



# Weekly Market Insight

June 13, 2008

## NORTH AMERICAN & INTERNATIONAL ECONOMIC HIGHLIGHTS

### Shots Across the Bow

It seems odd to look at a Canadian interest rate decision for clues on the thinking at the US Federal Reserve or the European Central Bank. What could possibly transpire in Ottawa's backwater that would be instructive for the big boys in Washington or Frankfurt? Plenty, if central bankers have been talking to each other about the global inflation risks they collectively face.

It doesn't take a conspiracy theory to see that Governor Carney has gone to school on a recent shift in thinking at the Fed. As recently as May 1<sup>st</sup>, Carney testified about a "deeper and more protracted" American slowdown, that would have "a more pronounced impact on consumer spending" with "direct consequences for the Canadian economy" making further stimulus "likely". That matched the Fed's earlier discussion of "considerable downside risks".

But, maybe because job losses didn't escalate, another investment bank didn't fail, or simply because it faced a building inflation threat, the Fed changed its tune. That was summed up in Bernanke's claim on June 11<sup>th</sup> that "the risk that the economy has entered a substantial downturn appears to have diminished over the past month or so."

The Bank of Canada likes to speak in terms of inflation rather than growth risks, but inevitably treats these as one and the same. So Bernanke's new view was perfectly echoed by the Bank of Canada when, in declining to deliver a rate cut it earlier deemed "likely", it wrote that "many of the downside risks to inflation identified in the April MPR have eased."

Having decided to worry less about growth, both central banks chose to send a message to financial markets about their limited tolerance for inflation risks, which at this point are still centred on commodities. Carney didn't even think about hinting at a rate hike, but many on the Fed are already playing that "what if" game, even describing how quickly rates might rise.

The Fed hawks can only go so far as long as jobs are vanishing. But if, as seems likely, employment levels off late this year, the Fed won't hesitate to take back what it judges to have been emergency style rate cuts delivered when it was in greater fear of a Wall Street collapse. A rate hike by Q4 looks probable, with a 4% funds rate in store within four or five quarters from now. And the Bank of Canada will follow along to that same target, requiring fewer hikes in 2009 to get there.

That brings us to the ECB. Unconstrained by US-style job losses, or Canada's factory sector meltdown, or the US and UK style housing crash, it's the one major western central bank that can afford to send a sterner message against global inflation. A token quarter point hike at its next meeting might be all we see from the ECB this year, given evidence of a slowdown emerging in Q2. But Trichet's anti-inflation shot across the bow will be a hint of what's to come in North America.

