



Weekly Market Insight

January 13, 2012

NORTH AMERICAN & INTERNATIONAL ECONOMIC HIGHLIGHTS

Economic Update

By Benjamin Tal

There are clear signs that the Chinese economy is slowing. The pace of growth in house prices is softening and manufacturing activity is slowing. We also see a notable softening in infrastructure activity, following tightening credit standards by banks. To confirm the trend in housing and manufacturing, we looked at BC shipments of lumber to China (a reliable indicator of Chinese construction activity) and shipments are now rising at the slowest pace in thirty-nine months. Clearly the current softening in housing and construction activity in China is real.

The good news is that it appears that the government is on top of it. Note that the swap curve is inverted and predicting a near-term easing move by the central bank. As well, it is very likely that the reserve requirements on banks will be eased soon. As opposed to the Fed, the Chinese authorities have much room to stimulate the economy. This early move increases the likelihood of a soft landing of the Chinese economy. Note that the market reacted positively to the bad news coming from China this week—with the rationale being that such news will result in increased stimulus by the authorities.

In Europe, the relatively successful Spanish and Italian auctions should be put in perspective, since the focus was on relatively short-term bonds. With the ECB providing unlimited liquidity for up to three years, the real test will be when Italy tries to sell 10-year bonds later this month. Note that Italy has to raise close to €90 billion in the coming few months. Nevertheless, the fact that banks are willing to play this carry-trade (borrow from the ECB at 1% and lend at much higher rates) is a good sign indicating that the ECB is successful in using its 3-year credit facility. Given where inflation is going and that the euro economy is already in a recession, the likelihood is that euro interest rates will continue to go down in the coming months. Note that any positive news in the near future will probably be more than offset by the growing nervousness regarding debt downgrading of a long list of countries (including France).

In the US, tentative signs of improvement are starting to appear. The labour market is starting to generate roughly 150,000 new jobs a month on a consistent basis (interestingly all the jobs created since the recovery were among men). As well, the debt-to-income ratio has fallen so rapidly that it is now very close to its long-term trend line. And while credit has been rising for more than a year, all the increase was in student loans (i.e. another type of stimulus since these loans were provided by the government). However, over the past few months we see non-student related credit starting to move in the right direction. Also note that the charge-off rate on credit cards debt is back to its pre-recession level. So slowly things are starting to move in the right direction. We will need this private sector support, mainly in 2013, since by then the government will turn from a major positive contributor to the economy to a major drag.

After bleeding workers in recent months, Canadian factories boosted headcount in December, helping employment to register its first positive reading after two straight losses. Canadian jobs edged up by 17.5K, in line with the street's expectations, led by hiring in the manufacturing sector. But a steady participation rate meant that the tame gains in hiring were not enough to keep the jobless rate from edging up a tick to 7.5%. For Q4 as a whole, Canadian hiring still looks soft despite the month's gains, pointing to a slower growth trend to end the year.

Market Snapshot

US	Current*	yes terday*	a week ago*	a month ago*	a year ago*
TED SPREAD (bps)	54	55	57	55	16
10Y / 2Y SPREAD (bps)	163	169	171	165	270
2Y SWAP SPREAD (bps)	36	35	43	46	22
3MT-Bill (%)	0.03	0.02	0.01	0.01	0.14
LIBOR 1 MONTH (%)	0.29	0.29	0.30	0.28	0.26
LIBOR 3 MONTH (%)	0.57	0.57	0.58	0.56	0.30
2-YR BOND (%)	0.23	0.22	0.26	0.23	0.56
5-YR BOND (%)	0.79	0.82	0.87	0.83	1.87
10-YR BOND (%)	1.86	1.91	1.97	1.88	3.26
A Rated / 10Y TREASURY (bps)	218	211	221	229	158
B Rated / 10Y TREASURY (bps)	614	605	617	621	494
BB Rated / 10Y TREASURY (bps)	454	447	452	452	350
CANADA					
PRIME / BA SPREAD (bps)	180	180	180	180	180
CDOR 3 MONTH (%)	1.36	1.36	1.36	1.34	1.25
CDOR 3 MONTH / 3MT-BILL SPREAD (bps)	57	57	55	53	29
10Y / 2Y SPREAD (bps)	97	99	102	105	146
2-YR BOND (%)	0.95	0.96	0.94	0.85	1.76
5-YR BOND (%)	1.26	1.28	1.27	1.20	2.52
10-YR BOND (%)	1.92	1.95	1.96	1.90	3.22
A Rated / 10Y TREASURY (bps)	143	141	147	150	119
BBB Rated / 10Y TREASURY (bps)	245	243	249	253	188
CAN Sovereign Agency / 10Y TREASURY (bps)	56	50	52	54	42
COMMODITIES					
WTI CRUDE FUTURE (US\$ / bbl.)	98.8	102.2	101.2	94.1	90.9
NATURAL GAS (US\$ / MMBtu)	2.7	2.7	3.0	3.1	4.4
SILVER (US\$ / t oz.)	29.8	30.5	28.8	29.6	28.7
GOLD (US\$ / t oz.)	1634.4	1656.3	1613.5	1586.9	1364.3
WHEAT (US¢ / bu.)	604.5	599.5	631.5	582.0	770.5
SOYBEANS (US¢ / bu.)	1177.0	1162.8	1205.0	1116.8	1408.8
SUGAR (US¢ / lb.)	23.2	23.5	23.2	23.0	31.0
CORN (US¢ / bu.)	609.3	611.5	643.0	579.8	637.8
FX					
C\$ / US\$	1.024	1.020	1.025	1.036	0.994
US\$ / EURO	1.268	1.282	1.271	1.303	1.337
C\$ / EURO	1.299	1.308	1.302	1.350	1.330
YEN / US\$	76.950	76.740	77.130	77.810	82.630
US\$ / BRITISH POUND	1.529	1.534	1.539	1.552	1.587
SWISS FRANCS / US\$	0.954	0.945	0.957	0.938	0.964

