



# Weekly Market Insight

April 8, 2016

## What You See is Not What You Get

By Benjamin Tal

Investors suspect that the Fed is market-dependent, but Yellen continues to insist that it is really data-dependent. To what extent we believe her is a topic for another time, but the concept of *data dependency is problematic—especially if you don't believe what you see.*

In our latest monthly Economic Insights publication we pointed to the disconnect between the rapid pace of job creation in the US and the dismal growth in output. We referred to the ongoing debate regarding the credibility of productivity measures.

This debate is not new. Back in 1996 former Fed Chair Greenspan argued that the productivity numbers are “phony”—pointing to the fact that corporate profit margins had widened in the absence of rising pricing power. Today, margins are even wider and productivity growth is much weaker (Chart).

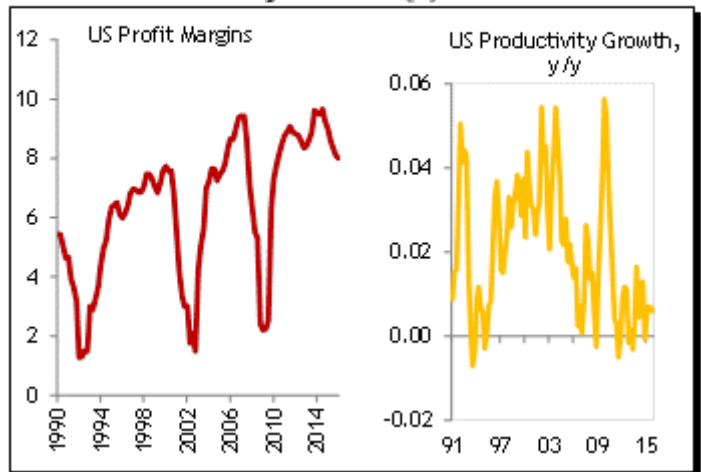
Despite some recent softening, margins are currently two full percentage-points higher than their long-term average. Granted, a rising share of high-margin sectors and an increase in the monopolistic power of corporate America might explain some of that increase. But the reality is that since the beginning of the recovery, margins averaged north of 8.5%, while productivity has risen by an annual average of less than 1%. In the past, those levels of profit margins were consistent with productivity growth three times stronger. In fact, the gap between margins and productivity growth is currently hovering at an all-time high.

So something is amiss. Greenspan was probably right, and we might be routinely underestimating productivity growth. Now, economists are the first to admit that GDP estimates are poor at capturing the impacts of innovation. But the party line is that as long as the pace of growth in innovation is constant, the GDP estimates are good enough.

It's clear that in today's environment this assumption is weak at best, making an already problematic concept even worse.

The challenge facing any statistical agency is significant. The price adjustment to account for quality changes is nothing more than guesswork since in many cases there are no previous products to measure it against. But even more troubling is the fact that innovations are being adapted by the marketplace at an accelerating pace—light years ahead of the ability of statisticians to adjust their models. The ATM was introduced to the market in the early 1990s with a notable impact on the productivity of the

**Elevated Profit Margins (L),  
Dismal Productivity Growth (R)**



financial sector. However, it took until 1999 to incorporate this innovation into the GDP numbers accurately.

And that's a relatively simple product. Can you imagine the statistical nightmare that the poor souls at the Bureau of Economic Analysis, Statistics Canada and any other statistical agency face as they try to account for the multi-functionality of today's new products and the way they impact multiple sectors and businesses?

A fed that is market-dependent is clearly sub-optimal. But there at least, what you see is what you get.

