Hungary and pays out in the case of even a marginal move lower in EUR/HUF from the current stressed levels. The structure expires in 6 months (June 13) and could lead to a profit of up to 13.5% in the unlikely case of EUR/HUF at 260. Additional marginal gains are also possible but very unlikely, while losses are capped at 10.5% with the pair at 360.

EUR/HUF Capped Seagull P&L (% of EUR notional)



Option strategy performance with 6m expiry

Trade 8

Canada 3s5s Steepener

Specifics:

Buy Canada 1.00% Feb 15, Sell Canada 2.75% Sept 16
 Entry: +23 bps

P&L

Target: +70 bps
 Stop loss: 0 bps
 Carry: -0.1 bps/month

We look for the belly to sell-off sharply going into the latter half of the year as the outlook for Canada brightens. While the obvious way of expressing such a view would be through steepeners, we are wary of putting on steepeners vs. 2s given how expensive they are to finance. We therefore instead favour steepeners vs. 3s—and with the Feb 15 bond still yielding above 1.00%, the cost of carry dwindles to an estimated 0.1 bp per month.

* Note: All entry points are as of market and/or pit session closes on December 14, 2011

Trade 9

Long Palladium with a Protective Put

Specifics:

Buy Spot Palladium: \$616.50
Buy \$550 Put @ \$34 (43.5% Vol)

P&L

Target: \$825
Stop loss: Take Profit on Put at \$450
Risk/reward: 3.1:1

Our main concern in the first half of 2012, and likely in Q1 of 2012, is that the European crisis will get materially worse. This will have the effect of slowing global growth and Chinese demand for palladium, which is tied to autocatalyst demand in auto production. Additionally, with the market increasingly driven by headlines as of late, we also expect volatility to increase in the coming year. However, by mid-year we should have more clarity on the European situation and many of the central banks around the world should have injected plenty of liquidity into the system, including large balance sheet expansions. Therefore, palladium, as a precious metal, should move much higher into year's end.

Our trade idea will capitalize on the higher volatility in the first half of the year, as well as protect from a decline in price due to the expected downturn. Yet we are still exposed to the effects of additional money printing and the fundamentally tight supply conditions that will still exist in the palladium market.

Trade 10

Long Australia 10yr vs US 10yr

Specifics

Entry: +186bps

P&L

Target: +100bps (Aus-US spread)
Stop loss: +205bps
Carry: -1.8 bps/month

As the US Treasury long-term credit rating was downgraded from AAA to AA+ earlier this year, and the entire European union remains on negative CreditWatch by S&P, there is not a significant pool of truly AAA-rated assets left. Our US team forecast US Treasury 10year yields to climb from the current 2% to around 2.75% by year end.

In contrast, we expect Australian 10year yields to remain unchanged or even a little lower over that timeframe for two reasons (lower RBA cash rate and much improved inflation outlook). Subsequently, from the current spread of around +186bp, we target a compression to around +100bp between Australia-US 10year yields by year end. While at present appetite for duration is almost non-existent, we expect investors to still seek out AAA-rated AUD bonds as the year unfolds, especially if they cheapen up as they tend to automatically 'knee-jerk' higher along with US Treasuries.

Trade 11

Long December 2012 WTI Strangle

Specifics:

Buy \$55 Put @ 1.35/bbl

Buy \$150 Call @ 1.40/bbl

Given the growing tail risks, crude oil is at risk for a sharp move in either direction. TDS expects the WTI market to be volatile but range bound in 2012, likely seeing a trading range between \$75-\$110/bbl. However, black swan-like events are quite possible given the heightened risks that both the Europe crisis and the Middle East tensions present to the crude oil market, and this long strangle takes advantage of those risks at a relatively low cost.

European debt concerns, if not contained and dealt with, present a significant risk to the global economy and a considerable impact on crude oil demand, which would see crude prices move sharply lower. However, crude oil is also vulnerable to supply risks that have increased due to rising tensions in the Middle East. Should crude oil flows become constrained, particularly through the Strait of Hormuz (15.5MMbbls/day), global balances would tighten severely and push crude oil prices to new record highs.

