



Weekly Market Insight

December 21, 2007

NORTH AMERICAN & INTERNATIONAL ECONOMIC HIGHLIGHTS

The Fed is facing a dilemma. Today's numbers on personal income and spending were relatively strong—clearly inconsistent with any recessionary scenario that the market is toying with. And even more problematic for the Fed is that the inflation numbers continue to trend upward—limiting the Fed's maneuvering room.

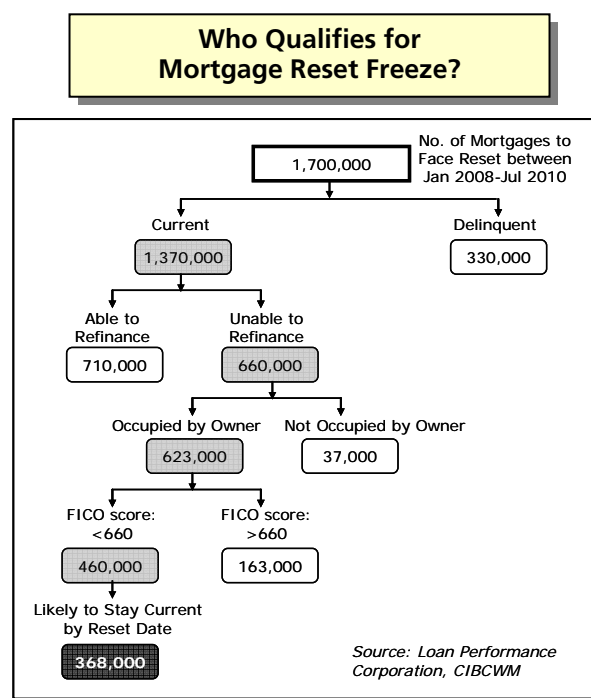
But if the Fed moves again (and we believe it will) the main trigger would be the credit crunch and its potential implications for the economy in general, and the financial system in particular. On this front, the first \$20 billion of term auction facility (TAF) provided by the Fed this week—giving 8,000 depository institutions access to fresh liquidity without the stigma of having to use the Fed's discount window—were well received, with the final rate on the auction ending up higher than anticipated. This means that financial institutions are eager to get this money. Another \$20 billion auction will take place in January 2008.

But injection of funds is not the ultimate solution. The crisis is not really of liquidity, but mainly of trust among financial institutions with regard to potential exposure to subprime credit. To clear this problem, the market needs more than just cash. It needs information. And this information can be obtained only when there is a clear sense of the market price of those subprime-linked securities. In this context, the TAF system can provide some sense of the market value of this securities since under the TAF mechanism, the Fed can accept as a collateral some subprime backed assets—and for that you need to establish the value of this securities—a value that can be used by the market as a benchmark. So the TAF system might provide more than liquidity. It potentially can start a process of providing the market with some badly needed information.

President Bush's plan to freeze interest rate reset on subprime borrowers is not a bad idea and it should help a significant enough number of borrowers to make some difference. We estimate that roughly 370,000 borrowers will be able to avoid reset between January 2008 and July 2010—that's not bad (Chart).

In Canada, things are clearly slowing but not at an alarming pace. The economy is roughly half a percentage point below its speed limit—more or less where the Bank of Canada wants it to be given the inflation environment. However, we still expect the Bank to cut again in January 2008—just to provide additional liquidity to the market.

