



# **Weekly Market Insight**

*July 25, 2008*

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

### **What To Make of Oil Volatility**

Analysts are a lot like US Presidents sometimes, quick to declare “mission accomplished” on even the most tentative signs that things are going their way. With so many concerns about the macroeconomic consequences of an oil price shock, the latest retreat in crude brought out a chorus of calls that the worst is over, the bubble has burst, and the turning point is at hand.

But just how much can we draw from a drop in crude that still leaves it higher than at any point in history prior to May? Not much.

The very steepness of the recent price decline is a signal that we are operating in a tight energy market with little slack in terms of the available supply. Under such conditions, a modest shift in actual or expected supply—say due to a storm hitting or not hitting production, or a swing in output from troubled Nigeria—makes a large difference to the market clearing price, in both directions. That wasn’t the case in earlier decade when there was more of a cushion in the market and producers weren’t running at full tilt, since OPEC could tighten or ease its quotas to absorb those shocks.

Now, any addition to supply capabilities has a more notable impact on what’s delivered to the market, but that works in both directions. We’re still at risk of sharply higher crude prices in a world in which oil comes from regions with huge political risks (e.g. the Middle East, Nigeria) or weather exposures (the Gulf of Mexico).

The steep price response also demonstrates that oil demand is quite price inelastic in the short run. If demand doesn’t respond much to prices (at least until several years of vehicle replacement take place), it takes a big drop in prices to boost consumption to absorb any upward bumps in supply.

But again, in a world in which oil supply has been growing very slowly relative to what’s happening to its usage in the developing world, that demand inelasticity will mostly work towards shockingly large increases in crude prices. It takes a huge rise in gasoline prices to generate the visible demand curtailment in the west needed to make room for all those new Chinese, Indian and Russian drivers.

Gasoline got to \$4 per gallon in the US because that’s what it took to shock the Hummers out of people. Further conservation – and more dramatic behavioural changes like taking transit—will require even higher prices.

Remember, oil’s route to \$140/bbl included a dive from \$77 to barely over \$50 in early 2007, a 35% retreat that meant nothing in terms of its longer term climb. July looks like nothing more than a similar bump in the road towards higher crude prices.

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## International Stock Indexes