Trade 12

Gilts 2s30s Flatteners

Specifics:

Entry: +282 bps

P&L

Target: +245 bps

Stop loss: +295 bps

Carry: +1.8 bps/month

The Eurozone debt crisis has been the principal driver in lower gilt yields, particularly the short end. This will intensify in the first quarter. BoE asset purchases were restarted with £75bn being bought through February, and we expect a further £100bn at least will be announced in H1. This is spread from 3yr and out split into three equal baskets, with the 25yr+ basket seeing the most pressure due to relative lack of supply while 2s are left out of the buying. So while the worsening Eurozone crisis could drive 2yr yields lower, the BoE is unlikely to cut the Bank rate, and the worse the market pressure, the larger and longer QE will run and have to remove even more supply at the long end.

While going long 30yr gilts has merits on its own right, volatility remains high and shorting 2s provides some hedge should there be a temporary improvement in market conditions. So while this trade should hit its target if the environment deteriorates more than we expect, we also expect economic weakness and QE will last longer than the acute market stresses, meaning 2s should sell off faster than 30s in the initial stages of the road to recovery.

* Note: All entry points are as of market and/or pit session closes on December 14, 2011

Forecasts

INTEREST RATE OUTLOOK													
	Market Close 14-Dec-11	2011				2012				2013			
		Q1	Q2	Q3	Q4	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
United States													
Fed Funds Target Rate (%)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.75	1.00
3-mth T-Bill Rate (%)	0.00	0.09	0.01	0.02	0.05	0.10	0.10	0.10	0.10	0.10	0.15	0.80	1.10
2-yr Govt. Bond Yield (%)	0.23	0.82	0.46	0.24	0.25	0.25	0.30	0.35	0.50	0.80	0.95	1.15	1.55
5-yr Govt. Bond Yield (%)	0.84	2.27	1.76	0.95	0.90	0.85	1.10	1.40	1.55	1.65	1.70	1.95	2.10
10-yr Govt. Bond Yield (%)	1.88	3.47	3.16	1.91	2.10	1.90	2.20	2.65	2.75	2.75	2.80	3.00	3.25
30-yr Govt. Bond Yield (%)	2.87	4.51	4.37	2.91	3.05	2.80	3.30	3.90	4.00	4.05	4.10	4.20	4.30
10-yr-2-yr Govt. Spread (%)	1.65	2.65	2.70	1.67	1.85	1.65	1.90	2.30	2.25	1.95	1.85	1.85	1.70
Canada													
Overnight Target Rate (%)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.25	1.75	2.00	2.50
3-mth T-Bill Rate (%)	0.86	0.96	0.90	0.82	0.90	0.90	0.90	0.95	1.00	1.30	1.80	2.10	2.60
2-yr Govt. Bond Yield (%)	0.87	1.83	1.59	0.89	0.95	0.95	1.00	1.20	1.40	1.80	2.20	2.70	3.10
5-yr Govt. Bond Yield (%)	1.25	2.77	2.33	1.40	1.40	1.35	1.60	1.95	2.20	2.40	2.60	3.00	3.30
10-yr Govt. Bond Yield (%)	1.96	3.35	3.11	2.16	2.20	2.10	2.20	2.80	3.00	3.25	3.40	3.60	3.70
30-yr Govt. Bond Yield (%)	2.54	3.76	3.55	2.77	2.75	2.80	2.90	3.30	3.60	3.80	3.85	4.05	4.10
10-yr-2-yr Govt. Spread (%)	1.09	1.52	1.52	1.27	1.25	1.15	1.20	1.60	1.60	1.45	1.20	0.90	0.60
United Kingdom													
Bank Rate Target (%)	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.25	1.50
3-mth T-Bill Rate (%)	0.38	0.63	0.54	0.53	0.26	0.55	0.70	0.70	0.70	0.95	1.20	1.45	1.70
2-yr Gilt Yield (%)	0.37	1.36	0.83	0.58	0.40	0.45	0.55	0.80	1.40	1.55	1.80	2.10	2.30
5-yr Gilt Yield (%)	1.13	2.44	2.07	1.37	1.10	0.85	1.10	1.60	2.50	2.90	3.10	3.30	3.50
10-yr Gilt Yield (%)	2.10	3.69	3.38	2.43	2.16	1.95	2.05	2.40	3.10	3.35	3.70	4.10	4.30
30-yr Gilt Yield (%)	3.15	4.36	4.29	3.55	3.20	2.90	3.35	3.90	4.30	4.50	4.70	4.90	4.90
10-yr-2-yr Gilt Spread (%)	1.73	2.33	2.55	1.85	1.76	1.50	1.50	1.60	1.70	1.80	1.90	2.00	2.00
Australia													
Cash Target Rate (%)	4.25	4.75	4.75	4.75	4.25	4.00	3.50	3.50	3.50	3.50	3.50	3.75	4.25
3-mth Bank Bill Rate (%)	4.07	4.92	4.96	4.77	4.50	4.25	3.75	3.75	3.80	3.90	4.00	4.25	4.30
3-yr Govt. Bond Yield (%)	3.23	5.03	4.68	3.61	3.10	2.80	2.70	2.80	2.90	3.10	3.20	3.50	3.80
5-yr Govt. Bond Yield (%)	3.41	5.23	4.77	3.78	3.30	3.20	3.00	3.10	3.25	3.40	3.50	3.65	4.00
10-yr Govt. Bond Yield (%)	4.01	5.48	5.15	4.21	3.85	3.80	3.70	3.75	3.75	3.80	3.90	4.20	4.50
10-yr-3-yr Govt. Spread (%)	0.78	0.45	0.47	0.60	0.75	1.00	1.00	0.95	0.85	0.70	0.70	0.70	0.70
New Zealand													
Cash Target Rate (%)	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	3.00	3.25	3.50	3.75	4.00
3-mth T-Bill Rate (%)	2.27	2.63	2.65	2.87	2.70	2.70	2.70	2.75	3.20	3.60	3.75	4.00	4.30
3-yr Govt. Bond Yield (%)	2.69	3.45	3.22	2.87	2.60	2.60	2.70	2.80	3.40	3.70	3.90	4.20	4.60
5-yr Govt. Bond Yield (%)	3.27	4.40	4.03	3.33	2.80	3.00	3.00	3.20	3.60	3.90	4.10	4.40	4.80
10-yr Govt. Bond Yield (%)	3.75	5.66	5.00	4.42	3.90	4.00	3.90	3.95	4.00	4.10	4.30	4.60	5.00
10-yr-3-yr Govt. Spread (%)	1.06	2.21	1.78	1.55	1.30	1.40	1.20	1.15	0.60	0.40	0.40	0.40	0.40

