



Weekly Market Insight

September 26, 2008

NORTH AMERICAN & INTERNATIONAL ECONOMIC HIGHLIGHTS

Deal, or No Deal?

It seems that for those following the drama unfolding on Wall Street, weekends are no longer the time to kick back and relax. As we write, it looks like we'll have to be scanning the wires for news on whether some version of the Treasury Secretary's scheme is going to be approved by Congress before the election recess. This game of "deal or no deal" has consequences for markets and looking at Friday trading, it appears that traders are still putting reasonable odds on some sort of pact emerging, so the reaction to a failure would come next week.

The trouble, of course, is that even as amended by Democrats, the plan has no voter appeal. If it's approved, the electorate never gets to see how the economy would have fared without it, and it will take a long time to see what, if any, the cost to taxpayers will be. It will be easy to create an "attack ad" accusing those voting for it of pandering to the fat cats on Wall Street ahead of you, the voter.

But if nothing is done, all parties would face the wrath of the public during the resulting deterioration in economic and financial market conditions. As a result, we still put better odds of a deal emerging than not.

Still, it's worth addressing what the cost of failure would be. In the near term, there would be downside for equities, cyclical commodities, commodity-linked currencies and financial sector bonds, and upside for government bonds. The Fed would, at a minimum, have to upscale its support in the money market to prevent floating-rate yields from soaring, even if it decides to stay with a 2% funds rate. Judging by what the FDIC is telling us, there will be a line of regional banks that will go under.

Despite the impression left by the Paulson/Bernanke tag team, the current plan isn't the only workable option to deal with impossibly low mark-to-market valuations and an undercapitalized banking system.

For example, Harvard law and economics Professor Lucien Bebchuck, proposes establishing government-funded but profit-incented players to compete in buying the illiquid securities, making a well financed competitive market that would ensure these are bought at full and fair market value (rather than either at fire sale prices, or at prices that represent a gift to Wall Street). That would allow others to mark up current fire sale valuations. He suggests a separate plan to mandate capital-raising equity issuance, with the option for government participation.

So if it's "no deal" this weekend, all is not lost forever. We'll have a rough ride in financial markets for the next few weeks, but a lame-duck Congress will be under pressure to get back to work after the election and come up with something else to deal with the crisis at hand.

Stay tuned. See you after the weekend.

