



# **Weekly Market Insight**

*June 20, 2008*

## **NORTH AMERICAN & INTERNATIONAL ECONOMIC HIGHLIGHTS**

### **Reversal of Fortunes**

Despite all the hand ringing about America's dire housing market and all of the cheering over Canada's renewed resource wealth, first quarter real GDP growth actually came in at 1% q/q annualized in the US, but posted a decline of 0.3% in the great white north. This reversal of fortune was all the more surprising considering that during the first three months of the year the US economy shed 247K jobs, while Canada added over 100K new positions.

As we approach the end of the second quarter this outcome is still quite puzzling, but there are growing signs that it may have been a temporary blip. As every investor knows, past performance may not be indicative of future results; and based on the ongoing strength of the Canadian labour market and the renewed strength in domestic demand, Canada's first-quarter slide is unlikely to be repeated in 2008 or 2009.

A slowdown in US growth is certainly squeezing Canadian merchandise trade activity, while a historically strong Canadian dollar is putting the squeeze on manufacturers, but as April's wholesale and retail trade numbers show, a significant amount of first-quarter economic weakness may have been a function of an unusually harsh weather.

After all, the Canadian labour market is still strong and resource rents are flowing into the country at a prodigious pace. In his first speech since the Bank of Canada surprised markets by not lowering its overnight target rate, Governor Carney commented that resource gains may fuel inflation, but they also fuel domestic demand by boosting Canadians' real income and wealth.

On the other hand, the growth picture in the US continues to be murkier notwithstanding Q1's growth surprise and the ongoing strength in consumer spending. As this week's data will highlight, the American real estate market is still in a downward spiral and consumers may only be temporarily buffered by billions of dollars in rebate cheques that began arriving in mail boxes in April and will stop in July. Add to that significant job losses, a deteriorating credit cycle, and the shock of rising energy prices that we believe will have more of an impact in 2009 than in 2008.

As we head into Wednesday's FOMC rate announcement these are the serious economic risks that policymakers must contend with. Everyone expects the Fed to kick off a tightening cycle before it cuts rates again, but the question is precisely when.

This week saw the market scale back its expectations of a 25-bp rate hike at the Fed's August meeting on the prompting of unnamed "senior Fed officials". We believe that this is prudent considering the substantial economic problems that Chairman Bernanke must still manage. However, the Fed will continue to talk tough on inflation, and be ready to act even as the US economy remains sluggish heading into 2009.

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## International Stock Indexes

