



Weekly Market Insight

June 6, 2008

NORTH AMERICAN & INTERNATIONAL ECONOMIC HIGHLIGHTS

Despite the fact that US mortgage foreclosure rates are still soaring and house prices continue to fall, there are some signs that the financial burden facing American financial institutions are starting to ease.

Activity at the Fed's discount window is slowing. Outstanding primary credit totaled \$12.97 billion this week, down from almost \$20 billion seen last week. Note that outstanding primary credit has averaged \$12.4 billion since April. Reduced borrowing from the Fed's discount window is an indication of a lower level of stress in credit markets.

The US labour market is still struggling. Non-farm payrolls fell by 49,000 in May and the unemployment rate rose to 5.5%. The surge in the unemployment rate suggests more weakness in the pipeline.

Accordingly, while Bernanke is hinting that inflation is now on his radar screen, this weakness suggests that the Fed will not touch rates for a while.

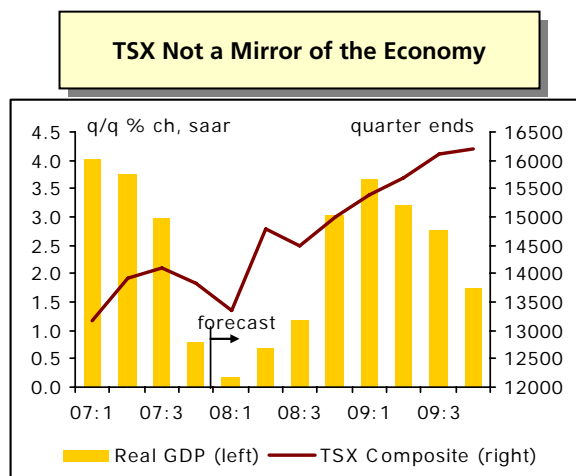
In Canada, the labour market is starting to reflect the economic reality we currently live in. Employment was little changed in May, and if it were not for the surprising (and unsustainable) jump in manufacturing jobs during the month, the picture would have been even less encouraging. Look for the labour market to be relatively weak in the coming six months.

Food inflation in Canada is still significantly below what we've seen in the US and Europe. Why? Because of the strong appreciation of the dollar. But unless you expect another 20% increase in the value of the loonie, food prices here will start catching up with the hikes seen in other countries.

Accordingly, we are at (or very close to) the end of the current interest rates easing cycle by both the Fed and the Bank of Canada. And with inflation likely to be the main theme next year, look for notable increases in both short and long-term interest rates in late 2008 and into 2009.

Clearly the Canadian stock market is not mirroring the economy (chart). Since January, the Canadian stock market has outperformed its American counterpart by a wide margin. And the reason is of course commodities, in general and oil, in particular. The TSX's reliance on commodities can be a curse or a blessing—depending on the future trajectory of commodity prices.

In this context, many suggest that the decline in the value of the US dollar and even more so the role of speculators are the main reasons for the recent rise in oil prices. However, a closer look suggests neither speculation nor the value of the US dollar is material to the oil outlook. We estimate that accumulation of "paper" barrels of



oil in the hands of speculators has been, at most, one-fifth of the increase in Chinese demand for actual barrels of oil over the last five years. And even if denominated in a trade-weighted basket of world currencies, the price of oil would still have risen to over US\$100/bbl.