International Stock Indexes

Thursday, September 25, 2008

Region/Country	Index	DAILY					52 WEEK				3-yr % chg
		High	Low	Close	Chg	% Chg - +	YTD % chg	High	Low	% Chg	
World											
World	DJ World Index	237.37	233.08	236.85	2.88	1.23	-21.3	320.33	224.29	-23.3	2
World	DJ World ex U.S.	205.43	202.29	205.21	1.53	0.75	-24.5	291.11	192.17	-25.6	3.5
World	MSCI EAFE*	n.a.	n.a.	1701.363	15.32	0.91	-24.5	2388.74	1589.34	-25.7	2.4
Asia Pacific											
Asia-Pacific	DJ Asia-Pacific	119.79	117.81	118.31	-1.48	-1.24	-25.2	172.49	112.25	-27.9	0.2
Australia	All Ordinaries	5010.1	4956.6	4960.8	-47.4	-0.95	-22.7	6853.6	4651.9	-24.2	3.2
Australia	S & P/ASX 200	4983	4925.3	4927.4	-54.5	-1.09	-22.3	6828.7	4607.3	-24.6	2.6
China	DJ CBN China 600	17876.51	17011.85	17643.1	628.08	3.69	-57.4	44631.83	15174.77	-57.8	25.8
China	Dow Jones China 88	207.19	195.66	203.94	8.22	4.2	-56.8	530.54	172.49	-57	27.5
China	Shanghai Composite	2333.28	2211.45	2297.5	80.7	3.64	-56.3	6092.06	1895.84	-57.5	n.a.
Hong Kong	Hang Seng	19248.72	18870.11	18934.43	-27.56	-0.15	-31.9	31638.22	17632.46	-30	7.7
India	Bombay Sensex	13716.88	13430.68	13547.18	-145.34	-1.06	-33.2	20873.33	12575.8	-21	18.1
Indonesia	Jakarta Composite	1876.92	1860.82	1870.06	-13.49	-0.72	-31.9	2830.26	1719.25	-21.4	22.7
Malaysia	Kuala Lumpur Composite	1029.56	1019.46	1024.74	-3.66	-0.36	-29.1	1516.22	991.66	-23.3	3.6
New Zealand	NZSX-50	3263.01	3237.72	3237.72	-21.96	-0.67	-19.9	4332.29	3040.45	-24.3	-1.7
Pakistan	KSE 100	9190.75	9182.44	9184.15	-6.6	-0.07	-34.8	15676.34	9144.93	-31.1	3.9
Philippines	Manila Composite	2571.41	2511.51	2566.37	56.05	2.23	-29.1	3873.5	2339.84	-28.3	9.4
Singapore	Straits Times	2471.51	2442.8	2444.24	-33.36	-1.35	-29.5	3831.19	2419.21	-33.1	3.2
South Korea	Kospi	1503.83	1469.23	1501.63	5.65	0.38	-20.8	2064.85	1387.75	-22.8	8.5
Sri Lanka	Colombo Stock Exchange	2230.85	2212.57	2212.57	-15.3	-0.69	-12.9	2681.27	2212.57	-13.8	-1.9
Taiwan	Weighted	6164.59	6028.77	6060.83	-71.77	-1.17	-28.7	9809.88	5641.95	-35.6	0.8
Thailand	SET	621.35	612.3	621.14	0.71	0.11	-27.6	915.03	600.38	-26.3	-5
Japan	Nikkei Stock Avg	12025.41	11835.28	12006.53	-108.5	-0.9	-21.6	17458.98	11489.3	-28.7	-3
Japan	Nikkei 300	236.79	233.47	235.94	-3.14	-1.31	-21.6	338.84	223.16	-27.6	-3.4
Europe											
Europe	DJ Stoxx 600	271.32	265.38	271.01	5.35	2.01	-25.7	390.63	256.77	-28.3	-2.5
Europe	DJ Stoxx 50	2766.22	2687.12	2761.75	71.21	2.65	-25	3932.44	2569.45	-27.7	-4.8
Euro zone	DJ Euro Stoxx 50	3208.92	3117.97	3207.11	87.28	2.8	-27.1	4489.79	3000.83	-26.9	-1.3
Euro zone	DJ Euro Stoxx	300.36	293.6	300.18	6.58	2.24	-27.7	432.27	283.39	-28.6	-0.8
Austria	ATX	3131.65	3081.07	3104.61	-19.22	-0.62	-31.2	4871.71	2881.47	-31.7	-2.8
Belgium	Bel-20	2908.67	2852.66	2906.24	40.07	1.4	-29.6	4534.91	2783.91	-32.8	-4.1
Czech Republic	PX 50	1302.7	1277.6	1300.6	17.5	1.36	-28.3	1936.9	1167.6	-28.4	-2.9
Denmark	OMX Copenhagen	363.09	353.87	361.61	2.84	0.79	-19.4	492.84	345.32	-24.3	2.2
Finland	OMX Helsinki	7451.27	7312.33	7428.67	102.28	1.4	-36	12656.77	7120.67	-39.6	-1.4
France	CAC 40	4231.84	4111.27	4226.81	112.27	2.73	-24.7	5862.83	3957.86	-26.3	-1.9
Germany	DAX	6188.43	6049.85	6173.03	120.16	1.99	-23.5	8076.12	5860.98	-21.4	8.1
Hungary	BUX	19136.34	18384.92	19129.73	550.55	2.96	-27.1	28511.38	17464.02	-32.2	-5.4
Italy	S & P/MIB	27573	26803	27573	644	2.39	-28.5	41106	25664	-31.2	-7
Netherlands	AEX	369.35	359.15	369.35	8.73	2.42	-28.4	559.14	351.66	-31.9	-2.2
Norway	All-Shares	412.05	401.96	407.41	-2.78	-0.68	-28.5	603.98	380	-28.9	3.3
Poland	WIG	38400.15	37418.6	38400.15	914.04	2.44	-31	64292.3	36431.54	-37.1	4.9
Portugal	PSI 20	8241.15	8143.14	8235.77	57.29	0.7	-36.7	13323.86	7698.53	-31.3	1.1
Russia	DJ Russia Titans 10	4581.77	4418.57	4498.74	-55.55	-1.22	-41.3	7920.96	3452.34	-37.8	11.3
Russia	RTS Index	1317.08	1284.57	1304.99	-10.44	-0.79	-43	2487.92	1058.84	-36.8	10.6
Spain	IBEX 35	11472.1	11131.4	11438.6	325.7	2.93	-24.7	15945.7	10631.6	-21.6	2.5
Sweden	SX All Share	265.06	258.29	264.94	6.08	2.35	-24.7	407.81	247.59	-32.1	-0.9
Switzerland	Swiss Market	6956.44	6785.6	6945.49	165.15	2.44	-18.1	9218.28	6561.98	-21.8	0.8
Turkey	Istanbul National 100	36382.66	35014.79	36361.84	1184.73	3.37	-34.5	58231.9	32216.43	-33.1	3
U.K.	FTSE 100	5211.6	5060.7	5197.02	101.45	1.99	-19.5	6730.7	4880	-19.9	-1.4
U.K.	FTSE 250	8490.6	8364.6	8434.65	27.29	0.32	-20.9	11666	8279.3	-23.6	2.4
Americas											
Americas	DJ Americas	315.97	307.82	313.48	5.48	1.78	-16.8	399.86	298.18	-19.6	1.7
Argentina	Merval	1717.1	1667.86	1707.98	52.17	3.15	-20.6	2351.44	1491.98	-22.1	1
Brazil	Sao Paulo Bovespa	51866.67	49848.14	51828.46	1985.47	3.98	-18.9	73516.8	45908.51	-15.1	18.3
Canada	S & P/TSX Comp	12601.59	12405.63	12546.51	33.15	0.26	-9.3	15073.13	11877.69	-11.2	4.8
Chile	Santiago IPSA	2809.63	2754.53	2800.58	46.05	1.67	-8.2	3496.18	2427.11	-13.3	9.1
Mexico	IPC All-Share	25657.01	24839.97	25645.5	701.25	2.81	-13.2	32836.12	23456.84	-16	17.9
Venezuela	Caracas General	38590.58	37762.27	38137.75	-435.23	-1.13	0.6	41450.77	34172.43	4.2	22.8
Other Countries											
Egypt	CASE 30	6966.62	6818.66	6945.37	-4.77	-0.07	-34.2	11935.67	6945.37	-19.7	n.a.
Israel	Tel Aviv	897.76	868.59	896.99	19.5	2.22	-26.3	1237.13	842.03	-20.6	n.a.
South Africa	Johannesburg All Share	25108.12	24624.59	24936.43	13.09	0.05	-13.9	33232.89	24092.74	-16.7	15.6

