



Weekly Market Insight

October 2, 2009

NORTH AMERICAN & INTERNATIONAL ECONOMIC HIGHLIGHTS

The most exciting part of any presentation is the Q&A session. It is beneficial not only to the audience but even more so to the presenter. The questions that I get after every presentation enable me to get a better understanding of what's on peoples' mind and what (economically speaking) keeps them up at night. In fact, many of the ideas for new research topics come from the Q&A sessions.

Given that, I thought that it will be a good idea to share on an ongoing basis, in this space, some of the more interesting questions and my attempt to answer them.

Q. What is your favourite letter in the alphabet when it comes to describing the nature of the economic recovery?

A. I am not a big fan of this alphabet soup approach. I think the cost of trying to simplify things too much is much too high. In any case, I think that we are already in a process of a recovery, and while Q3 GDP numbers will not be very impressive, we are already starting the upward trend. The recovery will not be strong enough to bring us back to where we were before the recession. I think that the focus should be on the speed limit of the economy, and I think that given the reduced leverage in the economy and more subdued consumers, this speed limit has been reduced. So we are turning a corner, but it will be a much slower recovery than we have seen in any recovery in the post-war era. Going back to the shape of the recovery, what I see is really a reversed checkmark.

Q. What does it mean for interest rates?

A. The Bank of Canada is telling us that it is planning to keep official rates unchanged until mid-2010. I see no reason not to believe them. In fact, it is very possible that the Bank will sit on its hands for even a longer period. The reason is that the weak recovery in the US, the strong Canadian dollar and still existing high level of capacity in the economy will limit the need to remove liquidity from the market. As well, neither the Bank nor the Fed would like to start raising rates before they are absolutely sure that the recession is over and we are not in a W type situation. After all, show me a central banker that will raise rates when the unemployment rate is still climbing.

As for long-term rates, the situation here is a bit different. While I do not see rates rising in the immediate future, I think that the bond market is very expensive as it reflects no increase in inflation expectations whatsoever. I think that by 2011, we will see some inflation in the system — and you do not need more than 3% inflation in the US to damage the bond market and lead to higher long-term rates. And any increases in rates in the US will clearly impact the Canadian bond market. So look for long-term rates to start rising in early to mid-2010.

Q. *When rates rise, what kind of magnitude are we talking about?*

A. Roughly 200-250 basis points over the course of the next 2 years or so.

More Q&As next week...