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International Stock Indexes

Thursday, June 05, 2008

Region/Country	Index	DAILY					52 WEEK				3-yr % chg
		High	Low	Close	Chg	% Chg - +	YTD % chg	High	Low	% Chg	
World											
World	DJ World Index	289.96	285.69	289.53	2.64	0.92	-3.8	320.33	261.44	-3.2	11.2
World	DJ World ex U.S.	261.17	258.29	260.49	0.33	0.13	-4.2	291.11	231.73	-2	15.6
World	MSCI EAFE*	n.a.	n.a.	2118.15	-2.85	-0.13	-6	2388.74	1913.54	-5.1	13.1
Asia Pacific											
Asia-Pacific	DJ Asia-Pacific	155.27	153.15	153.68	-1.58	-1.02	-2.8	172.49	133.78	-3.7	13.2
Australia	All Ordinaries	5688	5620.4	5633.8	-64.4	-1.13	-12.3	6853.6	5163.8	-11.1	10.7
Australia	S & P/ASX 200	5576.2	5514.3	5530.1	-54.4	-0.97	-12.8	6828.7	5086.1	-12.4	9.7
China	DJ CBN China 600	28124.55	27690.73	27879.11	-249.25	-0.89	-32.7	44631.83	26024.77	-7.8	50.6
China	Dow Jones China 88	309.11	304.06	306.9	-1.38	-0.45	-35	530.54	288.35	-4.4	49.6
China	Shanghai Composite	3376.34	3326.54	3351.65	-18.3	-0.54	-36.3	6092.06	3094.67	-13.9	n.a.
Hong Kong	Hang Seng	24321.66	24003.98	24255.29	132.04	0.55	-12.8	31638.22	20387.13	16.6	20.6
India	Bombay Sensex	15814.8	15314.02	15769.72	254.93	1.64	-22.3	20873.33	13989.11	11.2	32.7
Indonesia	Jakarta Composite	2399.68	2349.19	2399.68	37.09	1.57	-12.6	2830.26	1908.64	14.6	30
Malaysia	Kuala Lumpur Composite	1236.43	1214.37	1223.56	-29.56	-2.36	-15.3	1516.22	1173.22	-10.3	12.2
New Zealand	NZSX-50	3579.35	3555.97	3555.97	-1.72	-0.05	-12	4332.29	3404.55	-16	5.1
Pakistan	KSE 100	13282.71	12993.95	13053.99	-35.51	-0.27	-7.3	15676.34	11958.09	-1.4	21.9
Philippines	Manila Composite	2767.19	2717.39	2718.42	-54.7	-1.97	-24.9	3873.5	2718.42	-23	10.4
Singapore	Straits Times	3143.89	3113.96	3143.89	9.09	0.29	-9.3	3831.19	2792.75	-9.5	14.2
South Korea	Kospi	1832.82	1816.35	1832.31	-1.5	-0.08	-3.4	2064.85	1574.44	4.5	23.4
Sri Lanka	Colombo Stock Exchange	2516.91	2491.68	2516.49	24.81	1	-1	2681.27	2354.98	-1.3	9.4
Taiwan	Weighted	8745.9	8520.8	8738.46	110.66	1.28	2.7	9809.88	7408.4	4.6	12.7
Thailand	SET	809.82	799.68	809.82	0.9	0.11	-5.6	915.03	726.6	6.7	6.2
Japan	Nikkei Stock Avg	14392.59	14262.02	14341.12	-94.45	-0.65	-6.3	18261.98	11787.51	-20.6	8.3
Japan	Nikkei 300	289.56	287.21	288.97	-1.51	-0.52	-4	359.95	234.2	-19.2	9.7
Europe											
Europe	DJ Stoxx 600	318.78	314.9	316.61	-0.46	-0.15	-13.2	399.71	290.26	-17.9	5.4
Europe	DJ Stoxx 50	3137.08	3095.24	3119.39	-3.8	-0.12	-15.3	3998.93	2873.33	-19.1	1.7
Euro zone	DJ Euro Stoxx 50	3715	3662.34	3682.83	-16.2	-0.44	-16.3	4557.57	3431.82	-15.9	5.8
Euro zone	DJ Euro Stoxx	360.07	355.63	357.26	-0.6	-0.17	-13.9	441.18	328.12	-15.9	7.9
Austria	ATX	4332.4	4277.22	4325.59	15.5	0.36	-4.2	4981.87	3524.64	-9.5	15.3
Belgium	Bel-20	3763.8	3712.42	3755.04	42.03	1.13	-9	4681.67	3460	-16.8	6.8
Czech Republic	PX 50	1654.5	1641.3	1654.3	6.1	0.37	-8.9	1936.9	1405.1	-10.1	12.5
Denmark	OMX Copenhagen	429.34	422.54	425.69	...	Closed	-5.1	492.84	368.52	-7.9	12.9
Finland	OMX Helsinki	9590.5	9428.94	9473.16	-117.34	-1.22	-18.3	12656.77	9190.48	-15.6	10.2
France	CAC 40	4944.45	4880.35	4907.06	-8.01	-0.16	-12.6	6125.6	4431.04	-16.7	5.6
Germany	DAX	7008.93	6905.01	6941.83	-23.6	-0.34	-14	8105.69	6182.3	-8.9	15.5
Hungary	BUX	22352.66	22161.36	22296.41	77.41	0.35	-15	30118.12	21073.23	-15.7	8.1
Italy	S & P/MIB	32768	32388	32542	34	0.1	-15.6	43099	30371	-22.4	0.6
Netherlands	AEX	483.79	479.3	482.26	3.69	0.77	-6.5	561.9	415.92	-9.9	9.1
Norway	All-Shares	562.71	554.49	559.37	-2.77	-0.49	-1.9	605.05	442.79	1	24.9
Poland	WIG	46277.97	45896.21	46100.38	191.7	0.42	-17.2	67568.51	44509.36	-27.4	19.6
Portugal	PSI 20	10455.83	10374.32	10405.06	14.52	0.14	-20.1	13702.03	9814.88	-18.1	11.5
Russia	DJ Russia Titans 10	7498.73	7410.13	7453.48	6.05	0.08	-2.8	7920.96	6226.15	17.1	50.4
Russia	RTS Index	2358.04	2334.37	2351.78	-1.7	-0.07	2.7	2487.92	1790.09	30.4	51.5
Spain	IBEX 35	13415.7	13187.4	13239.3	-101.9	-0.76	-12.8	15945.7	12254.6	-10.1	11.7
Sweden	SX All Share	320.34	317.11	317.62	-0.72	-0.23	-9.7	427.24	293.53	-21.5	9.2
Switzerland	Swiss Market	7587.84	7501.48	7567.23	52.75	0.7	-10.8	9395.75	6774.26	-17.3	6.8
Turkey	Istanbul National 100	40830.39	39832.1	40463.96	631.86	1.59	-27.1	58231.9	39015.44	-9.8	15.8
U.K.	FTSE 100	6005.1	5941	5995.3	25.2	0.42	-7.1	6732.4	5414.4	-7.8	6.2
U.K.	FTSE 250	10035.9	9919.4	10010.2	33.3	0.33	-6.1	11999.6	9260.6	-13.9	11.6
Americas											
Americas	DJ Americas	370.8	363.18	370.66	7.29	2.01	-1.7	399.86	330.4	-1.6	8.9
Argentina	Merval	2189.84	2155.13	2189.6	48.35	2.26	1.76	2351.44	1833.71	1.4	13.3
Brazil	Sao Paulo Bovespa	71234.88	68673.87	71234.88	2561.75	3.73	11.5	73516.8	48015.55	36.9	39.3
Canada	S & P/TSX Comp	14991.87	14690.46	14982.91	292.45	1.99	8.3	15047.34	12132.13	9.3	15.7
Chile	Santiago IPSA	3085.06	3043	3080.14	31.98	1.05	0.9	3499.5	2427.11	-4.6	15.2
Mexico	IPC All-Share	31726.06	31446.2	31726.01	277.9	0.88	7.4	32836.12	25284.88	1.7	33.9
Venezuela	Caracas General	35867.8	35351.83	35867.8	515.97	1.46	-5.4	42249.77	34172.43	-7.2	17.4
Other Countries											
Egypt	CASE 30	11122.09	11032.49	11032.49	-39.44	-0.36	4.6	11935.67	7517.75	43.2	n.a.
Israel	Tel Aviv	1123.98	1115.63	1122.17	7.21	0.65	-7.8	1237.13	964.38	1	18.2
South Africa	Johannesburg All Share	31817.39	31182.87	31741.26	260.9	0.83	9.6	33232.89	25135.13	11.2	31.3