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

Three year percent change is annualized.

Sources: Reuters; WSJ.com

MARKET INDICES	Sep 25	a month ago	a year ago
S&P/TSX Composite	12546.5	13750.48	13997.62
S&P 500	1209.18	1300.68	1517.21
Dow Jones Industrial Average	11022.1	11715.2	13778.7

INTEREST / FX RATES	Sep 26	a month ago (Aug 29)	a year ago
Prime Can (%)	4.75	4.75	6.25
Prime US (%)	5.00	5.00	7.75
30 Day BA Can (%)	3.39429	3.11857	4.873
3 month US T-Bill (%)	0.72	1.73	3.75
3 month Can T-Bill (%)	2.048	2.493	3.972
10yr US Bond (%)	3.814	3.778	4.539
10yr Can Bond (%)	3.66	3.51	4.35
10yr-2yr US Spread (bps)	161	141.90	59.7
10yr-2yr Spread Can (bps)	85	77.00	25.00
US\$/Cdn\$	1.0348	1.0510	0.9967
US\$/Euro	1.4592	1.4698	1.4199
Yen/US\$	105.645	109.47	115.18

INTERNATIONAL INTEREST RATES	Sep 26		
	3 mo LIBOR (%)	Spread vs US (bps)	a wk ago (Spread—bps)
United States	3.76	NA	NA
Canada	4.10	34	59
Euro-zone	5.14	138	179
Switzerland	2.86	-90.7	-41.7
Japan	0.94	-282	-231
Australia	7.71	395	435
	10 Year Bond (%)	Spread vs US (bps)	a wk ago (Spread—bps)
United States	3.81	NA	NA
Canada	3.66	-15.4	-6.6
Euro-zone	4.80	98.5	114.2
Switzerland	2.75	-106.5	-95.9
Japan	1.46	-235.4	-224.8
Australia	5.61	179.9	184.0

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