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# Weekly Market Insight

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**August 13, 2010**

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

There is little doubt that the focus at this point must be the US economy. In recent months we have argued that this recovery is going to be the most non-linear recovery in recent history. And currently we are in the non-linear portion of the recovery. After expanding very strongly in the first half of the year, the US economy is now losing momentum at a worrying pace. Consumer confidence is still at a recessionary level, the housing market is showing clear signs of double dip, with prices likely to fall in the coming six months, the labour market is softening rapidly and the inventory cycle is fading.

Given the important contribution of fiscal policy to the recovery, the question at this point is to what extent Obama will have the political courage to proceed with his planned fiscal austerity. My guess is that the President will not have the public and political support for such a move. The likelihood is that we might see a second wave of fiscal stimulus in the coming year, including the extension of the Bush tax cut that is supposed to expire at the end of the year.

From its perspective, the Fed is already revisiting its exit strategy. The fact that the Fed is now using the proceeds from its MBS holdings to buy treasuries suggests that it is keeping the level of its balance sheet unchanged. That is—the Fed is not ready to remove liquidity from the market. In fact, I will not be surprised if we will see another wave of quantitative easing in the coming quarters. (If you take a close look at the MBS holdings by the Fed, you will find that the Fed has already added to its position in recent months, despite the fact that officially this program has expired by the end of March 2010).

What might limit the degree of a second round of quantitative easing (QE2) is not the willingness of the Fed to do it, but rather doubts about its effectiveness. After all, even another trillion dollars of monetary stimulus can make little difference if banks are unwilling to lend. And that's where the focus should be. Recent numbers clearly show that banks are more comfortable collecting the low interest rate on their reserves holdings with the Fed than lending it to firms and individuals.

The other focus of course must be the US labour market, and here the trend is getting worse with the unemployment rate still extremely elevated and the pace of job creation slowing notably. In fact, something interesting is happening in the American labour market. If you look at job openings in the US, you will find that there is in fact a V-shape recovery in this category. Job openings are rising much faster than job acceptance. It is easy to be cynical and say that many Americans are choosing unemployment benefits over available jobs on offer. I doubt that this is in fact the case. A more likely possibility is that firms are taking their time in the hiring process. Given the low bargaining power of labour, they can take their time and look for the best candidate with no sense of urgency.

This environment is of course inconsistent with the Fed raising rates any time soon. Look for the Fed to be on hold until 2012.

If you are the Bank of Canada, how do you deal with this situation? Yes, the Canadian economy is in a better shape, yes the output gap in Canada is much narrower and inflation is a bit higher. And yes, the inflation adjusted Bank Rate is still negative. But do you have the guts to continue raising rates in this uncertain environment? The market is currently discounting a 60% probability of a move in September and a zero probability of a move in October. Regardless, the Bank is very close to ending the first phase of its monetary tightening.