## Market Snapshot

US	Current*	yesterday*	a week ago*	a month ago*	a year ago*
TED SPREAD (bps)	41	41	38	34	25
10Y - 2Y SPREAD (bps)	102	99	103	101	139
2Y SWAP SPREAD (bps)	14	13	12	5	26
3M T-Bill (%)	0.22	0.22	0.24	0.30	0.02
LIBOR 1 MONTH (%)	0.44	0.44	0.43	0.44	0.18
LIBOR 3 MONTH (%)	0.63	0.63	0.63	0.63	0.28
2-YR BOND (%)	0.71	0.70	0.77	0.88	0.55
5-YR BOND (%)	1.17	1.14	1.26	1.39	1.39
10-YR BOND (%)	1.73	1.69	1.80	1.89	1.94
A Rated - 10Y TREASURY (bps)	109	118	113	129	103
B Rated - 10Y TREASURY (bps)	598	602	590	582	577
BB Rated - 10Y TREASURY (bps)	435	438	430	431	337
<b>CANADA</b>					
PRIME - BA SPREAD (bps)	180	180	179	184	186
CDOR 3 MONTH (%)	0.90	0.90	0.90	0.87	1.00
CDOR 3 MONTH - 3M T-BILL SPREAD (bps)	43	43	45	41	41
10Y - 2Y SPREAD (bps)	65	64	72	73	83
2-YR BOND (%)	0.57	0.53	0.55	0.52	0.52
5-YR BOND (%)	0.70	0.65	0.71	0.70	0.78
10-YR BOND (%)	1.22	1.16	1.27	1.26	1.36
A Rated - 10Y TREASURY (bps)	171	180	172	197	127
BBB Rated - 10Y TREASURY (bps)	246	255	246	278	177
CAN Sovereign Agency - 10Y TREASURY (bps)	123	131	123	135	71
<b>COMMODITIES</b>					
WTI CRUDE FUTURE (US\$ / bbl.)	39.7	36.9	37.0	35.1	51.4
NATURAL GAS (US\$ / MMBtu)	2.0	2.0	1.9	1.6	2.5
SILVER (US\$ / t oz.)	15.3	15.2	15.0	15.7	16.5
GOLD (US\$ / t oz.)	1238.6	1237.7	1214.5	1275.7	1207.3
WHEAT (US¢ / bu.)	461.8	457.8	473.8	454.5	526.0
SOYBEANS (US¢ / bu.)	915.3	904.0	915.8	866.5	951.0
SUGAR (US¢ / lb.)	14.5	14.4	15.3	14.7	12.8
CORN (US¢ / bu.)	361.8	361.5	351.3	355.8	375.8
<b>FX</b>					
C\$ / US\$	1.297	1.315	1.309	1.339	1.260
US\$ / EURO	1.140	1.138	1.136	1.100	1.060
C\$ / EURO	1.479	1.496	1.488	1.472	1.335
YEN / US\$	108.340	108.230	112.380	113.870	120.280
US\$ / BRITISH POUND	1.412	1.407	1.419	1.419	1.465
SWISS FRANCS / US\$	0.954	0.956	0.961	0.993	0.980
<b>EQUITY MARKETS</b>					
S&P/TSX COMPOSITE	13411	13225	13380	13227	15393
S&P 500	2055	2037	2056	1993	2101
NASDAQ	4868	4842	4878	4716	4988
DOW JONES	17636	17521	17727	16996	18031
RUSSELL 2000	1103	1092	1107	1079	1266
DAX	9626	9531	9786	9790	12375
FTSE 100	6191	6137	6130	6181	7090
NIKKEI	15822	15750	16164	17015	19908

\* As of ~11:00 a.m. Toronto time

Note: Data is for reference only.

