



Weekly Market Insight

July 18, 2008

NORTH AMERICAN & INTERNATIONAL ECONOMIC HIGHLIGHTS

One Mo' Time

Typically, an economic forecast is designed to be in the mid-range of the likely outcomes. The Bank of Canada, for example, argued that there were equivalent upside and downside risks to its latest real GDP projection. How, then to interpret the US Federal Reserve's "central tendency" call for a similar, gradual recovery, when it comes with warnings that things could be worse (but not stronger) than that outcome?

The Fed's true growth outlook, the typical median base case, is weaker than it cares to admit. To maintain its inflation fighting credentials, the Fed can't afford to be talking about easing when the CPI is anywhere near 5%. To spell out a weaker growth outlook might force them to do just that.

Congress, however, doesn't have a dual growth-inflation mandate. It doesn't get blamed if inflation is too high (it can pass that buck to the Fed, or to oil speculators), but its members risk being ousted by voters if growth falters. It took little time in approving this spring's fiscal stimulus package of tax rebates, and has backed other potentially costly moves to help mortgage borrowers.

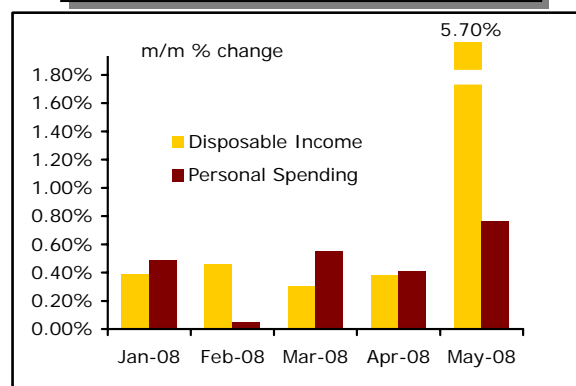
And so while the Fed may feel boxed in and unable to offer further rate relief, and even forced to tighten in 2009 when growth will still be shaky, fiscal policy will see no such handcuffs and will be headed the other way. The first stimulus package is working, at least to some degree. After-tax income shot up, and at least some of that went into a spending boost (Chart) in May and funded at least some gain in June retail sales. Second quarter real GDP growth will be just shy of 2%, much better than the slightly negative pace we anticipated only months ago.

But its impact could run dry after Q3, particularly in the face of continued job losses. Another round of rebates or spending will be needed to tide the economy over until house prices and construction stop plunging and jobs level off. With an election looming, the Democrats in Congress won't want to be seen doing nothing to help voters. If they can get some Republicans on board, the GOP will press the White House to approve the deal.

What about the impact on the deficit? Nobody will care. McCain, after all, is already campaigning on making Bush's budget-busting tax cuts a permanent feature, having earlier opposed them. Obama can't oppose relief for the little guy in a time of trouble. Nobody is really blinking an eye at the prospect of turning a sketchy government backing of trillions in Fannie and Freddie debt into what is effectively a formal guarantee. When it comes to sacrificing the deficit to fend off recession, as Nixon said, we are all Keynesians now. Except those suffering from the damage to long-dated Treasuries, of course.

