



Weekly Market Insight

July 16, 2010

NORTH AMERICAN & INTERNATIONAL ECONOMIC HIGHLIGHTS

Does Carney Believe Carney?

By Avery Shenfeld

While we were never doubters, financial markets needed to see a massive Canadian employment gain for June to be fully convinced that the Bank of Canada was prepared to raise rates in the week ahead. Oddly, even after learning that 226,000 jobs were gained in the last three months, the largest such jump since 1975, markets have not fully priced in a rate hike for September. Investors' reticence owes to the fact that Governor Carney's team, in its official statements and speeches, hasn't sounded like true believers in its own forecast.

The Bank's last published view was that the Canadian economy would be back at its non-inflationary limits within three quarters from now. That may have changed marginally in light of recent soft data stateside. But whatever one's conception of where rates should typically be when the economy is back at potential, that isn't anywhere near where yields are today, at a mere 0.5% overnight rate. For anyone who thought that the outlook was that solid, 25 bp rate hikes would seem, on the surface, to be far too little.

Yet in contrast to past tightening rounds, after its first rate hike, the Bank didn't include the usual statement that further rate hikes would likely be required. Carney did say that an all-out stimulus stance was no longer appropriate and that a more "subtle" position was needed. But the Governor knew that the curve was not pricing in a steady dose of quarter point moves, let alone any odds of half point jumps. Why not correct that impression with more hawkish language if that's the base case?

Perhaps it's that the Bank of Canada isn't really sure about its own published economic forecast. It can't be just that there are downside "risks". Policy should be set to match the median outlook, and adjusted later if there are surprises either way.

Or, more likely, it may simply be that Carney isn't really that comfortable with the Bank's outlook for the global economy. He still hopes to steer Canada back to full employment and 2% on-target inflation. But the Governor has ample reason to worry he might need still very stimulative monetary policy settings to get us there, with foreign demand decelerating, and fiscal policy tightening at home.

That's right where CIBC's economics team comes down in predicting a pause in rates, lasting at least two quarters, after we reach a mere 1.25% overnight rate in October. That's a quarter point above what the futures market prices in. But it's still a negative real rate, one that's miles from neutral, miles from where rates would normally be with a sub-8% jobless rate.

But these are far from normal times. We will need monetary policy way off its normally neutral settings as deleveraging by governments worldwide takes a huge bite out of growth.