Thursday, July 24, 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>	264.16	259.3	259.37	-3.65	-1.39	-13.8	320.33	251.64	-13.5	6
World	<b>DJ World ex U.S.</b>	237.62	234.19	234.36	-1.49	-0.63	-13.8	291.11	226.74	-12.8	10.4
World	<b>MSCI EAFE*</b>	n.a.	n.a.	1921.24	-12.41	-0.64	-14.7	2388.74	1845.93	-13.6	8.6
<b>Asia Pacific</b>											
Asia-Pacific	<b>DJ Asia-Pacific</b>	140.58	137.91	140.29	2.21	1.6	-11.3	172.49	132.87	-15	8.9
Australia	<b>All Ordinaries</b>	5201.6	5148.4	5188.4	26.8	0.52	-19.2	6853.6	4910.1	-17.7	6.3
Australia	<b>S &amp; P/ASX 200</b>	5158.3	5094.2	5144.1	38.8	0.76	-18.9	6828.7	4815.7	-17.8	5.6
China	<b>DJ CBN China 600</b>	23985.49	23256.11	23962.84	706.81	3.04	-42.2	44631.83	21535.15	-28.9	42.7
China	<b>Dow Jones China 88</b>	262.53	253.28	262.29	9.15	3.61	-44.5	530.54	236.45	-30	38.5
China	<b>Shanghai Composite</b>	2912.7	2849.1	2910.29	72.4	2.55	-44.7	6092.06	2651.61	-33	n.a.
Hong Kong	<b>Hang Seng</b>	23369.05	23062.62	23087.72	-46.83	-0.2	-17	31638.22	20387.13	-0.5	16
India	<b>Bombay Sensex</b>	15130.09	14608.05	14777.01	-165.27	-1.11	-27.2	20873.33	12575.8	-6.3	25.8
Indonesia	<b>Jakarta Composite</b>	2257.05	2200.49	2257.05	31.21	1.4	-17.8	2830.26	1908.64	-4.6	24.4
Malaysia	<b>Kuala Lumpur Composite</b>	1141.59	1131.93	1141.59	2.18	0.19	-21	1516.22	1103.48	-17.4	6.7
New Zealand	<b>NZSX-50</b>	3288.33	3201.65	3287.23	85.58	2.67	-18.7	4332.29	3040.45	-24	-0.3
Pakistan	<b>KSE 100</b>	11173.77	10979.07	11156.68	138.18	1.25	-20.7	15676.34	10212.92	-18.5	14.9
Philippines	<b>Manila Composite</b>	2538.65	2465.02	2535.91	72.97	2.96	-30	3873.5	2339.84	-30.7	9.1
Singapore	<b>Straits Times</b>	2997.82	2965.27	2977.91	-1.07	-0.04	-14.1	3831.19	2792.75	-15.3	9.6
South Korea	<b>Kospi</b>	1627.87	1603.24	1626.14	34.38	2.16	-14.3	2064.85	1507.4	-17.2	14.8
Sri Lanka	<b>Colombo Stock Exchange</b>	2385.3	2356.54	2383.83	27.3	1.16	-6.2	2681.27	2338.63	-3.1	7.2
Taiwan	<b>Weighted</b>	7368.08	7294.13	7368.08	58.25	0.8	-13.4	9809.88	6710.64	-23	4.9
Thailand	<b>SET</b>	694.83	686.16	691.48	-2.66	-0.38	-19.4	915.03	664.52	-21.8	2.1
Japan	<b>Nikkei Stock Avg</b>	13603.31	13393.57	13603.31	290.38	2.18	-11.1	17702.09	11787.51	-23.2	5.2
Japan	<b>Nikkei 300</b>	271.28	267.64	271.28	5.82	2.19	-9.9	349.46	234.2	-22.4	6.3
<b>Europe</b>											
Europe	<b>DJ Stoxx 600</b>	288.06	281.42	282.21	-4.56	-1.59	-22.6	390.63	266.51	-24.7	0.1
Europe	<b>DJ Stoxx 50</b>	2904.17	2852.13	2859.88	-30.8	-1.07	-22.4	3932.44	2710.85	-23.4	-2.6
Euro zone	<b>DJ Euro Stoxx 50</b>	3410.71	3345.49	3354.58	-32.9	-0.97	-23.8	4489.79	3142.73	-21.1	0.6
Euro zone	<b>DJ Euro Stoxx</b>	322.73	314.98	315.92	-4.77	-1.49	-23.9	432.27	296.6	-23.5	1.6
Austria	<b>ATX</b>	3735.86	3602.17	3620.14	-102.4	-2.75	-19.8	4871.71	3386.82	-21.8	5.9
Belgium	<b>Bel-20</b>	3179.34	3096.34	3107.22	-37.6	-1.2	-24.7	4534.91	2863.44	-28.9	-0.8
Czech Republic	<b>PX 50</b>	1482.2	1441.6	1441.6	-33.4	-2.26	-20.6	1936.9	1398.6	-20.6	5
Denmark	<b>OMX Copenhagen</b>	387.87	378.63	380.88	-5.55	-1.44	-15.1	492.84	359.2	-20.5	6.6
Finland	<b>OMX Helsinki</b>	8618.61	8401.53	8419.08	-109.96	-1.29	-27.4	12656.77	8101.73	-23.2	5.5
France	<b>CAC 40</b>	4440.89	4328.52	4347.99	-60.75	-1.378	-22.6	5862.83	4061.15	-23.4	-0.5
Germany	<b>DAX</b>	6577.1	6415.31	6440.7	-95.39	-1.46	-20.2	8076.12	6081.7	-14.2	10
Hungary	<b>BUX</b>	21759.61	21464.15	21588.38	-37.11	-0.17	-17.7	29264.9	19870.33	-25.2	2.8
Italy	<b>S &amp; P/MIB</b>	28965	28591	28665	-176	-0.61	-25.6	41106	27044	-27.7	-5.1
Netherlands	<b>AEX</b>	408.28	395.37	396.65	-8.73	-2.15	-23.1	559.14	383.66	-25.6	0.2
Norway	<b>All-Shares</b>	479.78	471.51	473.46	-6.27	-1.31	-16.9	603.98	442.79	-17.1	13.2
Poland	<b>WIG</b>	40978.28	40356.29	40381.78	-320.8	-0.79	-27.4	64292.3	37507.55	-36.1	11.5
Portugal	<b>PSI 20</b>	8809.82	8644.46	8644.46	-132.85	-1.51	-33.6	13434.18	8011.54	-35	4.9
Russia	<b>DJ Russia Titans 10</b>	6472.34	6320.43	6320.43	-153.8	-2.38	-17.6	7920.96	6226.15	-8.4	36.4
Russia	<b>RTS Index</b>	2111.72	2066.7	2066.7	-45.2	-2.14	-9.8	2487.92	1820.3	3.5	39
Spain	<b>IBEX 35</b>	12013.9	11667.4	11675.1	-259.8	-2.18	-23.1	15945.7	11151.6	-19.7	5.2
Sweden	<b>SX All Share</b>	281.21	272.75	273.14	-7.22	-2.58	-22.4	407.81	261.26	-31.1	0.9
Switzerland	<b>Swiss Market</b>	7150.05	7040.04	7056.93	-1.31	-0.02	-16.8	9218.28	6561.98	-18.9	2.8
Turkey	<b>Istanbul National 100</b>	39064.48	38420.36	38944.38	388.82	1.01	-29.9	58231.9	33208.24	-25.8	10.1
U.K.	<b>FTSE 100</b>	5463.7	5345.1	5362.3	-87.6	-1.61	-17	6730.7	5150.6	-14.2	0.8
U.K.	<b>FTSE 250</b>	9210.8	8966.2	9007.2	-182.6	-1.99	-15.5	11666	8279.3	-18.4	6.3
<b>Americas</b>											
Americas	<b>DJ Americas</b>	337.51	328.53	328.99	-8.03	-2.38	-12.7	399.86	322.02	-12.4	3.2
Argentina	<b>Merval</b>	1942.42	1896.47	1901.88	-38.86	-2	-11.6	2351.44	1833.71	-11.7	8.7
Brazil	<b>Sao Paulo Bovespa</b>	59640.92	57333.53	57434.37	-1986.49	-3.34	-10.1	73516.8	48015.55	6.6	31.3
Canada	<b>S &amp; P/TSX Comp</b>	13592.73	13196.87	13206.14	-306.52	-2.27	-4.5	15073.13	12132.13	-4.6	8.4
Chile	<b>Santiago IPSA</b>	2926.06	2872.04	2873.28	-34.64	-1.19	-5.9	3496.18	2427.11	-12.3	10.1
Mexico	<b>IPC All-Share</b>	27726.41	27205.06	27644.75	...	Closed	-6.4	32836.12	25284.88	-7.8	24.5
Venezuela	<b>Caracas General</b>	39412.86	38284.42	39062.04	...	Closed	3.1	42249.77	34172.43	-7	23
<b>Other Countries</b>											
Egypt	<b>CASE 30</b>	9415.26	9295.29	9382.51	80.12	0.86	-11.1	11935.67	7517.75	10.7	n.a.
Israel	<b>Tel Aviv</b>	1045.63	1025.79	1027.67	-10.09	-0.97	-15.6	1237.13	964.38	-9.6	14.5
South Africa	<b>Johannesburg All Share</b>	27653.51	27270.89	27430.12	56.33	0.21	-5.3	33232.89	25135.13	-4	22.2

