



# Weekly Market Insight

March 24, 2016

## Economic Update

By Benjamin Tal

What is better for the Canadian economy—\$30 or \$40 oil? The answer of course should be \$40. But is it really so? The correlation between the value of the loonie and oil prices is well established, with crude the main driver of the loonie's recent moves. Granted at any time, divergence between Fed policy and the Bank of Canada also plays a role, but by far, oil has dominated the relationship.

When crude prices first reached \$26 in January, the Canadian dollar traded at 69 cents-US. Today oil is close to \$40 and the loonie is at north of 76-cents. A 48% increase in oil prices coincided with a 10% C\$ appreciation.

Now, according to simple economics 101, higher oil prices should work to ease the pain in Alberta while a stronger dollar is a negative via its impact on exports. But things are not so simple. When it comes to oil prices, we are in a no-man's land. One of the factors behind the rise in oil prices in the past few weeks is the fact that when it comes to Saudi Arabia, the difference between \$30 oil and \$40 oil is all gain and no pain. That is, the kingdom can achieve all its objectives (gain market share, slowdown investment in green technology) at the current price without suffering the budgetary consequences of selling barrels for \$10 less.

As for Alberta the difference between \$30 oil and \$40 oil is not a game changer. First, given current production costs, \$40 oil is not high enough to even start thinking about increased capital spending. And with Saudi Arabia no longer acting as a swing producer, volatility will define the future trajectory of crude prices in the foreseeable future—another disincentive to invest. So higher oil prices might have some modest positive impact on default rates in the oil patch, but will have little to no impact on investment and job creation.

At the same time, the 6-cent appreciation in the value of the dollar can make a difference in the decision-making process for some (or many) manufacturing firms. Only recently have we started to see some positive signs coming from non-energy investment and production as corporate Canada started to respond to the dollar depreciation. And this fragile recovery might be at risk as higher oil prices lead to a stronger loonie. Simply put, we suffer the pain of a higher dollar without the gain of rising oil prices. So maybe, after all, at this point, \$30 oil is better than \$40. For the gain to be much more visible we will need to see a much more significant increase in crude prices. For now we are in an oil twilight zone.

On another issue, one of the items in the budget was to allocate \$500,000 towards getting better housing market information, mainly when it comes to the impact of foreign investment. Simply put, this amount is not even close to what is probably required to do the job right. This is a complex issue that requires the co-operation of many players, the purchase of data from private sector providers, and large scale surveys. Furthermore, for the past year CMHC has been working hard on collecting and harmonizing missing real estate information. It's important to make sure that Statistics Canada and CMHC join forces to eliminate any potential duplication of efforts.