Benjamin Tal
Senior Economist

Market Snapshot

US	Current*	yesterday*	a week ago*	a month ago*	a year ago
TED SPREAD (bps)	21	21	20	19	383
10Y / 2Y SPREAD (bps)	229	234	239	247	202
2Y SWAP SPREAD (bps)	34	34	30	36	151
3M T-Bill (%)	0.07	0.07	0.08	0.12	0.50
LIBOR 1 MONTH (%)	0.24	0.25	0.25	0.25	4.11
LIBOR 3 MONTH (%)	0.28	0.28	0.28	0.31	4.33
2-YR BOND (%)	0.85	0.90	0.97	0.90	1.58
5-YR BOND (%)	2.15	2.23	2.38	2.30	2.63
10-YR BOND (%)	3.14	3.24	3.36	3.37	3.60
A Rated / 10Y TREASURY (bps)	189	195	190	199	313
B Rated / 10Y TREASURY (bps)	616	615	630	674	677
BB Rated / 10Y TREASURY (bps)	500	500	501	534	558
CANADA					
PRIME / BA SPREAD (bps)	185	185	185	185	113
CDOR 3 MONTH (%)	0.50	0.50	0.50	0.50	4.20
CDOR 3 MONTH / 3M T-BILL SPREAD (bps)	28	28	26	29	300
10Y / 2Y SPREAD (bps)	208	205	210	210	106
2-YR BOND (%)	1.17	1.24	1.29	1.28	2.52
5-YR BOND (%)	2.49	2.55	2.64	2.61	2.95
10-YR BOND (%)	3.24	3.29	3.39	3.37	3.59
A Rated / 10Y TREASURY (bps)	134	133	128	122	194
BBB Rated / 10Y TREASURY (bps)	205	205	200	186	278
CAN Sovereign Agency / 10Y TREASURY (bps)	47	49	50	47	84
Provincial / 10Y TREASURY (bps)					
ALTA	82	81	79	86	98
BC	87	89	88	90	101
MAN	76	80	80	82	104
NB	76	81	81	86	103
PEI	111	112	113	119	111
NFLD	110	112	112	116	118
ONT	91	93	94	99	109
QUE	97	99	100	104	116
SASK	81	85	85	89	106
NS	95	98	97	104	119
COMMODITIES					
WTI CRUDE FUTURE (US\$ / bbl.)	69.0	70.9	66.1	67.7	93.9
NATURAL GAS (US\$ / MMBtu)	4.5	4.5	3.8	2.6	7.4
SILVER (US\$ / t oz.)	16.1	16.7	16.2	16.0	11.3
GOLD (US\$ / t oz.)	995.0	1003.0	991.4	989.3	828.9
WHEAT (US¢ / bu.)	447.8	451.8	466.8	451.3	640.3
SOYBEANS (US¢ / bu.)	910.0	930.8	927.3	983.8	992.0
SUGAR (US¢ / lb.)	23.6	24.8	21.7	21.6	12.6
CORN (US¢ / bu.)	337.5	345.8	335.8	308.0	454.0
FX					
C\$ / US\$	1.089	1.073	1.089	1.090	1.083
US\$ / EURO	1.456	1.455	1.471	1.423	1.377
C\$ / EURO	1.585	1.561	1.601	1.552	1.491
YEN / US\$	88.940	89.544	89.595	92.870	105.320
US\$ / BRITISH POUND	1.587	1.600	1.601	1.634	1.771
SWISS FRANCS / US\$	1.038	1.042	1.026	1.066	1.128

* As of 11:00 a.m.

Note: Data is for reference only.