Thursday, June 19, 2008

Region/Country	Index	DAILY					52 WEEK				3-yr % chg
		High	Low	Close	Chg	% Chg -   +	YTD % chg	High	Low	% Chg	
<b>World</b>											
World	<b>DJ World Index</b>	277.67	275.14	276.09	-1.35	-0.49	-8.2	320.33	261.44	-9.3	8.8
World	<b>DJ World ex U.S.</b>	250.6	247.42	247.43	-2.8	-1.12	-9	291.11	231.73	-8.2	12.9
World	<b>MSCI EAFE*</b>	n.a.	n.a.	2008.49	-23.25	-1.14	-10.9	2388.74	1913.54	-11	10.5
<b>Asia Pacific</b>											
Asia-Pacific	<b>DJ Asia-Pacific</b>	148.79	145.5	145.64	-3.04	-2.04	-7.9	172.49	133.78	-9.2	10.6
Australia	<b>All Ordinaries</b>	5541	5484.3	5484.3	-66	-1.19	-14.6	6853.6	5163.8	-14.5	8.7
Australia	<b>S &amp; P/ASX 200</b>	5432.5	5366.6	5366.6	-76.6	-1.41	-15.4	6828.7	5086.1	-16	7.6
China	<b>DJ CBN China 600</b>	23672.79	21901.3	21932.87	-1744.75	-7.37	-47.1	44631.83	21932.87	-34.4	36.3
China	<b>Dow Jones China 88</b>	265.13	246.31	246.76	-18.47	-6.96	-47.8	530.54	246.76	-30.1	35.5
China	<b>Shanghai Composite</b>	2921.72	2742.15	2748.87	-192.2	-6.54	-47.8	6092.06	2748.87	-35	n.a.
Hong Kong	<b>Hang Seng</b>	22999.67	22733.78	22797.61	-528.19	-2.26	-18	31638.22	20387.13	3.8	17.9
India	<b>Bombay Sensex</b>	15259.36	15051.66	15087.99	-334.32	-2.17	-25.6	20873.33	13989.11	4.1	29.8
Indonesia	<b>Jakarta Composite</b>	2376.4	2350.76	2373.06	8.48	0.36	-13.6	2830.26	1908.64	10.3	27.6
Malaysia	<b>Kuala Lumpur Composite</b>	1207.18	1188.5	1196.39	-16.2	-1.34	-17.2	1516.22	1173.22	-13.8	10.1
New Zealand	<b>NZSX-50</b>	3391.63	3336.46	3340.1	-51.53	-1.52	-17.4	4332.29	3340.1	-22.3	1.6
Pakistan	<b>KSE 100</b>	12178.47	11704.93	11870.95	-390.11	-3.18	-15.7	15676.34	11870.95	-12.4	17.1
Philippines	<b>Manila Composite</b>	2613.07	2584.09	2592.59	-35.61	-1.35	-28.4	3873.5	2544.89	-30.2	8.8
Singapore	<b>Straits Times</b>	3009.55	2980.6	2992.66	-47.43	-1.56	-13.6	3831.19	2792.75	-15.9	11.8
South Korea	<b>Kospi</b>	1757.26	1731.51	1740.72	-33.41	-1.88	-8.2	2064.85	1574.44	-3	20.2
Sri Lanka	<b>Colombo Stock Exchange</b>	2447.23	2433.07	2433.07	-7.3	-0.3	-4.2	2681.27	2354.98	-6.8	9
Taiwan	<b>Weighted</b>	8107.2	8044.66	8047.74	-169.84	-2.07	-5.4	9809.88	7408.4	-9.1	8.5
Thailand	<b>SET</b>	760.26	741.47	742.46	-23.28	-3.04	-13.5	915.03	728.58	-4.3	2.7
Japan	<b>Nikkei Stock Avg</b>	14324.71	14069.16	14130.17	-322.65	-2.23	-7.7	18261.98	11787.51	-22.5	7.1
Japan	<b>Nikkei 300</b>	284.4	279.01	280.14	-6.95	-2.42	-7	359.95	234.2	-22.1	7.9
<b>Europe</b>											
Europe	<b>DJ Stoxx 600</b>	302.82	299.76	300.24	-1.5	-0.5	-17.7	399.71	290.26	-23.7	2.9
Europe	<b>DJ Stoxx 50</b>	3006.61	2971.33	2976.35	-13.1	-0.44	-19.2	3998.93	2873.33	-24.3	-0.6
Euro zone	<b>DJ Euro Stoxx 50</b>	3518.87	3485.01	3486.71	-21.3	-0.61	-20.8	4557.57	3431.82	-22.3	3.1
Euro zone	<b>DJ Euro Stoxx</b>	338.6	335.55	335.85	-2.32	-0.69	-19.1	441.18	328.12	-22.8	5
Austria	<b>ATX</b>	4194.29	4142.49	4152.7	-41	-0.98	-8	4981.87	3524.64	-15.3	11.2
Belgium	<b>Bel-20</b>	3507.17	3441.42	3441.42	-79.31	-2.25	-16.6	4657.94	3441.42	-25.9	3.4
Czech Republic	<b>PX 50</b>	1621.8	1603.9	1613.1	-10.6	-0.65	-11.1	1936.9	1405.1	-12.4	9.7
Denmark	<b>OMX Copenhagen</b>	416.2	411.32	413.43	-0.63	-0.15	-7.9	492.84	368.52	-11.8	10.1
Finland	<b>OMX Helsinki</b>	8981.43	8804.81	8813.79	-167.64	-1.87	-24	12656.77	8813.79	-22.9	6.8
France	<b>CAC 40</b>	4631.64	4590.98	4591.39	-27.36	-0.59	-18.2	6125.6	4431.04	-23.9	2.8
Germany	<b>DAX</b>	6765.1	6662.46	6721.17	-7.74	-0.12	-16.7	8105.69	6182.3	-15.6	13.4
Hungary	<b>BUX</b>	21303.97	21057.74	21157.1	-245.86	-1.15	-19.4	30118.12	21073.23	-21	4.8
Italy	<b>S &amp; P/MIB</b>	30603	30272	30368	-96	-0.32	-21.2	42545	30368	-28.4	-2.5
Netherlands	<b>AEX</b>	452.78	446.68	446.68	-3.89	-0.86	-13.4	561.9	415.92	-18.9	5.5
Norway	<b>All-Shares</b>	570.93	563.74	565.82	-2.04	-0.36	-0.7	605.05	442.79	-2.6	23.1
Poland	<b>WIG</b>	43425.16	42382.66	43310.33	385	0.9	-22.2	67568.51	42925.3	-33.4	15.7
Portugal	<b>PSI 20</b>	10047.38	9847.92	9847.92	-240.79	-2.39	-24.4	13702.03	9814.88	-25.9	9.4
Russia	<b>DJ Russia Titans 10</b>	7650.01	7604.6	7630.71	-18.07	-0.24	-0.501	7920.96	6226.15	13.4	50.4
Russia	<b>RTS Index</b>	2408.89	2392.88	2400.84	-1.9	-0.08	4.8	2487.92	1820.3	26.8	51.9
Spain	<b>IBEX 35</b>	12728.5	12549.5	12585	-46.5	-0.37	-17.1	15945.7	12254.6	-15.4	9.1
Sweden	<b>SX All Share</b>	303.6	300.5	301.37	-2.23	-0.73	-14.3	427.24	293.53	-26.4	6.2
Switzerland	<b>Swiss Market</b>	7186.09	7093.76	7158.94	-23.62	-0.33	-15.6	9299.8	6774.26	-22.4	4.6
Turkey	<b>Istanbul National 100</b>	38269.58	37710.54	38006.96	-129.82	-0.34	-31.6	58231.9	38006.96	-17.3	12.7
U.K.	<b>FTSE 100</b>	5786.4	5707.2	5708.4	-48.5	-0.84	-11.6	6730.7	5414.4	-13.5	4
U.K.	<b>FTSE 250</b>	9534.8	9409.7	9446.6	-88.2	-0.93	-11.4	11922.9	9260.6	-18.7	8.7
<b>Americas</b>											
Americas	<b>DJ Americas</b>	357.35	353.71	356.26	0.8	0.23	-5.5	399.86	330.4	-7.5	6.7
Argentina	<b>Merval</b>	2068.54	2046.58	2063.19	15.08	0.74	-4.11	2351.44	1833.71	-7.7	12.6
Brazil	<b>Sao Paulo Bovespa</b>	67338.59	66182.2	66590.41	-500.04	-0.75	4.2	73516.8	48015.55	21.8	36.7
Canada	<b>S &amp; P/TSX Comp</b>	15073.13	14767.96	14790.15	-282.98	-1.88	6.9	15073.13	12132.13	4.9	14.1
Chile	<b>Santiago IPSA</b>	3107.5	3050.92	3072.18	21.26	0.7	0.67	3499.5	2427.11	-10.5	14.2
Mexico	<b>IPC All-Share</b>	29852.6	29304.69	29847.85	229.74	0.78	1.1	32836.12	25284.88	-6.2	29.8
Venezuela	<b>Caracas General</b>	36837.63	36180.36	36739.86	19.08	0.052	-3.1	42249.77	34172.43	-9.5	18.5
<b>Other Countries</b>											
Egypt	<b>CASE 30</b>	10539.28	10296.22	10307.83	-231.45	-2.2	-2.3	11935.67	7517.75	30.2	n.a.
Israel	<b>Tel Aviv</b>	1138.27	1126.25	1128.73	...	Closed	-7.3	1237.13	964.38	0.9	19.3
South Africa	<b>Johannesburg All Share</b>	31369.4	30842.84	31295.46	313.65	1.01	8.1	33232.89	25135.13	6.8	29.8