f: Forecast by TD Bank Financial Group as at Dec. 14, 2011; All forecasts are for end of period. Source: Bloomberg, TDBFG

Forecasts

FOREIGN EXCHANGE OUTLOOK									
	Market Close 14-Dec-11	2011				2012			
		Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F
MAJOR CURRENCIES									
USD/CAD	1.04	0.97	0.96	1.05	1.04	1.09	1.11	1.09	1.05
USD/JPY	78.07	83.13	80.50	77.00	76.00	78.00	78.00	83.00	85.00
EUR/USD	1.30	1.42	1.45	1.34	1.30	1.28	1.22	1.25	1.30
GBP/USD	1.55	1.60	1.61	1.56	1.53	1.52	1.47	1.52	1.59
USD/CHF	0.95	0.92	0.84	0.91	0.94	0.95	1.02	1.00	1.00
AUD/USD	0.99	1.03	1.07	0.97	1.00	0.98	0.95	0.97	1.00
NZD/USD	0.75	0.76	0.83	0.76	0.78	0.76	0.76	0.79	0.81
EUR/SEK	9.08	8.95	9.18	9.20	9.00	9.10	9.40	9.65	10.00
EUR/NOK	7.77	7.84	7.81	7.85	7.75	7.75	7.85	7.90	8.00
EMERGING MARKETS									
USD/TRY	1.89	1.55	1.62	1.86	1.80	1.76	1.73	1.70	1.68
USD/ZAR	8.43	6.77	6.77	8.10	8.12	7.87	7.82	7.80	7.85
USD/RUB	31.88	28.42	27.90	32.20	31.30	30.60	30.20	30.00	29.90
EUR/HUF	305	266	264	293	310	315	277	276	283
EUR/PLN	4.56	4.02	3.98	4.42	4.43	4.21	4.16	3.95	3.98
EUR/RON	4.35	4.12	4.23	4.36	4.45	4.23	4.16	4.15	4.07
USD/BRL	1.88	1.63	1.56	1.88	1.84	1.79	1.74	1.72	1.69
USD/MXN	13.89	11.90	11.71	13.90	13.75	13.40	13.11	13.00	12.90
USD/INR	53.72	44.58	44.70	49.00	51.00	49.00	48.20	47.90	46.60
USD/IDR	9089	8708	8547	8950	9060	8900	8860	8812	8790
USD/MYR	3.19	3.03	3.01	3.19	3.20	3.16	3.08	3.00	2.96

f: Forecast by TD Bank Financial Group as at December 14, 2011; All forecasts are for end of period