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Federal Stimulus in Action



International Stock Indexes

Thursday, July 17, 2008

Region/Country	Index	DAILY					52 WEEK				3-yr % chg	
		High	Low	Close	Chg	% Chg -	% Chg +	YTD % chg	High	Low		% Chg
World												
World	DJ World Index	258.64	253.88	258.12	4.1	1.61		-14.2	320.33	251.64	-17.7	6.1
World	DJ World ex U.S.	232.16	226.54	231.2	4.46	1.97		-14.9	291.11	226.74	-17.5	10.3
World	MSCI EAFE*	n.a.	n.a.	1889.85	43.92	2.38		-16.1	2388.74	1845.93	-18.8	8.3
Asia Pacific												
Asia-Pacific	DJ Asia-Pacific	136.27	133.66	135.08	1.1	0.82		-14.6	172.49	133.78	-17.9	8.1
Australia	All Ordinaries	5003.2	4941.9	4977.4	29.9	0.6		-22.5	6853.6	4910.1	-22.5	5.4
Australia	S & P/ASX 200	4932.6	4862.1	4901	30.4	0.62		-22.7	6828.7	4815.7	-23.2	4.5
China	DJ CBN China 600	22653.96	21794.07	21904.44	-189.52	-0.86		-47.1	44631.83	21535.15	-26.4	39.3
China	Dow Jones China 88	245.53	236.83	237.98	-1.45	-0.61		-49.6	530.54	236.45	-28.6	35.1
China	Shanghai Composite	2773.28	2676.15	2684.78	-21.1	-0.78		-49	6092.06	2651.61	-31.4	n.a.
Hong Kong	Hang Seng	21892.53	21672.27	21734.72	511.22	2.41		-21.9	31638.22	20387.13	-5.6	14.4
India	Bombay Sensex	13150.35	12843.79	13111.85	536.05	4.26		-35.4	20873.33	12575.8	-15.7	21.7
Indonesia	Jakarta Composite	2251.89	2156.78	2167.71	-50.41	-2.27		-21.1	2830.26	1908.64	-7.1	24.2
Malaysia	Kuala Lumpur Composite	1126.46	1111.62	1121.17	1.75	0.16		-22.4	1516.22	1119.42	-18.5	6.9
New Zealand	NZSX-50	3104.91	3059.36	3091.38	32.03	1.05		-23.5	4332.29	3040.45	-28	-2.4
Pakistan	KSE 100	10212.92	10045.43	10212.92	-278.96	-2.66		-27.5	15676.34	10212.92	-22.6	10.7
Philippines	Manila Composite	2414.85	2387.03	2393.62	19.92	0.84		-33.9	3873.5	2339.84	-35.4	8.1
Singapore	Straits Times	2895.47	2864.1	2864.1	28.78	1.02		-17.4	3831.19	2792.75	-19	9.4
South Korea	Kospi	1546.84	1524.85	1525.56	18.16	1.2		-19.6	2064.85	1507.4	-21.3	12.9
Sri Lanka	Colombo Stock Exchange	2441.57	2415.07	2415.07	...	Closed		-5	2681.27	2365.77	2.1	7.8
Taiwan	Weighted	6976.96	6859.97	6974.51	263.87	3.93		-18	9809.88	6710.64	-26.4	2.9
Thailand	SET	695.92	669.97	669.97	...	Closed		-21.9	915.03	669.97	-20.9	0.7
Japan	Nikkei Stock Avg	12929.74	12852.93	12887.95	127.15	1		-15.8	18157.93	11787.51	-28.9	3.1
Japan	Nikkei 300	259.14	256.84	257.29	2.7	1.06		-14.5	357.25	234.2	-27.6	4.2
Europe												
Europe	DJ Stoxx 600	278.26	269.6	276.27	7.77	2.89		-24.2	396.94	266.51	-30.4	-0.6
Europe	DJ Stoxx 50	2808.98	2725.48	2787.49	71.9	2.65		-24.3	3965.05	2710.85	-29.7	-3.6
Euro zone	DJ Euro Stoxx 50	3278	3199.58	3256.09	81.3	2.56		-26	4522.64	3142.73	-28	-0.2
Euro zone	DJ Euro Stoxx	310.91	302.27	308.6	8.53	2.84		-25.6	437.88	296.6	-29.5	1.1
Austria	ATX	3574.35	3437.35	3527.25	90.9	2.64		-21.8	4888.06	3386.82	-27.8	4.8
Belgium	Bel-20	3021.98	2960.53	2999.85	94.45	3.25		-27.3	4610.11	2863.44	-34.9	-1.8
Czech Republic	PX 50	1449.6	1417.1	1441	42.4	3.03		-20.6	1936.9	1398.6	-23	5.2
Denmark	OMX Copenhagen	375.12	359.2	372.16	12.96	3.61		-17.1	492.84	359.2	-24.2	5.6
Finland	OMX Helsinki	8555.61	8192.54	8478.23	285.69	3.49		-26.9	12656.77	8101.73	-27.2	4.2
France	CAC 40	4260.95	4159.02	4225.99	113.54	2.76		-24.7	6065.5	4061.15	-30.3	-1.1
Germany	DAX	6318.34	6177.07	6271.27	115.9	1.88		-22.3	8076.12	6081.7	-21.5	10
Hungary	BUX	20964.01	20615.14	20822.89	472.87	2.32		-20.6	30118.12	19870.33	-30.6	1.8
Italy	S & P/MIB	27846	27358	27668	474	1.74		-28.2	42121	27044	-34.3	-5.9
Netherlands	AEX	396.74	388.53	392.66	8.67	2.26		-23.9	560.25	383.66	-29.9	-0.1
Norway	All-Shares	481.47	470.04	480.04	10	2.13		-15.8	605.05	442.79	-20.7	13.9
Poland	WIG	38682.73	38014.58	38682.73	1175.2	3.13		-30.5	66045.6	37507.55	-41.3	9.5
Portugal	PSI 20	8480.65	8260.74	8408.88	284.62	3.5		-35.4	13687.87	8011.54	-38.5	4.2
Russia	DJ Russia Titans 10	6897.92	6759.86	6897.92	138.77	2.05		-10.1	7920.96	6226.15	-3.7	41.7
Russia	RTS Index	2226.8	2175.62	2223.48	48	2.21		-2.9	2487.92	1820.3	7.4	43.9
Spain	IBEX 35	11709.5	11441.8	11642.1	354.4	3.14		-23.3	15945.7	11151.6	-23.4	5.4
Sweden	SX All Share	275.6	264.32	274.02	9.7	3.67		-22.1	424.37	261.26	-35.4	1.2
Switzerland	Swiss Market	6821.8	6679.61	6739.16	155.67	2.36		-20.6	9218.28	6561.98	-26.7	1.4
Turkey	Istanbul National 100	38025.09	36996.61	37695.26	1320.9	3.63		-32.1	58231.9	33208.24	-29.3	9.9
U.K.	FTSE 100	5320.5	5150.6	5286.3	135.7	2.63		-18.1	6730.7	5150.6	-20.4	0.4
U.K.	FTSE 250	8780.9	8414.5	8719.7	305.2	3.63		-18.2	11880.2	8279.3	-26.6	5.3
Americas												
Americas	DJ Americas	332.94	328.52	332.31	3.02	0.92		-11.8	399.86	322.02	-15.9	3.8
Argentina	Merval	1929.65	1879.5	1893.43	16	0.85		-12	2351.44	1833.71	-17.2	9
Brazil	Sao Paulo Bovespa	62606.12	59984.68	60108.72	-1947.75	-3.14		-5.9	73516.8	48015.55	3.4	33.6
Canada	S & P/TSX Comp	13662.51	13348.4	13460.25	-43.55	-0.32		-2.7	15073.13	12132.13	-8	9.9
Chile	Santiago IPSA	2804.75	2728.11	2778.19	50.08	1.84		-9	3496.18	2427.11	-17.9	9.9
Mexico	IPC All-Share	28383.24	27970.33	28215.86	247.04	0.88		-4.5	32836.12	25284.88	-12.2	26.5
Venezuela	Caracas General	39141.62	38851.09	38851.09	-215.5	-0.55		2.5	42249.77	34172.43	-6.6	21.9
Other Countries												
Egypt	CASE 30	9512.86	9356.25	9356.25	-83.12	-0.88		-11.3	11935.67	7517.75	10.5	n.a.
Israel	Tel Aviv	1012.94	999.72	1009.84	23.4	2.37		-17	1237.13	964.38	-13	15.6
South Africa	Johannesburg All Share	27995.64	26876.95	27995.64	1118.69	4.16		-3.3	33232.89	25135.13	-5.5	23.9