* As of 11:00 a.m.

Note: Data is for reference only.

International Stock Indexes

Thursday, January 12, 2012

Index (Regiona/Country)	DAILY				% Chg		YTD % chg	52 WEEK			3-yr % chg
	High	Low	Close	Chg	-	+		High	Low	% Chg	
Global											
The Global Dow (World)	1853.29	1838.24	1848.73	5.69		0.31	2.5	2262.21	1669.03	-13.7	7.2
The Global Dow Euro (World)	1368.03	1352.89	1360.29	-7.62	-0.56		4	1548.75	1167.37	-10	8.7
DJ Global Index (World)	234.92	233.24	234.34	0.71		0.3	2.4	274.64	208.34	-9.3	11.6
DJ Global ex U.S. (World)	189.58	187.71	188.67	0.66		0.35	1.8	238.76	171.6	-16.1	8.9
Asia Pacific											
DJ Asia-Pacific (Asia-Pacific)	120.46	119.9	120.28	-0.14	-0.12		2.1	145.35	112.09	-16.6	8.8
All Ordinaries (Australia)	4251.5	4226	4238.4	-4.5	-0.11		3.1	5064.9	3927.6	-13.5	5.4
S & P/ASX 200 (Australia)	4196.5	4167.1	4181	-6.5	-0.16		3.1	4971.2	3863.9	-12.8	4.3
DJ CBN China 600 (China)	20382.13	20042.91	20148.12	0.89		0.004	3.5	28499.08	18773.49	-24.3	8.6
Dow Jones China 88 (China)	205.78	202.28	203.63	0.51		0.25	4.7	267.9	190.99	-17.7	6
Shanghai Composite (China)	2295.22	2265.26	2275.01	-1.04	-0.05		3.4	3057.33	2148.45	-19.5	6.2
Hang Seng (Hong Kong)	19261.29	19050.95	19095.38	-56.56	-0.3		3.6	24419.62	16250.27	-21.2	11
Bombay Sensex (India)	16178.58	15962.59	16037.51	-138.35	-0.86		3.8	19701.73	15175.08	-16.4	20.7
Jakarta Composite (Indonesia)	3918.59	3890.93	3909.5	-0.14	-0.004		2.3	4193.44	3269.45	9.7	40.6
Nikkei 300 (Japan)	147.6	146.18	146.58	-1.27	-0.86		-0.4	198.35	142.2	-22.9	-5.7
Nikkei Stock Avg (Japan)	8426.83	8360.33	8385.59	-62.29	-0.74		-0.8	10857.53	8160.01	-20.8	-1.7
Topix Index (Japan)	732.21	725.28	727.15	-6.32	-0.86		-0.2	974.63	706.08	-22.5	-5.3
Kuala Lumpur Composite (Malaysia)	1525.56	1520.78	1525.56	3.27		0.21	-0.3	1594.74	1331.8	-2.9	18.2
NZSX-50 (New Zealand)	3239.44	3212.81	3219.83	-16.7	-0.52		-1.7	3577.44	3097.78	-4.6	5.2
KSE 100 (Pakistan)	10930.49	10840.82	10909.12	-21.37	-0.2		-3.9	12681.94	10842.26	-12.4	21.8
Manila Composite (Philippines)	4654.65	4629.6	4642.3	-11.19	-0.24		6.2	4653.49	3721.22	14.1	32.5
Straits Times (Singapore)	2759.77	2732.31	2743.66	-3.47	-0.13		3.7	3255.87	2528.71	-15.7	15.6
Kospi (South Korea)	1864.57	1837.96	1864.57	19.02		1.03	2.1	2228.96	1652.71	-10.8	17.3
Colombo Stock Exchange (Sri Lanka)	5955.27	5860.58	5942.47	77.41		1.32	-2.2	7811.82	5805.76	-15.4	57.1
Weighted (Taiwan)	7209.74	7173.87	7186.58	-1.63	-0.02		1.6	9145.35	6633.33	-19.9	17.3
SET (Thailand)	1056.76	1050.2	1052.23	0.6		0.06	2.6	1144.14	855.45	1.7	32.5
Europe											
Stoxx Europe 600 (Europe)	252.28	248.64	249.5	-0.43	-0.17		2	291.16	214.89	-12.2	6.8
Stoxx Europe 50 (Europe)	2426.33	2392.29	2398.84	-13.76	-0.57		1.2	2768.65	2028.03	-10.6	4.1
Euro Stoxx 50 (Euro zone)	2384.25	2338.3	2345.85	6.34		0.27	1.3	3068	1995.01	-19.5	-1.5
Euro Stoxx (Euro zone)	233.24	229.32	230.06	0.83		0.36	1.9	296.96	200.94	-19.1	0.8
