



Weekly Market Insight

October 17, 2008

NORTH AMERICAN & INTERNATIONAL ECONOMIC HIGHLIGHTS

By now there is little doubt that the current financial crisis is the worst we have seen since 1929. And it's not over yet. But there are already a few signs that suggest we are closer to the end of the crisis than at the beginning.

First, US house prices—the trigger of the current crises—are still falling, but the pace of the decline is moderating. Earlier in the year house prices in the US were falling by more than 2% a month. Today they are falling by 0.5% a month. And at this rate, US real estate prices will stop falling altogether by early next year. That realization will provide the market with the necessary injection of confidence that the housing crisis is indeed about to reach bottom.

Second, what distinguishes the current situation from previous crisis is the speed and determination at which policy makers have been reacting to ease the credit crunch. The policy steps taken since early September were designed to achieve three key goals: to shore up capital position of financial institutions; to provide liquidity to money markets; and to support business and household confidence in the financial system. By far the most significant step was that the US Treasury will use \$250 billion of the \$700 billion authorized in the Trouble Asset Relief Program (TARP) legislation to take equity stakes in the nation's banking sector. This should notably improve banks' ability to borrow from each other and extend credit to households and businesses.

While each of these policy steps is a necessary condition for an eventual recovery, none of them is a sufficient condition. Along with potentially addition cuts in interest rates, the cumulative effect of those policy steps should pave the way for a noticeable easing in credit spreads. But they will fall short of pulling the economy out of a recessionary territory. In fact, slowly the market's focus will shift from subprime related losses to the real economy. And for the next six months, the economy will provide soft numbers.

To be sure, the next six months will be difficult. The economies in both the US and Canada are probably in recession, and we probably will not see a sustainable recovery before mid-2009. However, current market valuations and credit spreads price in even a more severe scenario. To the extent that policy steps to date will work to stop the bleeding in the credit market, the recession might end up being milder than currently discounted by the market. In such a case, look for some recovery in equity markets at one point in early to mid-2009.