Market Snapshot

US	Current*	yesterday*	a week ago*	a month ago*	a year ago
TED SPREAD (bps)	38	38	38	45	33
10Y / 2Y SPREAD (bps)	235	240	242	249	264
2Y SWAP SPREAD (bps)	23	28	31	35	46
3M T-Bill (%)	0.14	0.14	0.15	0.09	0.17
LIBOR 1 MONTH (%)	0.34	0.34	0.34	0.35	0.29
LIBOR 3 MONTH (%)	0.52	0.52	0.53	0.54	0.50
2-YR BOND (%)	0.59	0.58	0.63	0.71	1.00
5-YR BOND (%)	1.70	1.75	1.84	2.00	2.51
10-YR BOND (%)	2.94	2.99	3.06	3.20	3.64
A Rated / 10Y TREASURY (bps)	178	178	173	176	259
B Rated / 10Y TREASURY (bps)	673	670	660	635	825
BB Rated / 10Y TREASURY (bps)	457	457	452	436	627
CANADA					
PRIME / BA SPREAD (bps)	168	168	177	184	186
CDOR 3 MONTH (%)	0.88	0.88	0.85	0.81	0.60
CDOR 3 MONTH / 3M T-BILL SPREAD (bps)	33	34	38	29	38
10Y / 2Y SPREAD (bps)	159	156	150	157	229
2-YR BOND (%)	1.61	1.68	1.73	1.74	1.21
5-YR BOND (%)	2.44	2.50	2.55	2.64	2.56
10-YR BOND (%)	3.19	3.23	3.23	3.31	3.50
A Rated / 10Y TREASURY (bps)	132	129	124	131	184
BBB Rated / 10Y TREASURY (bps)	193	193	188	194	235
CAN Sovereign Agency / 10Y TREASURY (bps)	48	48	41	45	48
Provincial / 10Y TREASURY (bps)					
ALTA	75	74	69	75	87
BC	96	93	87	91	93
MAN	88	85	83	89	91
NB	95	93	91	93	89
PEI	110	107	102	106	122
NFLD	117	114	110	110	116
ONT	105	102	99	102	102
QUE	110	107	104	108	109
SASK	104	101	97	96	92
NS	106	101	97	100	111
COMMODITIES					
WTI CRUDE FUTURE (US\$ / bbl.)	75.5	75.7	75.5	76.2	63.1
NATURAL GAS (US\$ / MMBtu)	4.5	4.6	4.4	5.1	3.7
SILVER (US\$ / t oz.)	17.8	18.3	18.1	19.1	13.4
GOLD (US\$ / t oz.)	1186.2	1206.8	1209.0	1256.4	938.3
WHEAT (US¢ / bu.)	590.8	595.5	528.3	461.3	538.0
SOYBEANS (US¢ / bu.)	1018.8	1010.3	1012.5	954.8	986.0
SUGAR (US¢ / lb.)	17.1	17.3	17.2	15.5	17.5
CORN (US¢ / bu.)	392.5	396.0	376.0	357.5	318.0
FX					
C\$ / US\$	1.053	1.042	1.030	1.026	1.115
US\$ / EURO	1.294	1.290	1.264	1.237	1.413
C\$ / EURO	1.363	1.344	1.302	1.269	1.575
YEN / US\$	86.330	87.410	88.480	90.690	94.120
US\$ / BRITISH POUND	1.534	1.537	1.512	1.480	1.634
SWISS FRANCS / US\$	1.046	1.042	1.056	1.112	1.077

* As of 11:00 a.m.

Note: Data is for reference only.