**Benjamin Tal**

## Market Snapshot

US	Current*	yesterday*	a week ago*	a month ago*	a year ago
TED SPREAD (bps)	23	24	27	38	28
10Y / 2Y SPREAD (bps)	216	219	232	235	249
2Y SWAP SPREAD (bps)	19	19	19	23	39
3M T-Bill (%)	0.14	0.14	0.14	0.14	0.15
LIBOR 1 MONTH (%)	0.27	0.28	0.29	0.34	0.27
LIBOR 3 MONTH (%)	0.37	0.38	0.41	0.52	0.43
2-YR BOND (%)	0.54	0.53	0.51	0.59	1.06
5-YR BOND (%)	1.45	1.46	1.49	1.70	2.51
10-YR BOND (%)	2.70	2.72	2.83	2.94	3.56
A Rated / 10Y TREASURY (bps)	170	165	173	178	220
B Rated / 10Y TREASURY (bps)	659	652	686	673	696
BB Rated / 10Y TREASURY (bps)	446	437	446	457	550
<b>CANADA</b>					
PRIME / BA SPREAD (bps)	184	184	185	168	186
CDOR 3 MONTH (%)	1.02	1.02	1.01	0.88	0.60
CDOR 3 MONTH / 3M T-BILL SPREAD (bps)	35	35	32	33	37
10Y / 2Y SPREAD (bps)	161	164	161	159	215
2-YR BOND (%)	1.39	1.34	1.46	1.61	1.32
5-YR BOND (%)	2.19	2.13	2.25	2.44	2.59
10-YR BOND (%)	3.00	2.98	3.07	3.19	3.47
A Rated / 10Y TREASURY (bps)	130	128	129	132	147
BBB Rated / 10Y TREASURY (bps)	181	179	184	193	199
CAN Sovereign Agency / 10Y TREASURY (bps)	42	40	43	48	59
Provincial / 10Y TREASURY (bps)					
ALTA	73	69	70	75	92
BC	96	92	91	96	94
MAN	85	81	80	88	90
NB	92	89	89	95	92
PEI	108	104	104	110	122
NFLD	116	111	112	117	122
ONT	102	99	99	105	101
QUE	106	104	105	110	111
SASK	104	102	105	104	90
NS	103	99	100	106	109
<b>COMMODITIES</b>					
WTI CRUDE FUTURE (US\$ / bbl.)	75.7	76.4	81.4	75.5	70.7
NATURAL GAS (US\$ / MMBtu)	4.3	4.3	4.6	4.5	3.4
SILVER (US\$ / t oz.)	18.1	18.1	18.5	17.8	15.0
GOLD (US\$ / t oz.)	1213.5	1215.4	1210.1	1186.2	957.4
WHEAT (US¢ / bu.)	722.5	715.0	768.3	590.8	478.8
SOYBEANS (US¢ / bu.)	1057.0	1052.0	1055.5	1018.8	1139.0
SUGAR (US¢ / lb.)	18.9	18.9	18.3	17.1	22.2
CORN (US¢ / bu.)	410.0	400.8	396.5	392.5	321.5
<b>FX</b>					
C\$ / US\$	1.037	1.046	1.027	1.053	1.083
US\$ / EURO	1.277	1.284	1.330	1.294	1.426
C\$ / EURO	1.324	1.343	1.365	1.363	1.545
YEN / US\$	85.850	85.950	85.110	86.330	94.715
US\$ / BRITISH POUND	1.558	1.558	1.598	1.534	1.660
SWISS FRANCS / US\$	1.053	1.051	1.035	1.046	1.070

\* As of 11:00 a.m.

Note: Data is for reference only.