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

Three year percent change is annualized.

Sources: Reuters; WSJ.com

MARKET INDICES	Jun 5	a month ago	a year ago
S&P/TSX Composite	14982.91	14274.34	14141.69
S&P 500	1404.05	1407.49	1530.95
Dow Jones Industrial Average	12604.45	12969.5	13595.5

INTEREST / FX RATES	Jun 6	a month ago	a year ago
Prime Can (%)	4.75	4.75	6.00
Prime US (%)	5.00	5.00	8.25
30 Day BA Can (%)	3.037	3.200	4.37
3 month US T-Bill (%)	1.82	1.62	4.79
3 month Can T-Bill (%)	2.571	2.670	4.295
10yr US Bond (%)	3.967	3.749	5.153
10yr Can Bond (%)	3.70	3.59	4.63
10yr-2yr US Spread (bps)	156.20	155.10	12.70
10yr-2yr Spread Can (bps)	79.00	84.00	5.00
US\$/Cdn\$	0.9823	0.9924	1.0649
US\$/Euro	1.5693	1.5433	1.3342
Yen/US\$	105.55	103.09	121.75

INTERNATIONAL INTEREST RATES	Jun 6		
	3 mo LIBOR (%)	Spread vs US (bps)	a wk ago (Spread—bps)
United States	2.70	NA	NA
Canada	3.23	53	70
Euro-zone	4.96	226	218
Switzerland	2.83	13	10
Japan	0.93	-177	-176
Australia	7.83	514	510
	10 Year Bond (%)	Spread vs US (bps)	a wk ago (Spread—bps)
United States	3.97	NA	NA
Canada	3.70	-26.7	-33.8
Euro-zone	4.81	84.7	79.0
Switzerland	3.24	-72.3	-84.9
Japan	1.79	-218.1	-229.9
Australia	6.64	267.0	248.2

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