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International Stock Indexes

Thursday, December 20, 2007

Region/Country	Index	DAILY					52 WEEK				3-yr % chg
		High	Low	Close	Chg	% Chg - +	YTD % chg	High	Low	% Chg	
World											
World	DJ World Index	294.73	293.02	294.21	0.68	0.23	6	320.33	270.72	6.5	12
World	DJ World ex U.S.	263.41	261.79	262.4	-0.14	-0.05	8	291.11	236.95	8.7	16
World	MSCI EAFE*	n.a.	n.a.	2180.14	0.15	0.01	5.1	2388.74	2030	5.7	13.8
Asia Pacific											
Asia-Pacific	DJ Asia-Pacific	153.41	151.96	152.24	-0.31	-0.2	4.2	172.49	142.06	5.1	13.6
Australia	All Ordinaries	6301	6244.8	6244.8	-36	-0.57	10.6	6853.6	5484.5	12.3	16
Australia	S & P/ASX 200	6236.8	6176.9	6176.9	-39.5	-0.64	8.9	6828.7	5502	10.6	15.7
China	DJ CBN China 600	39063.17	38287.76	38985.24	642.02	1.67	150	44631.83	14729.41	162.7	55.9
China	Dow Jones China 88	450.71	439.33	449.5	8.62	1.96	138.5	530.54	172.06	159.6	59.2
China	Shanghai Composite	5050.79	4923.3	5043.54	101.75	2.06	88.5	6092.06	2342.94	115.3	n.a.
Hong Kong	Hang Seng	27203.89	26957.65	27017.09	-12.17	-0.05	35.3	31638.22	18664.88	40.5	23.9
India	Bombay Sensex	19291.14	19097.7	19162.57	70.61	0.37	39	20375.87	12415.04	43.2	44.1
Indonesia	Jakarta Composite	2672.19	2643.31	2657.98	...	Closed	47.2	2810.96	1678.04	48.6	40.1
Malaysia	Kuala Lumpur Composite	1396.88	1387.21	1387.21	...	Closed	26.5	1440.39	1076.68	28.8	15.1
New Zealand	NZSX-50	3958.79	3939.73	3947.56	7.82	0.2	-2.7	4333.24	3894.34	-2	10.1
Pakistan	KSE 100	14676.56	14461.94	14660.37	...	Closed	46	14787.55	9893.99	47.7	35.8
Philippines	Manila Composite	3491.96	3467.14	3491.96	25.68	0.74	17.1	3873.5	2858.31	22	25
Singapore	Straits Times	3410.99	3357.34	3357.34	...	Closed	12.4	3875.77	2920.84	14.9	17.8
South Korea	Kospi	1882.61	1843.73	1844.37	-17.1	-0.92	28.6	2064.85	1355.79	28.4	27.8
Sri Lanka	Colombo Stock Exchange	2522.45	2506.28	2510.03	3.75	0.15	-7.8	3016.42	2354.98	-7.6	17.7
Taiwan	Weighted	8048	7840.71	7857.08	-157.23	-1.96	0.4	9809.88	7344.56	3.1	9.5
Thailand	SET	807.38	790.87	791.71	-13.27	-1.65	16.5	915.03	616.75	17.1	5.4
Japan	Nikkei Stock Avg	15161.66	15017.97	15031.6	1.09	0.01	-12.7	18261.98	14837.66	-11.8	10.6
Japan	Nikkei 300	298.98	296.54	296.84	0.81	0.27	-11.8	363.32	291.59	-11.1	11.4
Europe											
Europe	DJ Stoxx 600	361.75	358.75	359.46	0.72	0.2	-1.6	400.31	349.18	-1.3	12.8
Europe	DJ Stoxx 50	3668.55	3633.23	3644.53	10.13	0.28	-1.4	3998.93	3504.87	-1.4	9.6
Euro zone	DJ Euro Stoxx 50	4342.41	4303.45	4314.7	13.36	0.31	4.7	4557.57	3906.15	4.9	14.1
Euro zone	DJ Euro Stoxx	409.57	406.43	407.15	1.01	0.25	2.9	442.87	382.23	3.3	15.6
Austria	ATX	4440.24	4398.05	4423.9	10.39	0.24	-0.9	4981.87	4171.9	-0.1	22.5
Belgium	Bel-20	4080.19	4040.86	4057.92	19	0.47	-7.5	4756.82	3882.37	-7.1	11.6
Czech Republic	PX 50	1797.2	1783.7	1794.6	11.8	0.66	12.9	1936.9	1565.3	13.2	21.1
Denmark	OMX Copenhagen	444.76	441.02	443.75	2.51	0.57	4.6	492.84	417.98	6.2	20.8
Finland	OMX Helsinki	11357.76	11226.67	11326.33	93.63	0.83	17.7	12656.77	9327.57	18.5	22.6
France	CAC 40	5549.52	5493.75	5511.45	14.03	0.26	-0.5	6168.15	5265.47	unch.	13.6
Germany	DAX	7919.05	7842.17	7869.19	31.87	0.41	19.3	8105.69	6447.7	19.7	23.2
Hungary	BUX	25728.7	25355.63	25550.47	-156.66	-0.61	2.8	30118.12	22522.37	4.6	20
Italy	S & P/MIB	38196	37858	37866	-126	-0.33	-8.6	44364	37358	-8.3	7.5
Netherlands	AEX	508.3	503.93	506.79	4.16	0.83	2.3	561.9	473.38	2.5	13.9
Norway	All-Shares	549.01	544.55	544.58	-1	-0.18	8.4	605.05	482.34	10.3	30.5
Poland	WIG	55451.57	54962.76	55309.84	249.07	0.45	9.7	67568.51	49264.41	10.1	27.8
Portugal	PSI 20	13049.23	12902.88	12936.79	-77.72	-0.6	15.5	13702.03	11085.29	16.3	19.5
Russia	DJ Russia Titans 10	7743.8	7623.96	7743.8	120.63	1.58	16.1	7920.96	6035.72	20.7	62.8
Russia	RTS Index	2283.95	2265.33	2283.28	18.33	0.81	18.8	2359.85	1724.69	22.5	n.a.
Spain	IBEX 35	15271.8	15107.4	15140.2	-36.9	-0.24	7	15945.7	13602.4	7	19.4
Sweden	SX All Share	348.85	344.42	344.55	-1.44	-0.42	-8	427.24	338.99	-7	15.2
Switzerland	Swiss Market	8483.82	8369.23	8402.84	7.88	0.09	-4.4	9531.46	8125.42	-4.2	14.1
Turkey	Istanbul National 100	54223.58	53584.26	53847.36	...	Closed	37.7	58231.9	36629.89	37.8	30.3
U.K.	FTSE 100	6367.7	6284.5	6345.6	61.1	0.97	2	6732.4	5858.9	2.6	10.3
U.K.	FTSE 250	10401.4	10231.9	10397.2	165.3	1.62	-7	12220.2	10140.4	-6	15.3
Americas											
Americas	DJ Americas	373.56	370.05	373.4	2.21	0.6	6.2	399.86	342.11	6.4	9.5
Argentina	Merval	2140.31	2119.52	2140.31	10.19	0.48	2.4	2351.44	1833.71	4.2	17.9
Brazil	Sao Paulo Bovespa	62466.67	61416.21	61716.2	-5.51	-0.01	38.8	65790.8	41179.16	42.3	34.2
Canada	S & P/TSX Comp	13468.36	13350.24	13407.01	17.19	0.13	3.9	14625.76	12457.55	5.3	13.5
Chile	Santiago IPSA	3041.42	2952.87	3031.5	79.5	2.69	12.6	3499.5	2689.19	12.5	19
Mexico	IPC All-Share	29200.92	29011.65	29148.45	74.33	0.26	10.2	32836.12	25432.64	14.1	32.6
Venezuela	Caracas General	36928.73	36611.85	36928.73	387.07	1.06	-29.3	62012.71	36002.59	-23	7.7
Other Countries											
Egypt	CASE 30	10256.05	10167.97	10253.45	...	Closed	47	10253.45	6545.14	50.6	n.a.
Israel	Tel Aviv	1200.9	1188.1	1198.73	10.05	0.85	29.4	1237.13	909.61	26.6	25.5
South Africa	Johannesburg All Share	28540.06	28112.89	28460.9	348.01	1.24	14.2	31531.05	24201.02	14.6	31.7