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

Three year percent change is annualized.

Sources: Reuters; WSJ.com

MARKET INDICES	Jul 24	a month ago	a year ago
S&P/TSX Composite	13206.14	14409.60	14068.16
S&P 500	1252.54	1314.29	1511.04
Dow Jones Industrial Average	11349.28	11807.4	13717.0

INTEREST / FX RATES	Jul 25	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 (%)	3.140	3.1514	4.60
3 month US T-Bill (%)	1.68	1.68	4.89
3 month Can T-Bill (%)	2.470	2.546	4.559
10yr US Bond (%)	4.054	4.016	4.808
10yr Can Bond (%)	3.84	3.69	4.53
10yr-2yr US Spread (bps)	140.10	139.10	23.30
10yr-2yr Spread Can (bps)	67.00	55.00	-9.00
US\$/Cdn\$	0.9850	0.9932	1.0568
US\$/Euro	1.5697	1.5749	1.3657
Yen/US\$	107.7350	106.3100	118.8650

INTERNATIONAL INTEREST RATES	Jul 25		
	3 mo LIBOR (%)	Spread vs US (bps)	a wk ago (Spread—bps)
United States	2.79	NA	NA
Canada	3.32	53	60
Euro-zone	4.96	217	216
Switzerland	2.76	-2.9	-0.4
Japan	0.91	-189	-188
Australia	7.78	499	498
	10 Year Bond (%)	Spread vs US (bps)	a wk ago (Spread—bps)
United States	4.05	NA	NA
Canada	3.84	-21.4	-24.1
Euro-zone	5.04	98.9	97.0
Switzerland	3.24	-81.4	-88.6
Japan	1.57	-248.0	-248.6
Australia	6.26	220.6	230.6

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