## Market Snapshot

US	Current*	yesterday*	a week ago*	a month ago*	a year ago*
TED SPREAD (bps)	34	32	34	34	24
10Y - 2Y SPREAD (bps)	101	103	103	106	135
2Y SWAP SPREAD (bps)	10	9	7	7	24
3M T-Bill (%)	0.29	0.30	0.31	0.28	0.03
LIBOR 1 MONTH (%)	0.43	0.43	0.44	0.43	0.17
LIBOR 3 MONTH (%)	0.63	0.62	0.64	0.62	0.27
2-YR BOND (%)	0.86	0.88	0.87	0.72	0.62
5-YR BOND (%)	1.35	1.40	1.39	1.23	1.45
10-YR BOND (%)	1.87	1.92	1.90	1.78	1.97
A Rated - 10Y TREASURY (bps)	118	118	124	143	101
B Rated - 10Y TREASURY (bps)	584	579	581	593	573
BB Rated - 10Y TREASURY (bps)	416	407	418	479	344
<b>CANADA</b>					
PRIME - BA SPREAD (bps)	183	183	183	185	186
CDOR 3 MONTH (%)	0.88	0.88	0.88	0.85	1.00
CDOR 3 MONTH - 3M T-BILL SPREAD (bps)	42	41	42	39	46
10Y - 2Y SPREAD (bps)	69	72	76	68	84
2-YR BOND (%)	0.56	0.59	0.53	0.47	0.57
5-YR BOND (%)	0.71	0.76	0.71	0.62	0.84
10-YR BOND (%)	1.24	1.31	1.30	1.15	1.41
A Rated - 10Y TREASURY (bps)	181	180	187	216	118
BBB Rated - 10Y TREASURY (bps)	257	256	264	284	167
CAN Sovereign Agency - 10Y TREASURY (bps)	126	126	127	138	62
<b>COMMODITIES</b>					
WTI CRUDE FUTURE (US\$ / bbl.)	38.7	40.5	39.7	30.8	50.4
NATURAL GAS (US\$ / MMBtu)	1.8	1.9	1.8	1.9	2.7
SILVER (US\$ / t oz.)	15.3	15.3	16.0	15.4	17.1
GOLD (US\$ / t oz.)	1219.8	1218.0	1266.9	1209.5	1205.6
WHEAT (US¢ / bu.)	460.5	466.5	463.5	464.3	510.5
SOYBEANS (US¢ / bu.)	907.8	904.0	897.5	881.8	975.0
SUGAR (US¢ / lb.)	16.3	16.4	15.7	12.8	12.3
CORN (US¢ / bu.)	367.8	367.5	367.8	367.5	393.0
<b>FX</b>					
C\$ / US\$	1.329	1.321	1.300	1.373	1.249
US\$ / EURO	1.116	1.118	1.130	1.110	1.092
C\$ / EURO	1.483	1.477	1.469	1.523	1.363
YEN / US\$	112.490	112.780	111.540	113.600	119.170
US\$ / BRITISH POUND	1.411	1.412	1.445	1.432	1.483
SWISS FRANCS / US\$	0.976	0.974	0.967	0.994	0.959
<b>EQUITY MARKETS</b>					
S&P/TSX COMPOSITE	13273	13422	13634	12856	14863
S&P 500	2026	2045	2033	1920	2052
NASDAQ	4752	4788	4758	4509	4855
DOW JONES	17426	17535	17409	16427	17670
RUSSELL 2000	1068	1086	1078	1008	1228
DAX	9883	10042	9859	9464	11710
FTSE 100	6112	6196	6185	5972	6890
NIKKEI	16892	17001	16936	16197	19471

\* As of ~11:00 a.m. Toronto time  
Note: Data is for reference only.