International Stock Indexes

Thursday, July 15, 2010

Index (Regiona/Country)	DAILY					52 WEEK				3-yr % chg	
	High	Low	Close	Chg	% Chg - +	YTD % chg	High	Low	% Chg		
Global											
The Global Dow (World)	1828.34	1807.71	1823.66	-2.66	-0.15	-8.1	2087.12	1658.56	10	-11.4	
The Global Dow (Euro) (World)	1351.3	1321.53	1331.8	-19.12	-1.42	2.3	1448.65	1106.45	20.4	-9.4	
DJ Global Index (World)	218.61	216.17	218.05	-0.16	-0.07	-3.9	242.2	188.24	15.8	-11.4	
DJ Global ex U.S. (World)	190.5	188.57	189.58	-0.33	-0.17	-5.7	210.96	165.45	14.6	-12.2	
MSCI EAFE* (World)	n.a.	n.a.	1449.4	-2.06	-0.14	-8.3	1642.2	1305.13	9.8	-14.7	
Asia Pacific											
DJ Asia-Pacific (Asia-Pacific)	121.52	120.16	120.68	-0.71	-0.58	-1.9	132.22	105.35	14.6	-10	
All Ordinaries (Australia)	4478.5	4443.8	4456.7	-20.59	-0.46	-8.7	5024.1	3987.8	11.8	-11.5	
S & P/ASX 200 (Australia)	4465.6	4427.1	4442.55	-19.89	-0.45	-8.8	5001.9	3995.6	11.2	-11.4	
DJ CBN China 600 (China)	22390.06	21771.78	21777.1	-410.05	-1.85	-25	29890.92	20950.68	-21.5	-10	
Dow Jones China 88 (China)	220.95	215.11	215.21	-3.48	-1.59	-28.6	327.69	208.48	-28.9	-13.5	
Shanghai Composite (China)	2487.24	2423.65	2424.3	-46.14	-1.87	-26	3471.44	2363.95	-23.9	-14.8	
Hang Seng (Hong Kong)	20665.62	20226.26	20255.62	-305.19	-1.48	-7.4	22943.98	18361.87	10.3	-4.3	
Bombay Sensex (India)	17978.56	17858.73	17909.46	-28.7	-0.16	2.5	17985.9	14250.25	25.7	5.5	
Jakarta Composite (Indonesia)	2987.04	2956.89	2980.6	-0.46	-0.02	17.6	2981.06	2106.35	40.7	9	
Nikkei 300 (Japan)	174.9	173.48	173.54	-2.92	-1.65	-6.2	202.75	164.24	-0.9	-21.5	
Nikkei Stock Avg (Japan)	9726.94	9667	9685.53	-109.71	-1.12	-8.2	11339.3	9081.52	3.7	-19	
Topix Index (Japan)	863.76	856.6	856.6	-14.13	-1.62	-5.6	998.9	811.01	-1.8	-21.7	
Kuala Lumpur Composite (Malaysia)	1340.11	1331.2	1334.08	-7	-0.52	4.8	1346.92	1108.88	20.3	-1.2	
NZSX-50 (New Zealand)	3027.44	3002.32	3002.32	-25.12	-0.83	-7.1	3335.51	2801.52	7.2	-10.9	
KSE 100 (Pakistan)	10258.81	10082.89	10095.8	-91.2	-0.9	7.6	10677.47	7491.76	30.9	-10.8	
Manila Composite (Philippines)	3485.94	3458.89	3467.63	-4.7	-0.14	13.6	3472.33	2553.96	35.8	-2.9	
Straits Times (Singapore)	2955.62	2935.13	2943.55	-9.26	-0.31	1.6	3019.74	2401.02	22.6	-6.3	
Kospi (South Korea)	1759.19	1748.98	1751.29	-6.72	-0.38	4.1	1758.01	1432.22	22.3	-3.7	
Colombo Stock Exchange (Sri Lanka)	4649.13	4600.24	4638.71	38.49	0.84	37	4658.68	2370.55	95.7	23.5	
Weighted (Taiwan)	7732.31	7681.87	7704.52	-9.99	-0.13	-5.9	8356.89	6654.8	13.6	-6.7	
SET (Thailand)	823.26	817.84	821.02	1.48	0.18	11.8	821.02	582.74	40.9	-1.5	
Europe											
Stoxx Europe 600 (Europe)	256.85	251.98	252.97	-2.95	-1.15	-0.1	272.14	209.86	20.5	-14.1	
Stoxx Europe 50 (Europe)	2495.83	2445.74	2456.13	-30.21	-1.22	-4.8	2711.84	2149.43	14.3	-15	
Euro Stoxx 50 (Euro zone)	2752.14	2690.64	2702.81	-36.15	-1.32	-8.9	3017.85	2458.97	9.9	-15.9	
Euro Stoxx (Euro zone)	262.44	257.08	258.06	-3.06	-1.17	-6.1	284.91	227.42	13.5	-16.3	