## International Stock Indexes

Thursday, April 07, 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)	2289.69	2261.03	2267.19	-12.91	-0.57	-3	2639.52	2047.44	-12	2.9
The Global Dow Euro (World)	1895.72	1870.86	1875.58	-11.92	-0.63	-7.4	2305.98	1699.54	-17.4	7.7
DJ Global Index (World)	304.88	300.97	301.89	-1.81	-0.6	-2	341.62	272.15	-9.8	3.4
DJ Global ex U.S. (World)	204.15	202.17	202.65	0.13	0.06	-3.6	246.68	184.52	-15.5	-1.7
<b>Asia Pacific</b>										
DJ Asia-Pacific TSM (Asia-Pacific)	1331.34	1319.91	1331.3	13.05	0.99	-4.2	1619.39	1190.45	-15.2	-0.8
All Ordinaries (Australia)	5062	5024	5042.3	17.7	0.35	-5.7	5954.8	4816.6	-14.6	1
S & P/ASX 200 (Australia)	4984.9	4945.1	4964.1	18.2	0.37	-6.3	5982.7	4765.3	-16.3	0.5
Dow Jones China 88 (China)	256.83	252.25	252.28	-3.52	-1.38	-12	408.69	224.92	-26.1	6.4
Shanghai Composite (China)	3062.36	3007.06	3008.42	-42.17	-1.38	-15	5166.35	2655.66	-24	10.6
Hang Seng (Hong Kong)	20370.52	20165.76	20266.05	59.38	0.29	-7.5	28442.75	18319.58	-24.8	-2.3
S & P BSE Sensex (India)	25013.13	24647.48	24685.42	-215.21	-0.86	-5.5	29044.44	22951.83	-14.5	10.2
Jakarta Composite (Indonesia)	4900.47	4858.5	4867.29	-0.94	-0.02	6	5500.9	4120.5	-11.5	-0.4
Nikkei 300 (Japan)	257.7	253.91	256.08	1.15	0.45	-17.7	343.2	242.81	-21.1	5.7
Nikkei Stock Avg (Japan)	15871.1	15636.21	15749.84	34.48	0.22	-17.3	20868.03	14952.61	-21	7.1
Topix Index (Japan)	1281.37	1261.36	1272.64	4.89	0.39	-17.8	1691.29	1196.28	-20.2	6.1
Kuala Lumpur Composite (Malaysia)	1724.29	1716.76	1724.29	7.28	0.42	1.9	1862.8	1532.14	-6.8	0.7
S & P/NZX 50 (New Zealand)	6758.61	6736.1	6755.23	20.96	0.31	6.8	6755.23	5546.88	15.5	15.1
KSE 100 (Pakistan)	34058.28	33870.51	33896.03	-50.34	-0.15	3.3	36228.88	30564.5	5.9	22.1
PSEI (Philippines)	7239.22	7199.96	7232.97	52.42	0.73	4	8127.48	6084.28	-10.2	2.4
Straits Times (Singapore)	2835.32	2809.56	2813.59	2.34	0.08	-2.4	3539.95	2532.7	-18.7	-5.2
Kospi (South Korea)	1980.43	1964.99	1973.89	2.57	0.13	0.6	2173.41	1829.81	-4.1	0.8
Colombo Stock Exchange (Sri Lanka)	6236.32	6167.48	6230.19	65.08	1.06	-9.6	7498.78	5862.35	-9.7	2.6
Weighted (Taiwan)	8529.44	8436.54	8490.25	-23.05	-0.27	1.8	9973.12	7410.34	-11.3	2.2
SET (Thailand)	1379.25	1356.68	1356.69	-16.9	-1.23	5.3	1570	1224.83	-12.2	-3.1
<b>Europe</b>										
Stoxx Europe 600 (Europe)	332.08	327.08	328.1	-2.55	-0.77	-10.3	414.06	303.58	-19.8	4.5
Stoxx Europe 50 (Europe)	2757.24	2714.97	2724.36	-16.76	-0.61	-12.1	3591.47	2566.26	-23.1	1
Euro Stoxx 50 (Euro zone)	2924.7	2860.32	2871.57	-37.79	-1.3	-12.1	3828.78	2680.35	-24.1	3.6
Euro Stoxx (Euro zone)	314.06	307.81	308.86	-3.59	-1.15	-10.5	392.35	284.92	-20.4	5.7
ATX (Austria)	2245.7	2205.56	2210.18	-29.42	-1.31	-7.8	2681.44	1957.05	-15.5	-1.7