## International Stock Indexes

Wednesday, March 23, 2016

Index (Region/Country)	DAILY						52 WEEK			
	High	Low	Close	Chg	% Chg -   +	YTD % chg	High	Low	% Chg	3-yr % chg
<b>Global</b>										
The Global Dow (World)	2316.58	2294.23	2296.71	-20.59	-0.89	-1.7	2639.52	2047.44	-9.7	2.7
The Global Dow Euro (World)	1947.8	1932.59	1935.2	-8.39	-0.43	-4.4	2305.98	1699.54	-11.2	8
DJ Global Index (World)	306.2	303.65	303.77	-2.54	-0.83	-1.4	341.62	272.15	-8	3.3
DJ Global ex U.S. (World)	207.77	205.65	206.05	-1.87	-0.9	-2	246.68	184.52	-12.9	-1.7
<b>Asia Pacific</b>										
DJ Asia-Pacific TSM (Asia-Pacific)	1366.58	1353.68	1355.3	-11.87	-0.87	-2.5	1619.39	1190.45	-11.8	-0.4
All Ordinaries (Australia)	5230.8	5190.2	5204.3	-26.5	-0.51	-2.6	5954.8	4816.6	-12.3	1.5
S & P/ASX 200 (Australia)	5166.6	5124	5142.3	-24.3	-0.47	-2.9	5982.7	4765.3	-13.9	1.2
Dow Jones China 88 (China)	256.82	253.72	255.94	0.43	0.17	-10.7	408.69	224.92	-17.7	5
Shanghai Composite (China)	3012.56	2980.86	3009.96	10.6	0.35	-15	5166.35	2655.66	-17.8	8.9
Hang Seng (Hong Kong)	20693.48	20513.61	20615.23	-51.52	-0.25	-5.9	28442.75	18319.58	-16	-2.3
S & P BSE Sensex (India)	25367.81	25156.82	25337.56	7.07	0.03	-3	29044.44	22951.83	-9.9	10.6
Jakarta Composite (Indonesia)	4854.18	4822.34	4854.18	-1.93	-0.04	5.7	5523.29	4120.5	-10.2	0.9
Nikkei 300 (Japan)	277.7	274.44	274.85	-1.25	-0.45	-11.7	343.2	242.81	-15.1	9.3
Nikkei Stock Avg (Japan)	17142.08	16964.31	17000.98	-47.57	-0.28	-10.7	20868.03	14952.61	-13.9	11.3
Topix Index (Japan)	1378.25	1361.86	1364.2	-5.73	-0.42	-11.8	1691.29	1196.28	-14.3	9.5
Kuala Lumpur Composite (Malaysia)	1726.55	1716.43	1724.55	-0.2	-0.01	1.9	1862.8	1532.14	-5.2	2
S & P/NZX 50 (New Zealand)	6691.26	6660.23	6668.87	4.61	0.07	5.4	6668.87	5546.88	14.3	15.4
KSE 100 (Pakistan)	33191.08	32868.07	32928.3	...	Closed	0.3	36228.88	28927.04	5.2	22.4
PSEI (Philippines)	7360.05	7262.69	7360.05	18.02	0.25	5.9	8127.48	6084.28	-6.1	4.1
Straits Times (Singapore)	2895.97	2874.15	2881.98	1.33	0.05	unch.	3539.95	2532.7	-15.7	-4
Kospi (South Korea)	2001.67	1989.84	1995.12	-1.69	-0.08	1.7	2173.41	1829.81	-2.3	0.8
Colombo Stock Exchange (Sri Lanka)	6107.14	6045.94	6073.5	-15.07	-0.25	-11.9	7498.78	5862.35	-12.9	1.7
Weighted (Taiwan)	8814.5	8734.55	8766.09	-19.59	-0.22	5.1	9973.12	7410.34	-9.3	4
SET (Thailand)	1412.16	1393.16	1412.16	14.96	1.07	9.6	1570	1224.83	-6.7	-1.5
<b>Europe</b>										
Stoxx Europe 600 (Europe)	342.45	338.55	340.07	-0.23	-0.07	-7	414.06	303.58	-14.5	5
Stoxx Europe 50 (Europe)	2842.67	2808.95	2823.35	-0.65	-0.02	-8.9	3591.47	2566.26	-18	1.6
Euro Stoxx 50 (Euro zone)	3076.2	3024.34	3042.42	-8.81	-0.29	-6.9	3828.78	2680.35	-17.4	4.3
Euro Stoxx (Euro zone)	327.45	322.79	324.48	-0.28	-0.09	-6	392.35	284.92	-13.9	6.2
ATX (Austria)	2297.29	2257.13	2267.61	-24.68	-1.08	-5.4	2681.44	1957.05	-10.1	-2.2