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

Three year percent change is annualized.

Sources: Reuters; WSJ.com

MARKET INDICES	Jun 19	a month ago	a year ago
S&P/TSX Composite	14790.15	14984.20	14119.49
S&P 500	1342.83	1426.63	1533.70
Dow Jones Industrial Average	12063.09	13028.2	13635.4

INTEREST / FX RATES	Jun 20	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 (%)	3.148	3.14	4.40714
3 month US T-Bill (%)	1.85	1.87	4.70
3 month Can T-Bill (%)	2.690	2.694	4.428
10yr US Bond (%)	4.125	3.873	5.193
10yr Can Bond (%)	3.81	3.65	4.69
10yr-2yr US Spread (bps)	129.20	137.20	22.60
10yr-2yr Spread Can (bps)	51.00	64.00	0.00
US\$/Cdn\$	0.9828	1.0158	1.0717
US\$/Euro	1.5648	1.5758	1.3457
Yen/US\$	107.24	103.43	123.96

INTERNATIONAL INTEREST RATES	Jun 20		
	3 mo LIBOR (%)	Spread vs US (bps)	a wk ago (Spread—bps)
United States	2.80	NA	NA
Canada	3.45	65	60
Euro-zone	4.96	216	214
Switzerland	2.82	2	9
Japan	0.93	-188	-189
Australia	7.85	505	504
	10 Year Bond (%)	Spread vs US (bps)	a wk ago (Spread—bps)
United States	4.13	NA	NA
Canada	3.81	-31.5	-31.6
Euro-zone	4.99	86.4	86.6
Switzerland	3.36	-76.4	-77.2
Japan	1.76	-237.0	-231.5
Australia	6.66	253.7	255.3

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