ATX (Austria)	1934.6	1891.76	1915.17	21.2		1.12	1.2	3000.7	1652.79	-33.7	2.3
Bel-20 (Belgium)	2156.12	2123.46	2137.42	-2.9	-0.14		2.6	2770.81	1916.26	-18.8	2.7
PX 50 (Czech Republic)	902.3	892.2	897.6	7		0.79	-1.5	1276.3	843	-28	0.9
OMX Copenhagen (Denmark)	371.27	368.05	369.25	0.61		0.17	3.5	441.74	311.34	-14.4	13.9
OMX Helsinki (Finland)	5684.14	5588.87	5615.5	40.77		0.73	4.9	7912.33	5020.54	-28.5	0.2
CAC 40 (France)	3253.29	3190.12	3199.98	-4.85	-0.15		1.3	4157.14	2781.68	-19.5	-0.5
DAX (Germany)	6256.95	6148.85	6179.21	26.87		0.44	4.8	7527.64	5072.33	-12.7	9.4
BUX (Hungary)	17111.08	16765.83	17030.52	271		1.62	0.3	24451.38	14929.76	-23.9	10.8
FTSE MIB (Italy)	15401.12	14937.32	15192.79	310.35		2.09	0.7	23178.38	13474.14	-28.7	-8.6
AEX (Netherlands)	314.31	309.36	310.3	-1.35	-0.43		-0.7	374.19	263.44	-14	5.8
All-Shares (Norway)	456.4	450.53	454.44	3.86		0.86	2.7	513.6	373.47	-7.4	17.9
WIG (Poland)	38199.66	37522.44	38062.87	546.67		1.46	1.2	50371.74	36549.47	-19.8	11.6
PSI 20 (Portugal)	5578.09	5510.12	5521.11	12.03		0.22	0.5	8126.06	5185.1	-28.1	-5.4
DJ Russia Titans 10 (Russia)	6146.56	6046.06	6060.15	-19.17	-0.32		5.6	7565.66	5234.47	-14.8	29.8
RTS Index (Russia)	1474.3	1446.85	1458.24	5.55		0.38	5.5	2123.56	1217.21	-22.4	32.3
IBEX 35 (Spain)	8575.9	8419	8427	0.2		0.002	-1.6	11113	7640.7	-18.7	-2.9
SX All Share (Sweden)	320.54	316.41	317.85	2.04		0.65	3.5	375.38	270.24	-15.2	15.3
Swiss Market (Switzerland)	6058.07	6004.86	6018.07	10.03		0.17	1.4	6717.25	4791.96	-8.3	2.5
Istanbul National 100 (Turkey)	52489.88	51410.44	52154.27	743.83		1.45	1.7	70072.02	49621.67	-23.9	26.6
FTSE 100 (U.K.)	5699.6	5640.3	5662.42	-8.4	-0.15		1.6	6091.3	4944.4	-6	8.6
FTSE 250 (U.K.)	10487.36	10361.33	10466.45	93.89		0.91	3.6	12167.81	9425.93	-11.1	16.1
Americas											
DJ Americas (Americas)	340.63	337.71	340.21	0.97		0.29	3.3	369.17	288.17	-2	15.8
Merval (Argentina)	2857.1	2806.99	2819.99	-5.74	-0.2		14.5	3664.82	2286.73	-20.4	35.7
Sao Paulo Bovespa (Brazil)	60503.93	59586.37	59920.78	-41.62	-0.07		5.6	70940.22	48668.29	-15.3	15
S & P/TSX Comp (Canada)	12307.45	12227.57	12274.32	13.38		0.11	2.7	14270.53	11177.91	-8.4	11.8
Santiago IPSA (Chile)	4230.96	4204.19	4213.54	9.35		0.23	0.9	4939.11	3606.31	-14.7	19.5
IPC All-Share (Mexico)	37490.41	37225.88	37320.97	13.33		0.04	0.7	38151.3	31715.78	-2	20.8
Caracas General (Venezuela)	117666.33	117070.72	117666.33	595.61		0.51	0.5	118108.62	65739.42	78.5	49.9
Other Countries											
CASE 30 (Egypt)	3777.88	3749.27	3777.88	11.71		0.31	4.3	7156.28	3586.55	-47.2	-6.4
Tel Aviv (Israel)	1133.96	1122.27	1128.55	5.62		0.5	4	1341.89	999.46	-15.5	18.2
Johannesburg All Share (South Africa)	33110.1	32812.06	33008.52	181.47		0.55	3.2	33094.06	28391.18	1.2	14.2

*Europe, Australia, Far East; U.S.-dollar terms.

Three year percent change is annualized.

Sources: Reuters; WSJ.com

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