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

Three year percent change is annualized.

Sources: Reuters; WSJ.com

MARKET INDICES	Dec 20	a month ago	a year ago
S&P/TSX Composite	13407.01	13459.77	12782.99
S&P 500	1460.12	1439.70	1423.53
Dow Jones Industrial Average	13245.64	13010.1	12463.9

INTEREST / FX RATES	Dec 21	a month ago
Prime Can (%)	6.00	6.25
Prime US (%)	7.25	7.50
30 Day BA Can (%)	4.603	4.659
3 month US T-Bill (%)	2.89	3.15
3 month Can T-Bill (%)	3.877	3.968
10yr US Bond (%)	4.068	4.024
10yr Can Bond (%)	4.00	4.01
10yr-2yr US Spread (bps)	97.70	97.10
10yr-2yr Spread Can (bps)	20.00	42.00
Cdn\$/US\$	0.9959	0.9898
US\$/Euro	1.4383	1.4800
Yen/US\$	113.7530	107.9250

INTERNATIONAL INTEREST RATES	Dec 21		
	3 mo LIBOR (%)	Spread vs US (bps)	a wk ago (Spread—bps)
United States	4.86	NA	NA
Canada	4.87	1	1
Euro-zone	4.78	-8	-2
Switzerland	2.77	-209	-218
Japan	0.97	-389	-393
Australia	7.29	243	234
	10 Year Bond (%)	Spread vs US (bps)	a wk ago (Spread—bps)
United States	4.07	NA	NA
Canada	4.00	-6.8	-6.2
Euro-zone	4.70	63.7	49.1
Switzerland	2.99	-107.7	-121.1
Japan	1.56	-250.8	-266.7
Australia	6.25	218.3	204.4

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