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

Three year percent change is annualized.

Sources: Reuters; WSJ.com

MARKET INDICES	Jul 17	a month ago	a year ago
S&P/TSX Composite	13460.25	15068.83	14382.01
S&P 500	1260.32	1350.93	1549.37
Dow Jones Industrial Average	11446.66	12160.3	13971.5

INTEREST / FX RATES	Jul 18	a month ago	a year ago
Prime Can (%)	4.75	4.75	6.25
Prime US (%)	5.00	5.00	8.25
30 Day BA Can (%)	3.144	3.148	4.588
3 month US T-Bill (%)	1.48	1.85	4.97
3 month Can T-Bill (%)	2.280	2.690	4.560
10yr US Bond (%)	4.051	4.125	4.997
10yr Can Bond (%)	3.81	3.81	4.60
10yr-2yr US Spread (bps)	149.20	129.20	18.40
10yr-2yr Spread Can (bps)	64.00	51.00	-6.00
US\$/Cdn\$	0.9969	0.9828	1.0439
US\$/Euro	1.5833	1.5648	1.3804
Yen/US\$	106.721	107.24	122.10

INTERNATIONAL INTEREST RATES	Jul 18		
	3 mo LIBOR (%)	Spread vs US (bps)	a wk ago (Spread—bps)
United States	2.79	NA	NA
Canada	3.39	60	64
Euro-zone	4.95	216	217
Switzerland	2.79	-0.4	1
Japan	0.91	-188	-187
Australia	7.77	498	496
	10 Year Bond (%)	Spread vs US (bps)	a wk ago (Spread—bps)
United States	4.05	NA	NA
Canada	3.81	-24.1	-15.6
Euro-zone	5.02	97.0	108.3
Switzerland	3.17	-88.6	-71.6
Japan	1.57	-248.6	-224.2
Australia	6.36	230.6	252.8

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