International Stock Indexes

Thursday, October 01, 2009

Index (Regiona/Country)	DAILY					52 WEEK				3-yr % chg	
	High	Low	Close	Chg	% Chg - +	YTD % chg	High	Low	% Chg		
Global											
The Global Dow (World)	1896.12	1851.4	1854.92	-39.67	-2.09	21.5	1959.26	1139.9	-5.3	-1.1	
The Global Dow (Euro) (World)	1228.43	1199.46	1199.46	-21	-1.72	16	1336.6	849.42	-10.3	-5.6	
DJ Global Index (World)	218.01	213	213.51	-4.29	-1.97	24.2	220.76	130.29	-0.2	-5.8	
DJ Global ex U.S. (World)	195.02	191.09	191.79	-2.91	-1.49	30.7	197.69	111.8	4.5	-4.5	
MSCI EAFE* (World)	n.a.	n.a.	1524.76	-28.08	-1.81	23.2	1580.58	911.39	-0.2	-6.8	
Asia Pacific											
DJ Asia-Pacific (Asia-Pacific)	120.74	119.22	119.58	-1.14	-0.94	27.8	121.42	73.76	8.4	-4.1	
All Ordinaries (Australia)	4752.8	4698	4702	-37.3	-0.79	28.5	4774.1	3111.7	-1.5	-2.8	
S & P/ASX 200 (Australia)	4757.7	4696.9	4701.1	-42.5	-0.9	26.3	4761.1	3145.5	-1.3	-3	
DJ CBN China 600 (China)	24268.25	23776.49	24032.93	...		Closed	62.8	29890.92	12886.57	35.2	27.6
Dow Jones China 88 (China)	260.65	255.9	258.4	...		Closed	57.9	327.69	149.53	26	28.2
Shanghai Composite (China)	2803.86	2763.71	2779.43	...		Closed	52.6	3471.44	1706.7	21.2	16.6
Hang Seng (Hong Kong)	21090.49	20792.98	20955.25	...		Closed	45.6	21768.51	11015.84	15.1	6.1
Bombay Sensex (India)	17195.61	17059.36	17134.55	7.71	0.05	77.6	17134.55	8160.4	31.2	11.2	
Jakarta Composite (Indonesia)	2484.68	2467.64	2477.97	10.38	0.42	82.8	2477.97	1111.39	35.2	17.3	
Nikkei 300 (Japan)	182.26	180.02	180.4	-2.48	-1.36	3.1	220.62	140.76	-18.2	-17.2	
Nikkei Stock Avg (Japan)	10077.22	9965.06	9978.64	-154.59	-1.53	12.6	11154.76	7054.98	-10.5	-14.8	
Topix Index (Japan)	906.21	894.08	896.12	-13.72	-1.51	4.3	1076.97	700.93	-16.8	-17.8	
Kuala Lumpur Composite (Malaysia)	1210.49	1202.4	1208.35	6.27	0.52	37.8	1221.2	829.41	18.6	7.7	
NZSX-50 (New Zealand)	3186.04	3159.76	3183.86	22.8	0.72	17.2	3232.64	2417.95	-1.5	-3.9	
KSE 100 (Pakistan)	9489.22	9292.73	9301.18	-48.49	-0.52	58.6	9713.83	4815.34	1.3	-4	
Manila Composite (Philippines)	2832.29	2794.54	2829.02	28.2	1.01	51.1	2886.96	1704.41	8.3	n.a.	
Straits Times (Singapore)	2665.5	2649.55	2657.44	-15.13	-0.57	50.9	2685.94	1456.95	12.4	1.8	
Kospi (South Korea)	1685.01	1629.55	1644.63	-28.51	-1.7	46.3	1718.88	938.75	15.8	6.2	
Colombo Stock Exchange (Sri Lanka)	3007.75	2936.81	2997.6	58.96	2.01	99.4	2997.6	1484.53	39.5	7.9	
Weighted (Taiwan)	7599.62	7492.62	7545.29	36.12	0.48	64.3	7545.29	4089.93	32.3	3.1	
SET (Thailand)	729.36	718.61	726.91	9.84	1.37	61.5	730.52	384.15	21.6	1.9	
Europe											
DJ Stoxx 600 (Europe)	244.22	238.62	238.62	-3.85	-1.59	21.2	261.43	157.97	-6.1	-11.3	
DJ Stoxx 50 (Europe)	2470.23	2411.32	2411.32	-42.57	-1.73	16.7	2726.67	1614.75	-8.3	-12.1	
DJ Euro Stoxx 50 (Euro zone)	2892.97	2810.15	2810.46	-62.17	-2.16	14.6	3113.82	1809.98	-6.6	-10.3	
DJ Euro Stoxx (Euro zone)	271.14	264.02	264.03	-5.11	-1.9	18.5	286.8	169.38	-5.4	-10.5	