Bel-20 (Belgium)	3360.65	3311.3	3319.99	-25.38	-0.76	-10.3	3905.71	3130.76	-14.2	9.3
PX 50 (Czech Republic)	888.8	881.4	884.3	-0.09	-0.01	-7.5	1058.4	845.9	-16	-2.3
OMX Copenhagen (Denmark)	861.71	850.42	852.25	-0.95	-0.11	-6	923.55	745.49	-3.1	20.9
OMX Helsinki (Finland)	7814.73	7664.18	7664.18	-97.53	-1.26	-10.8	9374.42	7257.23	-16.5	8.1
CAC 40 (France)	4316.78	4229.12	4245.91	-38.73	-0.9	-8.4	5268.91	3896.71	-18.5	5
DAX (Germany)	9702.18	9484.75	9530.62	-93.89	-0.98	-11.3	12374.73	8752.87	-21.7	7.6
BUX (Hungary)	26440.06	26306.4	26397.46	99.35	0.38	10.4	26451.02	20610.76	26.6	13.5
FTSE MIB (Italy)	17322.19	16777.87	16818.25	-422.66	-2.45	-21.5	24031.19	15773	-29.3	3.3
AEX (Netherlands)	433.94	427.96	428.73	-2.28	-0.53	-3	509.24	382.61	-14.6	8
All-Shares (Norway)	617.15	608.55	609.05	-1.61	-0.26	-6.1	711.22	552.32	-12.2	6.2
WIG (Poland)	47762.81	47025.11	47231.36	-120.72	-0.25	1.6	57379.45	42152.7	-14.2	1.9
PSI 20 (Portugal)	4864.36	4754.24	4761.77	-86.64	-1.79	-10.4	6324.88	4460.63	-24.7	-5.5
RTS Index (Russia)	872.56	852.98	859.24	-4.05	-0.47	13.5	1082.21	628.41	-14.4	-15.2
IBEX 35 (Spain)	8431.4	8256.1	8292.9	-105.7	-1.26	-13.1	11866.4	7746.3	-29.3	2.1
SX All Share (Sweden)	477.92	472.41	472.48	-6.16	-1.29	-6.5	564.9	435.21	-14.8	8.9
Swiss Market (Switzerland)	7830.03	7745.52	7761.35	-6.88	-0.09	-12	9526.79	7496.62	-17.4	0.5
BIST 100 (Turkey)	82252.59	81080.72	81164.66	-346.61	-0.43	13.2	88651.88	68567.89	-2.8	-0.4
FTSE 100 (U.K.)	6204.1	6119.4	6136.89	-24.74	-0.4	-1.7	7104	5537	-12.5	-0.6
FTSE 250 (U.K.)	16920.58	16692.21	16714.23	-151.88	-0.9	-4.1	18263.46	15178.8	-5.7	7.4
<b>Americas</b>										
DJ Americas (Americas)	494.43	486.34	488.29	-5.79	-1.17	0.2	524.44	433.35	-5.3	7
Merval (Argentina)	12262.04	11775.57	11864.15	-397.89	-3.24	1.6	14173.87	9288.41	3.1	53
Sao Paulo Bovespa (Brazil)	48940.48	48099.11	48513.1	416.86	0.87	11.9	58051.61	37497.48	-9.8	-4.1
S & P/TSX Comp (Canada)	13327.3	13217.17	13266.44	-81.02	-0.61	2	15450.87	11843.11	-13.4	2.5
Santiago IPSA (Chile)	3091.52	3071.21	3090.07	5.37	0.17	5	3359.04	2759.77	-5.7	-5.6
IPC All-Share (Mexico)	45290.03	44834.24	45052.16	-229.81	-0.51	4.8	46191.51	40265.37	0.3	1.4
Caracas General (Venezuela)	15446.43	14921.4	15441.76	389.12	2.59	5.9	16820.52	5381.15	186.3	189.9
<b>Other Countries</b>										
CASE 30 (Egypt)	7480.15	7408.89	7478.74	18.9	0.25	6.7	9121.92	5713.35	-15.9	14.5
Tel Aviv (Israel)	1453.46	1442.11	1443.5	-0.42	-0.03	-5.6	1723.56	1383.34	-12.6	5.6
Johannesburg All Share (South Africa)	51540.29	51029.36	51146.82	-37.5	-0.07	0.9	55188.34	46282.02	-3.5	9.9

\*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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