## International Stock Indexes

Thursday, August 12, 2010

Index (Regiona/Country)	DAILY				% Chg		YTD % chg	52 WEEK			3-yr % chg
	High	Low	Close	Chg	-	+		High	Low	% Chg	
<b>Global</b>											
The Global Dow (World)	1840.83	1821.9	1831.87	-8.96	-0.49		-7.7	2087.12	1699.63	0.9	-9
The Global Dow (Euro) (World)	1342.9	1336.7	1342.9	-0.76	-0.06		3.1	1448.65	1171.86	12.3	-7.1
DJ Global Index (World)	218.73	216.31	217.35	-1.38	-0.63		-4.2	242.2	199.17	5.4	-9.1
DJ Global ex U.S. (World)	191.6	189.45	190.25	-1.35	-0.7		-5.4	210.96	170.93	3.9	-9.5
MSCI EAFE* (World)	n.a.	n.a.	1452.1	-10.02	-0.69		-8.1	1642.2	1305.13	-0.9	-12
<b>Asia Pacific</b>											
DJ Asia-Pacific (Asia-Pacific)	122.66	120.52	121.03	-1.59	-1.3		-1.6	132.22	111.94	4.2	-7.9
All Ordinaries (Australia)	4462.4	4405.5	4422.4	-57.25	-1.28		-9.4	5024.1	4250.6	-0.3	-9.5
S & P/ASX 200 (Australia)	4436.8	4382.1	4400.89	-54.57	-1.22		-9.6	5001.9	4222.1	-0.8	-9.5
DJ CBN China 600 (China)	24140.33	23705.31	23762.88	-286.55	-1.19		-18.2	29811.23	20950.68	-13.1	-13.4
Dow Jones China 88 (China)	230.99	226.86	227.3	-2.91	-1.26		-24.6	308.76	208.48	-23.3	-18.6
Shanghai Composite (China)	2608.76	2570.96	2575.48	-32.02	-1.23		-21.4	3338.66	2363.95	-18	-18.5
Hang Seng (Hong Kong)	21124.98	20926.48	21105.71	-188.83	-0.89		-3.5	22943.98	18985.5	1.2	-1.1
Bombay Sensex (India)	18113.62	17914.78	18073.9	3.71	0.02		3.5	18287.5	14784.92	16.5	6.7
Jakarta Composite (Indonesia)	3034.24	2993.77	3025.64	-9.67	-0.32		19.4	3096.82	2277.75	26.3	11.1
Nikkei 300 (Japan)	168.5	166.19	168.49	-1.35	-0.79		-9	202.75	164.24	-13.7	-19.9
Nikkei Stock Avg (Japan)	9212.59	9065.94	9212.59	-80.26	-0.86		-12.6	11339.3	9081.52	-12.4	-18.1
Topix Index (Japan)	827.78	816.78	827.78	-6.67	-0.8		-8.8	998.9	811.01	-14.5	-20.3
Kuala Lumpur Composite (Malaysia)	1350.2	1342.07	1349.33	-3.58	-0.26		6	1363.83	1155.53	13.8	1.6
NZSX-50 (New Zealand)	3036.01	2992.41	3006.91	-29.1	-0.96		-6.9	3335.51	2933.82	-3.9	-9.9
KSE 100 (Pakistan)	9918.24	9770.5	9792.81	-82.87	-0.84		4.3	10677.47	7932.55	22.2	-9
Manila Composite (Philippines)	3522.72	3477.24	3483.02	-39.7	-1.13		14.1	3525.81	2720.18	22	2
Straits Times (Singapore)	2933.33	2916.54	2927.04	-22.22	-0.75		1	3025.04	2522.78	12	-3.9
Kospi (South Korea)	1742.8	1721.75	1721.75	-36.44	-2.07		2.3	1790.6	1524.5	10	-2
Colombo Stock Exchange (Sri Lanka)	5091.89	5012.34	5034.85	-43.79	-0.86		48.7	5214.84	2500.46	100.5	27.6
Weighted (Taiwan)	7837.38	7776.66	7829.79	-65.24	-0.83		-4.4	8356.89	6654.8	11.3	-4.3
SET (Thailand)	864.79	856.12	862.16	...		Closed	17.4	875.18	631.28	31.5	2.3
<b>Europe</b>											
Stoxx Europe 600 (Europe)	255.97	253.05	254.93	0.25	0.1		0.7	272.14	224.23	10.6	-11.1
Stoxx Europe 50 (Europe)	2501.45	2473.31	2493.79	7.28	0.29		-3.3	2711.84	2281.63	6.2	-11.8
Euro Stoxx 50 (Euro zone)	2737.24	2698.84	2720.85	-3.31	-0.12		-8.3	3017.85	2488.5	0.6	-13.2
Euro Stoxx (Euro zone)	260.45	256.68	258.6	-0.57	-0.22		-5.9	284.91	237.29	3.3	-13.6