ATX (Austria)	2669.59	2573.52	2578.27	-59.01	-2.24	47.3	2816.55	1411.95	-2.5	-12.7	
Bel-20 (Belgium)	2497.44	2451.37	2451.37	-34.25	-1.38	28.4	2757.01	1527.27	-10.6	-15.6	
PX 50 (Czech Republic)	1173.7	1152.9	1152.9	-4.2	-0.36	34.3	1223.7	628.5	-5.8	-7.3	
OMX Copenhagen (Denmark)	315.71	309.54	311.43	-3.1	-0.99	37.7	326.85	193.26	-1.7	-6.4	
OMX Helsinki (Finland)	6399.68	6255.03	6255.53	-113.29	-1.78	15.8	6941.5	4110.31	-8	-10.9	
CAC 40 (France)	3821.42	3720.22	3720.77	-74.64	-1.97	15.6	4080.75	2519.29	-6.1	-10.8	
DAX (Germany)	5726.97	5554.25	5554.55	-120.61	-2.13	15.5	5797.03	3666.41	-1.9	-2.6	
BUX (Hungary)	20430.48	20185.12	20317.04	90.76	0.45	66	20865.34	9461.29	6.9	-2.3	
FTSE MIB (Italy)	23673.78	23035.19	23053.51	-419.22	-1.79	18.5	25911	12621	-8.7	-15.7	
AEX (Netherlands)	313.67	305.5	305.74	-5.61	-1.8	24.3	344.02	199.25	-7.6	-14.2	
All-Shares (Norway)	373.74	364.64	365.3	-5.53	-1.49	35.2	376.01	232.29	5.7	-5	
WIG (Poland)	38190.39	37758.82	38190.39	610.07	1.62	40.3	39185.36	21274.28	2.7	-4.7	
PSI 20 (Portugal)	8554.78	8472.11	8472.11	-2.84	-0.03	33.6	8474.95	5743.09	8.2	-6.3	
DJ Russia Titans 10 (Russia)	5015.07	4819.18	4940.05	100.09	2.07	83	5132.01	2216.22	23.7	-2.9	
RTS Index (Russia)	1269.59	1254.52	1266.85	12.33	0.98	100.5	1266.85	498.2	9.9	-6.5	
IBEX 35 (Spain)	11851.1	11511.4	11518.2	-237.9	-2.02	25.3	11891.2	6817.4	4.7	-3.8	
SX All Share (Sweden)	282.07	274.55	274.86	-5.54	-1.98	34.6	287.39	176.54	13.1	-6.3	
Swiss Market (Switzerland)	6367.17	6240.38	6255.17	-68.01	-1.08	13	6879.82	4307.67	-7.1	-9.5	
Istanbul National 100 (Turkey)	48432.01	47611.28	47804.39	-105.91	-0.22	77.9	48364.83	21228.27	32.6	9	
FTSE 100 (U.K.)	5164.4	5044	5047.81	-86.09	-1.68	13.8	5172.9	3512.1	3.6	-5.4	
FTSE 250 (U.K.)	9195.42	9064.28	9064.28	-78.03	-0.85	42.5	9364.08	5491.46	13.8	-3.2	
Americas											
DJ Americas (Americas)	280.06	272.08	272.6	-7.26	-2.59	20.6	283.75	172.41	-3.9	-6.1	
Merval (Argentina)	2078.09	2017.31	2022.79	-52.35	-2.52	87.4	2075.14	828.99	33	7.3	
Sao Paulo Bovespa (Brazil)	61518.95	60305.66	60459.33	-1058.56	-1.72	61	61517.89	29435.11	31	18.4	
S & P/TSX Comp (Canada)	11394.96	11070.69	11071.76	-323.2	-2.84	23.2	11585.73	7566.94	1.6	-2	
Santiago IPSA (Chile)	3375.47	3350.52	3352.25	-20.62	-0.61	41.1	3372.87	2101.1	25.6	13.7	
IPC All-Share (Mexico)	29236.58	28248.92	28588.26	-643.98	-2.2	27.7	30017.72	16868.66	19	9.2	
Caracas General (Venezuela)	51069.38	50310.2	51002.36	665.35	1.32	46	54110.86	33894.41	34.6	13	
Other Countries											
CASE 30 (Egypt)	6817	6760.26	6789.83	28.1	0.42	47.7	7059.16	3389.31	-3.8	n.a.	
Tel Aviv (Israel)	1019.18	1007.46	1009.5	14.23	1.43	54.2	1015.95	592.07	19.2	n.a.	
Johannesburg All Share (South Africa)	25215.95	24848.26	24966.87	56.02	0.22	16.1	25920.77	17814.42	10.7	3.7	

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

Three year percent change is annualized.

Sources: Reuters; WSJ.com

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