## International Stock Indexes

Thursday, June 12, 2008

Region/Country	Index	DAILY					52 WEEK				3-yr % chg
		High	Low	Close	Chg	% Chg -   +	YTD % chg	High	Low	% Chg	
<b>World</b>											
World	DJ World Index	276.88	274.54	275.5	-1.29	-0.47	-8.4	320.33	261.44	-8.9	9.3
World	DJ World ex U.S.	250.14	246.48	247.47	-2.52	-1.01	-9	291.11	231.73	-7.2	13.6
World	MSCI EAFE*	n.a.	n.a.	2011.9	-19.53	-0.96	-10.7	2388.74	1913.54	-10	11.2
<b>Asia Pacific</b>											
Asia-Pacific	DJ Asia-Pacific	148.99	144.51	144.55	-4.41	-2.96	-8.6	172.49	133.78	-7.9	10.9
Australia	All Ordinaries	5547.3	5428.2	5433.2	-128.7	-2.31	-15.4	6853.6	5163.8	-13.6	9.1
Australia	S & P/ASX 200	5451.6	5326	5329.2	-138.1	-2.53	-15.9	6828.7	5086.1	-14.9	8.1
China	DJ CBN China 600	24941.92	23963.88	24446.72	-431.44	-1.73	-41	44631.83	24446.72	-25	40.1
China	Dow Jones China 88	273.9	262.62	267.81	-5.69	-2.08	-43.3	530.54	267.81	-21.3	38.6
China	Shanghai Composite	3031.06	2900.12	2957.53	-66.7	-2.21	-43.8	6092.06	2957.53	-28.1	n.a.
Hong Kong	Hang Seng	23023.86	22695.1	23023.86	-303.74	-1.3	-17.2	31638.22	20387.13	10.3	18.2
India	Bombay Sensex	15270.85	14748.07	15250.2	64.88	0.43	-24.8	20873.33	13989.11	7.4	31
Indonesia	Jakarta Composite	2409.01	2345.05	2409.01	34.22	1.44	-12.3	2830.26	1908.64	14.3	30
Malaysia	Kuala Lumpur Composite	1228.25	1221.58	1225.54	-3.74	-0.3	-15.2	1516.22	1173.22	-9.7	11.3
New Zealand	NZSX-50	3487.43	3439.22	3439.22	-48.21	-1.38	-14.9	4332.29	3404.55	-18	3.8
Pakistan	KSE 100	13167.69	12933.36	13025.64	9.26	0.07	-7.5	15676.34	11958.09	-3.2	21
Philippines	Manila Composite	2564.44	2510.81	2544.89	-34.39	-1.33	-29.7	3873.5	2544.89	-29.9	9.5
Singapore	Straits Times	3024.96	2978.58	3020.15	-26.62	-0.87	-12.9	3831.19	2792.75	-13.6	12.2
South Korea	Kospi	1761.29	1739.36	1739.36	-42.31	-2.37	-8.3	2064.85	1574.44	-1.7	20.6
Sri Lanka	Colombo Stock Exchange	2483.34	2459.99	2459.99	-14.94	-0.6	-3.2	2681.27	2354.98	-5	10
Taiwan	Weighted	8216.43	8053.07	8062.31	-283.28	-3.39	-5.2	9809.88	7408.4	-4.6	9.2
Thailand	SET	791.68	782.91	790.8	-0.86	-0.11	-7.8	915.03	728.58	7.6	5.2
Japan	Nikkei Stock Avg	14010.32	13826.07	13888.6	-294.88	-2.08	-9.3	18261.98	11787.51	-22.2	7.1
Japan	Nikkei 300	279.11	275.6	276.8	-5.88	-2.08	-8.1	359.95	234.2	-21.5	8.2
<b>Europe</b>											
Europe	DJ Stoxx 600	304.59	301.46	304.1	2.73	0.91	-16.6	399.71	290.26	-22.9	3.6
Europe	DJ Stoxx 50	3008.89	2972	2999.82	29.4	0.99	-18.6	3998.93	2873.33	-23.9	-0.1
Euro zone	DJ Euro Stoxx 50	3555.35	3511.97	3542.59	33.2	0.95	-19.5	4557.57	3431.82	-21	4.1
Euro zone	DJ Euro Stoxx	342.66	339.18	341.89	2.86	0.84	-17.6	441.18	328.12	-21.4	5.9
Austria	ATX	4197.75	4087.82	4196.15	98.4	2.4	-7	4981.87	3524.64	-14.5	13
Belgium	Bel-20	3601.26	3538.32	3585.69	38.8	1.09	-13.1	4681.67	3460	-22.7	5
Czech Republic	PX 50	1602	1576	1602	16.6	1.05	-11.7	1936.9	1405.1	-13.6	10.4
Denmark	OMX Copenhagen	409.79	405.08	409.11	1.03	0.25	-8.8	492.84	368.52	-12.6	10.7
Finland	OMX Helsinki	9046.5	8951.25	9016.89	-5.49	-0.06	-22.3	12656.77	9016.89	-21.5	8.2
France	CAC 40	4694.71	4646.15	4672.3	11.39	0.24	-16.8	6125.6	4431.04	-22.7	3.8
Germany	DAX	6733.12	6647.6	6714.52	64.26	0.97	-16.8	8105.69	6182.3	-14.5	13.6
Hungary	BUX	21521.43	21112.99	21457.9	174.4	0.82	-18.2	30118.12	21073.23	-19.8	5.7
Italy	S & P/MIB	30976	30631	30890	162	0.53	-19.9	43099	30371	-27.5	-1.6
Netherlands	AEX	460.95	456.5	459.11	2.77	0.61	-11	561.9	415.92	-15.8	6.9
Norway	All-Shares	562.28	552.95	560.37	7.42	1.34	-1.7	605.05	442.79	-1.1	23.5
Poland	WIG	43461.47	42820.8	43459.77	491.7	1.14	-21.9	67568.51	42968.11	-32.8	16.4
Portugal	PSI 20	10174.19	10062.67	10174.11	85.78	0.85	-21.9	13702.03	9814.88	-22.2	10.8
Russia	DJ Russia Titans 10	7497.45	7405.21	7497.45	26.42	0.35	-2.2	7920.96	6226.15	11.8	50.4
Russia	RTS Index	2359.39	2339.53	2356.71	...	Closed	2.9	2487.92	1820.3	26	51.6
Spain	IBEX 35	12853.3	12598.4	12853.3	269	2.14	-15.3	15945.7	12254.6	-14.8	10.4
Sweden	SX All Share	305.33	301.13	305.22	2.86	0.95	-13.3	427.24	293.53	-26.4	7.1
Switzerland	Swiss Market	7265.28	7121.96	7222.79	55.49	0.77	-14.9	9395.75	6774.26	-22.3	5
Turkey	Istanbul National 100	387596.6	37965.38	38593.64	355.22	0.93	-30.5	58231.9	38238.42	-13.6	14.5
U.K.	FTSE 100	5797.8	5719.8	5790.5	67.2	1.17	-10.3	6732.4	5414.4	-12.9	4.8
U.K.	FTSE 250	9554.2	9402.7	9554.2	131.1	1.39	-10.4	11999.6	9260.6	-19.1	9.6
<b>Americas</b>											
Americas	DJ Americas	357.12	351.91	354.09	0.78	0.22	-6.1	399.86	330.4	-8	7.2
Argentina	Merval	2088.62	2046.25	2056.69	-15.39	-0.74	-4.42	2351.44	1833.71	-6.2	12.7
Brazil	Sao Paulo Bovespa	67958.45	66797.72	67319.63	524.87	0.79	5.4	73516.8	48015.55	25.3	39.2
Canada	S & P/TSX Comp	14716.52	14575.54	14602.59	-113.93	-0.77	5.6	15047.34	12132.13	4.3	14.3
Chile	Santiago IPSA	3080.22	3000.58	3050.08	49.5	1.65	-0.1	3499.5	2427.11	-9.5	14.8
Mexico	IPC All-Share	30955.39	30435.67	30475.44	29.2	0.1	3.2	32836.12	25284.88	-5.1	32.1
Venezuela	Caracas General	36958.37	36484.62	36883.17	162.56	0.44	-2.7	42249.77	34172.43	-3.3	18.9
<b>Other Countries</b>											
Egypt	CASE 30	10697.31	10622.06	10696.67	58.01	0.55	1.4	11935.67	7517.75	38.3	n.a.
Israel	Tel Aviv	1110.7	1094.51	1107.91	3.24	0.29	-9	1237.13	964.38	0.1	n.a.
South Africa	Johannesburg All Share	31033.3	30405.58	31033.3	393.35	1.28	7.2	33232.89	25135.13	7.1	30.3