Source: Federal Reserve, Bloomberg, TDBFG

EMERGING MARKETS INTEREST RATE OUTLOOK									
	Market Close 14-Dec-11	2012				2012			
		Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F
Latin America									
Brazil	11.00	11.75	12.25	12.00	11.00	11.00	10.00	10.00	10.00
Mexico	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
EMEA									
Poland	4.50	3.75	4.50	4.50	4.50	4.25	4.00	4.00	4.00
Hungary	6.50	6.00	6.00	6.00	7.50	7.50	7.50	7.00	6.75
Romania	6.00	6.25	6.25	6.25	5.75	5.25	5.25	5.25	5.25
Russia (refi rate)	8.25	8.00	8.25	8.25	8.25	8.00	7.75	7.75	7.75
(o/n depo rate)	3.75	-	3.50	3.75	3.75	4.00	4.00	4.00	4.00
(o/n auction repo)	5.25	-	5.50	5.25	5.25	5.00	4.75	4.75	4.75
Turkey	5.75	6.25	6.25	5.75	5.75	5.75	5.75	5.75	5.75
S.Africa	5.50	5.50	5.50	5.50	5.50	5.00	5.00	5.00	5.00
Asia									
India	8.50	6.75	7.50	8.25	8.50	8.50	8.50	8.00	7.50
Indonesia	6.00	6.75	6.75	6.75	6.00	5.50	5.50	5.50	5.75
Malaysia	3.00	2.75	3.00	3.00	3.00	3.00	3.00	3.00	3.00

f: Forecast by TD Bank Financial Group as at Dec. 14, 2011; All forecasts are for end of period.

Source: Bloomberg, TDBFG

Forecasts

COMMODITY OUTLOOK									
	2011				2012				
	Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F	LT
Gold *	1386	1,506	1,702	1,714	1,550	1,800	1,975	2,100	1,200
Silver *	31.86	37.96	38.80	32.80	27.00	34.00	40.75	44.00	19.00
Platinum *	1,793	1,784	1,771	1,565	1,375	1,700	1,850	1,800	1,550
Palladium *	791	760	753	630	560	680	775	825	700
Copper **	4.37	4.15	4.07	3.40	3.00	3.85	4.25	4.15	2.75
Zinc **	1.09	1.02	1.01	0.90	0.80	0.88	1.10	1.08	0.95
Lead **	1.18	1.16	1.11	0.93	0.86	1.00	1.12	1.10	0.80
Nickel **	12.20	10.97	9.98	8.30	7.50	8.75	9.50	8.85	8.50
Aluminum **	1.14	1.18	1.09	0.98	0.85	1.00	1.15	1.08	1.10
Molybdenum +	17.40	16.66	14.61	13.40	12.00	15.00	16.50	18.00	15.00
Iron Ore *+	178	175	176	145	115	133	140	138	90
Nymex Crude Oil +-	94.6	102.3	89.5	93	83	90	105	102	115
Brent Crude Oil +-	105.7	117.0	112.1	110	95	100	115	110	115
Heating Oil -+	2.82	3.05	2.98	3.00	2.60	2.70	3.05	2.65	3.10
Gasoline -+	2.68	3.10	2.89	2.65	2.40	2.75	3.00	2.60	3.05
Natural Gas --	4.20	4.38	4.06	3.70	3.85	4.00	4.00	4.15	5.50
AECO Natural Gas --	3.76	3.99	3.71	3.35	3.35	3.50	3.50	3.65	4.75
Uranium ++	67	56	51	50	50	60	68	66	70
Hard Coking Coal Spot +*	332	317	290	240	193	230	250	245	150
Newcastle Thermal Coal-	128	120	114	115	95	100	115	110	85

Note: *London PM Fix \$/oz., **LME \$/lb., +Molybdenum equivalent to moly oxide, FOB USA, *+CFR China, 62% Fe, dry \$/tonnes, +- \$/bbl, -+ \$/gal., -- \$/mmbtu, ++pre-2011 Uranium price is Ux Consulting spot price indicator post 2011 is NYMEX, +* Japan-Australia Spot, \$/tonne FOB, -Japan CIF steam coal marker -Newcastle, \$/tonne f: Forecast by TD Bank Financial Group as at Dec. 14, 2011; All forecasts are for end of period. Source: Bloomberg, TDBFG

Note: our updated December 2011 economic forecasts provided by TD Economics can be found here:
http://www.td.com/document/PDF/economics/qef/qefdec11_global.pdf

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