ATX (Austria)	2392.99	2369.8	2371.74	-20.66	-0.86	-5	2795.32	2088.69	11.6	-21.6	
Bel-20 (Belgium)	2532.01	2489.75	2495.05	-27.07	-1.07	-0.7	2716.7	2083.11	19.7	-18.7	
PX 50 (Czech Republic)	1181.1	1171.8	1174.9	0.1	0.01	5.2	1314.6	944.2	23.9	-14.3	
OMX Copenhagen (Denmark)	388.77	384.9	386.8	1.48	0.38	22.5	392.6	272.7	41.8	-7.3	
OMX Helsinki (Finland)	6556.43	6471.81	6493.41	-23.7	-0.36	0.6	7452.62	5435.71	19.4	-18.1	
CAC 40 (France)	3654.1	3569.41	3581.82	-51.16	-1.41	-9	4065.65	3199.68	11.9	-16.3	
DAX (Germany)	6248.07	6127.36	6149.36	-60.4	-0.97	3.2	6332.1	4957.19	24	-8.8	
BUX (Hungary)	23046.62	22712.82	22838.19	-71.2	-0.31	7.6	25322.96	15873.37	43.9	-8.4	
FTSE MIB (Italy)	20883.48	20326.92	20480.08	-324.29	-1.56	-11.9	24425.98	18382.71	6.5	-21.5	
AEX (Netherlands)	335.31	328.09	329.76	-5.27	-1.57	-1.7	357.43	263.48	25.2	-16.2	
All-Shares (Norway)	405.27	397.26	398.27	-5.31	-1.32	-5.2	444.01	329.18	21	-12.8	
WIG (Poland)	41408.89	41174.41	41298.45	65.53	0.16	3.3	44078.65	31544.68	30.2	-14.5	
PSI 20 (Portugal)	7326.36	7220.44	7266.64	4.46	0.06	-14.1	8882.69	6624.29	1.3	-18.8	
DJ Russia Titans 10 (Russia)	5408.26	5269.48	5269.48	-59.77	-1.12	-5.5	6071.02	3855.19	36.7	-9.8	
RTS Index (Russia)	1433.94	1402.63	1403.33	-8.81	-0.62	-1.7	1676.27	903.23	55.4	-12	
IBEX 35 (Spain)	10318.7	10077.3	10160.2	-118.3	-1.15	-14.9	12222.5	8669.8	1.6	-12.2	
SX All Share (Sweden)	330.99	325.76	327.54	-2.57	-0.78	9.4	337.54	252.45	29.7	-8.4	
Swiss Market (Switzerland)	6364.72	6259.68	6291.07	-41.21	-0.65	-3.9	6967.56	5538.57	13.6	-12.1	
Istanbul National 100 (Turkey)	59065.79	57481.81	57689.93	-611.41	-1.05	9.2	59330.34	37726.69	51.2	3.5	
FTSE 100 (U.K.)	5268.4	5187.5	5211.29	-42.23	-0.8	-3.7	5825	4361.8	19.5	-8.1	
FTSE 250 (U.K.)	9949.07	9826.67	9852.45	-43.16	-0.44	5.9	10690.08	7554.11	30.4	-6.2	
Americas											
DJ Americas (Americas)	292.87	288.06	292.29	0.17	0.06	-1.4	324.75	245.88	18.9	-9.5	
Merval (Argentina)	2311.15	2293.71	2306.95	-2.92	-0.13	-0.6	2487.76	1622.67	41.8	0.3	
Sao Paulo Bovespa (Brazil)	63612.24	62960.36	63489.37	9.91	0.02	-7.4	71784.77	51918.2	22.3	3.3	
S & P/TSX Comp (Canada)	11741.77	11552.4	11741.77	121.61	1.05	unch.	12280.97	10304.42	13.9	-6.8	
Santiago IPSA (Chile)	4224.13	4188.15	4221.61	8.42	0.2	17.9	4221.61	3132.55	31.5	7.6	
IPC All-Share (Mexico)	32387.17	32114.61	32381.06	75.35	0.23	0.8	34134.23	25735.56	25.8	unch.	
Caracas General (Venezuela)	64893.38	64784.56	64893.38	47.55	0.07	17.8	66061.09	45418.17	42.9	16.5	
Other Countries											
CASE 30 (Egypt)	6063.64	6019.49	6049.19	-8.08	-0.13	-2.6	7603.04	5683.76	6.4	-10.2	
Tel Aviv (Israel)	1113.91	1103.43	1111.31	6.24	0.56	-2.9	1237.85	874.57	27.1	-1.4	
Johannesburg All Share (South Africa)	27761.86	27309.52	27474.68	31.01	0.11	-0.7	29565.1	23499.99	16.9	-2.9	

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

Three year percent change is annualized.

Sources: Reuters; WSJ.com

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