ATX (Austria)	2441.26	2400.28	2401.43	-37.13	-1.52		-3.8	2795.32	2216.84	-0.1	-18.5
Bel-20 (Belgium)	2524.27	2489.3	2505.9	9.97	0.4		-0.2	2716.7	2229.85	9.9	-15.1
PX 50 (Czech Republic)	1176.7	1165.3	1167	-6.6	-0.56		4.4	1314.6	1092.8	unch.	-12.6
OMX Copenhagen (Denmark)	388.3	380.84	384.46	0.62	0.16		21.8	396.15	298.59	24.5	-5.8
OMX Helsinki (Finland)	6684.39	6579.78	6624.73	-7.22	-0.11		2.6	7452.62	5800.72	11	-15.1
CAC 40 (France)	3641.85	3584.44	3621.07	-7.22	-0.2		-8	4065.65	3331.29	2.7	-12.7
DAX (Germany)	6173.42	6097.72	6135.17	-18.9	-0.31		3	6351.6	5201.61	13.6	-5.8
BUX (Hungary)	22344.63	22003.52	22263.94	16.7	0.08		4.9	25322.96	17613.39	20.2	-6.8
FTSE MIB (Italy)	20710.83	20358.11	20539.4	-39.84	-0.19		-11.7	24425.98	18382.71	-5.9	-19.2
AEX (Netherlands)	326.22	321.47	324.12	-0.87	-0.27		-3.3	357.43	282.01	11.8	-13.6
All-Shares (Norway)	408.08	399.8	402.87	-2.5	-0.62		-4.1	444.01	341.8	14.6	-8.9
WIG (Poland)	42332.46	42019.62	42332.46	122.9	0.29		5.9	44078.65	34945.56	17.6	-10.2
PSI 20 (Portugal)	7355.42	7245.29	7299.3	1.71	0.02		-13.8	8882.69	6624.29	-3.7	-17.3
DJ Russia Titans 10 (Russia)	5490.68	5335.68	5425.72	-20.8	-0.38		-2.7	6071.02	4192.47	21	-6.2
RTS Index (Russia)	1466.86	1437.85	1447.68	-12.99	-0.89		1.5	1676.27	993.57	37.3	-8.6
IBEX 35 (Spain)	10432.4	10259.7	10342.4	-32.4	-0.31		-13.4	12222.5	8669.8	-6.4	-10.6
SX All Share (Sweden)	325.5	319.38	321.75	-1.85	-0.57		7.4	337.54	265.39	17.4	-5.3
Swiss Market (Switzerland)	6317.11	6237.67	6279.35	13.51	0.22		-4.1	6967.56	5883.7	4.9	-9.8
Istanbul National 100 (Turkey)	58507.02	57955.18	58383.71	229.05	0.39		10.5	60737.28	44233.36	31.2	5.9
FTSE 100 (U.K.)	5272.5	5210.6	5266.06	20.85	0.4		-2.7	5825	4645	10.7	-4.5
FTSE 250 (U.K.)	9854.46	9735.41	9788.31	-66.18	-0.67		5.2	10690.08	8274.09	15.4	-3.5
<b>Americas</b>											
DJ Americas (Americas)	290.52	287.1	289.13	-1.35	-0.46		-2.5	324.75	256.77	8.5	-7.7
Merval (Argentina)	2372.64	2350.39	2366.49	17.16	0.73		2	2487.76	1727.76	31.8	4.9
Sao Paulo Bovespa (Brazil)	66027.35	65257.27	65966.17	175.88	0.27		-3.8	71784.77	55218.37	15.6	7.8
S & P/TSX Comp (Canada)	11579.71	11480.52	11523.6	-58.61	-0.51		-1.9	12280.97	10531.59	6.4	-5.1
Santiago IPSA (Chile)	4401.13	4318.24	4384.46	-4.06	-0.09		22.4	4495.91	3132.55	33.1	11.2
IPC All-Share (Mexico)	32106.98	31830.65	32041.13	-17.44	-0.05		-0.2	34134.23	27299.58	13.8	2.9
Caracas General (Venezuela)	64565.79	64559.65	64565.79	6.14	0.01		17.2	66061.09	47699	34	16.5
<b>Other Countries</b>											
CASE 30 (Egypt)	6370.28	6322.55	6333.14	-40.29	-0.63		2	7603.04	5850.38	-2.4	-8.2
Tel Aviv (Israel)	1149.55	1138.98	1140.26	-9.75	-0.85		-0.4	1237.85	922.49	19	1.8
Johannesburg All Share (South Africa)	27539.6	27193.68	27467.15	5.39	0.02		-0.7	29565.1	24074.12	9.8	0.5

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

Three year percent change is annualized.

Sources: Reuters; WSJ.com

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