Bel-20 (Belgium)	3457.88	3412.62	3428.53	3.61	0.11	-7.3	3905.71	3130.76	-8.5	9.4
PX 50 (Czech Republic)	906.2	886.3	890.5	-10.67	-1.18	-6.9	1058.4	845.9	-14.6	-3.2
OMX Copenhagen (Denmark)	855.77	848.83	850.56	1.63	0.19	-6.2	923.55	745.49	2.9	20.3
OMX Helsinki (Finland)	8147.99	8025.85	8051.06	-70.21	-0.86	-6.3	9374.42	7257.23	-12.5	9.1
CAC 40 (France)	4467.86	4396.1	4423.98	-7.99	-0.18	-4.6	5268.91	3896.71	-11.9	5.5
DAX (Germany)	10112.17	9964.63	10022.93	32.93	0.33	-6.7	12374.73	8752.87	-15.5	8.2
BUX (Hungary)	25983.19	25532.11	25697.58	-181.03	-0.7	7.4	25938.65	19654.63	27.8	12.6
FTSE MIB (Italy)	18828.24	18401.93	18462.88	-235.94	-1.26	-13.8	24031.19	15773	-20.2	4.8
AEX (Netherlands)	445.59	440.94	443.36	0.24	0.05	0.3	509.24	382.61	-9.8	8.1
All-Shares (Norway)	640.11	636.39	636.41	-2.81	-0.44	-1.9	711.22	552.32	-3.9	6.8
WIG (Poland)	48306.62	47557.94	47748.48	-418.3	-0.87	2.8	57379.45	42152.7	-11.8	1.9
PSI 20 (Portugal)	5215.26	5139.06	5153.65	-39.73	-0.77	-3	6324.88	4460.63	-14.3	-5.4
RTS Index (Russia)	889.45	863.83	865.4	-23.62	-2.66	14.3	1082.21	628.41	-1.9	-16.2
IBEX 35 (Spain)	9046	8880.2	8927.1	-64.9	-0.72	-6.5	11866.4	7746.3	-22.1	2.3
SX All Share (Sweden)	484.91	479.97	481.45	-2.43	-0.5	-4.7	564.9	435.21	-12.1	8.9
Swiss Market (Switzerland)	7928.29	7855.17	7894.36	41.29	0.53	-10.5	9526.79	7496.62	-14.1	0.6
BIST 100 (Turkey)	81735.04	80171.7	80383.69	-1382.45	-1.69	12.1	88651.88	68567.89	-2.7	-0.8
FTSE 100 (U.K.)	6216.8	6171.1	6199.11	6.37	0.1	-0.7	7104	5537	-11.3	-1
FTSE 250 (U.K.)	16955.41	16836.07	16864.64	-39.29	-0.23	-3.2	18263.46	15178.8	-3.6	6.5
<b>Americas</b>										
DJ Americas (Americas)	491.54	486.75	487.11	-4.38	-0.89	-0.02	524.44	433.35	-4	6.7
Merval (Argentina)	12926.33	12472.82	12499.17	-427.16	-3.3	7.1	14173.87	9288.41	11.9	53.9
Sao Paulo Bovespa (Brazil)	51004.57	49490.73	49690.05	-1320.15	-2.59	14.6	58051.61	37497.48	-4.2	-3.5
S & P/TSX Comp (Canada)	13503.14	13364.98	13379.48	-114.01	-0.84	2.8	15450.87	11843.11	-10.4	1.6
Santiago IPSA (Chile)	3139.86	3087.75	3097.4	-39.83	-1.27	5.2	3359.04	2759.77	-2.6	-6.8
IPC All-Share (Mexico)	45713.75	45365.54	45647.57	15.29	0.03	6.2	45773.31	40265.37	4.6	2.3
Caracas General (Venezuela)	14957.41	14951.28	14957.41	6.13	0.04	2.5	16820.52	4947.07	197.5	187.6
<b>Other Countries</b>										
CASE 30 (Egypt)	7495.47	7363.81	7495.47	65.14	0.88	7	9198.46	5713.35	-18.5	12.8
Tel Aviv (Israel)	1499.35	1484.53	1485.9	-2.45	-0.16	-2.8	1723.56	1383.34	-7.8	6.2
Johannesburg All Share (South Africa)	53392.86	52446.86	52569.55	-823.31	-1.54	3.7	55188.34	46282.02	0.5	9.5

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

Three year percent change is annualized.

Sources: SIX Financial Information; Thomson Reuters, WSJ Market Data Group

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