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

Three year percent change is annualized.

Sources: Reuters; WSJ.com

MARKET INDICES	Jun 12	a month ago	a year ago
S&P/TSX Composite	14602.59	14666.07	13724.33
S&P 500	1345.55	1403.58	1493.00
Dow Jones Industrial Average	12212.66	12876.3	13295.0

INTEREST / FX RATES	Jun 13	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 (%)	3.145	3.157	4.39
3 month US T-Bill (%)	1.96	1.83	4.57
3 month Can T-Bill (%)	2.790	2.660	4.378
10yr US Bond (%)	4.176	3.778	5.198
10yr Can Bond (%)	3.86	3.57	4.66
10yr-2yr US Spread (bps)	127.00	137.30	12.90
10yr-2yr Spread Can (bps)	51.00	78.00	-5.00
US\$/Cdn\$	0.9742	1.0028	1.0630
US\$/Euro	1.5345	1.5587	1.3343
Yen/US\$	108.000	103.705	123.57

INTERNATIONAL INTEREST RATES	Jun 13		
	3 mo LIBOR (%)	Spread vs US (bps)	a wk ago (Spread—bps)
United States	2.81	NA	NA
Canada	3.41	60	53
Euro-zone	4.96	214	226
Switzerland	2.91	9	13
Japan	0.93	-189	-177
Australia	7.85	504	514
	10 Year Bond (%)	Spread vs US (bps)	a wk ago (Spread—bps)
United States	4.18	NA	NA
Canada	3.86	-31.6	-26.7
Euro-zone	5.04	86.6	84.7
Switzerland	3.40	-77.2	-72.3
Japan	1.86	-231.5	-218.1
Australia	6.73	255.3	267.0

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