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International Stock Indexes

Thursday, October 16, 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	178.24	166.8	174.78	-3.46	-1.94	-41.9	320.33	170.72	-44.4	-7.2
World	DJ World ex U.S.	156.09	143.78	145.46	-10.62	-6.8	-46.5	291.11	144.91	-48.7	-7.3
World	MSCI EAFE*	n.a.	n.a.	1218.069	-92.769	-7.08	-45.9	2388.74	1209.71	-47.9	-8.2
Asia Pacific											
Asia-Pacific	DJ Asia-Pacific	99.32	89.51	89.81	-8.57	-8.71	-43.2	172.49	88.88	-46.5	-8.6
Australia	All Ordinaries	4206.6	3973.2	3988.1	-284.4	-6.66	-37.9	6853.6	3939.5	-41.2	-3
Australia	S & P/ASX 200	4225.1	3995.2	4013.4	-286.6	-6.67	-36.7	6828.7	3960.7	-40.7	-3.1
China	DJ CBN China 600	15219.8	14459.81	14469.85	-750.6	-4.93	-65.1	44607.91	14469.85	-66.2	18
China	Dow Jones China 88	176.16	167.73	168.01	-8.24	-4.68	-64.4	524.32	168.01	-66.8	20.2
China	Shanghai Composite	1943.32	1901.503	1909.941	-84.726	-4.25	-63.7	5954.765	1895.837	-67.2	n.a.
Hong Kong	Hang Seng	15230.52	14578.54	15230.52	-767.78	-4.8	-45.2	31638.22	14796.87	-48.3	1.7
India	Bombay Sensex	10787.2	10017.8	10581.49	-227.63	-2.11	-47.8	20873.33	10527.85	-41.2	8.9
Indonesia	Jakarta Composite	1477.57	1439.21	1463.25	-57.16	-3.76	-46.7	2830.26	1451.67	-44.1	10.1
Malaysia	Kuala Lumpur Composite	932.4	912.11	920.02	-29.86	-3.14	-36.3	1516.22	920.02	-33.2	-0.2
New Zealand	NZSX-50	2904.64	2759.22	2764.69	-139.95	-4.82	-31.6	4316.31	2764.69	-35.9	-6.2
Pakistan	KSE 100	9184.24	9184.24	9184.24	...	unch.	-34.8	15676.34	9144.93	-37.8	1.2
Philippines	Manila Composite	2173.59	2115.89	2122.37	-116.04	-5.18	-41.4	3819.75	2097.8	-43.7	2.8
Singapore	Straits Times	1965.99	1902.28	1951.2	-108.19	-5.25	-43.7	3785.75	1948.33	-48.3	-4.2
South Korea	Kospi	1265.85	1205.14	1213.78	-126.5	-9.44	-36	2064.85	1213.78	-39.5	0.7
Sri Lanka	Colombo Stock Exchange	2028.98	1985.79	1985.79	-41.72	-2.06	-21.8	2681.27	1924.69	-24.4	-7.2
Taiwan	Weighted	5085.97	5069.07	5075.97	-170.29	-3.25	-40.3	9809.88	5020.44	-47.3	-5.3
Thailand	SET	477.73	456.96	477.73	-3.77	-0.78	-44.3	915.03	451.96	-45.5	-12
Japan	Nikkei Stock Avg	9400.85	8458.45	8458.45	-1089.02	-11.41	-44.7	17106.09	8276.43	-50.6	-14.3
Japan	Nikkei 300	192.11	175.93	176.06	-19.04	-9.76	-41.5	331.04	171.69	-46.1	-13.3
Europe											
Europe	DJ Stoxx 600	216.07	203.18	206.4	-10.77	-4.96	-43.4	388.43	205.13	-46.2	-10.6
Europe	DJ Stoxx 50	2247.83	2098.43	2137.39	-112.12	-4.98	-42	3885.12	2094.5	-44.5	-12.4
Euro zone	DJ Euro Stoxx 50	2571.37	2378.73	2423.8	-154.26	-5.98	-44.9	4489.79	2421.87	-45.2	-10.2
Euro zone	DJ Euro Stoxx	237.11	221.54	225.38	-13.06	-5.48	-45.7	432.1	224.39	-47.1	-9.8
Austria	ATX	2270.2	2046.09	2080.62	-189.58	-8.35	-53.9	4871.71	2002.05	-56.6	-13.4
Belgium	Bel-20	2044.59	1921.04	1946.38	-136.21	-6.54	-52.8	4457.78	1946.38	-56.3	-16.2
Czech Republic	PX 50	959.3	918.2	938.5	-60.3	-6.04	-48.3	1936.9	888.5	-50.2	-10.9
Denmark	OMX Copenhagen	278.13	263.55	265.8	-12.33	-4.43	-40.8	486.55	256.73	-44.3	-6.8
Finland	OMX Helsinki	6117.35	5683.84	5792.54	-246.58	-4.08	-50.1	12656.77	5792.54	-52.3	-8.5
France	CAC 40	3354.39	3115.89	3181	-200.07	-5.92	-43.3	5847.95	3176.49	-44.8	-10.8
Germany	DAX	4890.78	4521.91	4622.81	-238.82	-4.91	-42.7	8076.12	4544.31	-41.6	-2.4
Hungary	BUX	13953.92	13022.93	13239.39	-1244.71	-8.59	-49.5	27772.48	13239.39	-52.3	-13.4
Italy	S & P/MIB	22114	20516	20714	-1507	-6.78	-46.3	40512	20309	-48.1	-14.6
Netherlands	AEX	262.21	244.72	248.04	-14.96	-5.69	-51.9	551.53	248.04	-55	-14.3
Norway	All-Shares	293.89	273.17	273.26	-20.63	-7.02	-52.1	603.98	273.26	-52.4	-6.2
Poland	WIG	30180.42	29569.2	30047.39	-949.92	-3.06	-46	63836.9	30047.39	-52	-1.7
Portugal	PSI 20	6954.46	6474.65	6652.89	-355.97	-5.08	-48.9	13323.86	6281.03	-48	-6.1
Russia	DJ Russia Titans 10	2876.36	2589.26	2660.1	-241.64	-8.33	-65.3	7920.96	2560.13	-63.8	-4
Russia	RTS Index	787.54	706.87	713.9	-75.08	-9.52	-68.8	2487.92	713.9	-66.6	-7.8
Spain	IBEX 35	9700	9146.6	9308.2	-398.6	-4.11	-38.7	15945.7	8997.7	-40	-4.3
Sweden	SX All Share	209.89	196.66	199.69	-7.02	-3.4	-43.2	385.93	196.74	-48.3	-9.9
Switzerland	Swiss Market	5959.24	5613.1	5718.53	-192.64	-3.26	-32.6	9027.48	5347.22	-36.7	-5.9
Turkey	Istanbul National 100	28185.89	27011.77	27600.71	-1843	-6.26	-50.3	57615.72	27600.71	-50.9	-4.3
U.K.	FTSE 100	4079.59	3808.11	3861.39	-218.2	-5.35	-40.2	6721.6	3861.39	-41.6	-9.9
U.K.	FTSE 250	6707.27	6257.03	6342.71	-364.41	-5.43	-40.5	11666	6342.7	-44.4	-6
Americas											
Americas	DJ Americas	237.48	217.4	236.71	7.97	3.48	-37.2	399.58	226.56	-40.1	-6.5
Argentina	Merval	1192.04	1141.02	1185.92	0.19	0.02	-44.9	2351.44	1185.73	-47.8	-9.6
Brazil	Sao Paulo Bovespa	37393.5	33752.08	36441.72	-391.3	-1.06	-43	73516.8	35609.54	-42.4	7
Canada	S & P/TSX Comp	9430.61	8761.02	9269.97	-53.88	-0.58	-33	15073.13	9065.16	-35.3	-4
Chile	Santiago IPSA	2437.03	2349.62	2396.24	-35.5	-1.46	-21.5	3496.18	2101.1	-30.4	4
Mexico	IPC All-Share	21347.93	20032.25	20457.93	-677.49	-3.21	-30.7	32836.12	19905.27	-37.7	11.2
Venezuela	Caracas General	36616.07	35893.76	36105.61	-255.85	-0.7	-4.7	41450.77	34172.43	-5.1	22.5
Other Countries											
Egypt	CASE 30	5972.59	5709.71	5792.01	-180.58	-3.02	-45.1	11935.67	5478.55	-35.4	n.a.
Israel	Tel Aviv	757.4	734.99	751.04	-22.03	-2.85	-38.3	1237.13	751.04	-36.9	0.2
South Africa	Johannesburg All Share	20796.81	19932.08	20095.96	-475.91	-2.31	-30.6	33232.89	20095.96	-35.2	8.7

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

Three year percent change is annualized.

Sources: Reuters; WSJ.com

MARKET INDICES	Oct 16	a month ago	a year ago
S&P/TSX Composite	9269.97	12227.0	14153.03
S&P 500	946.43	1213.59	1538.53
Dow Jones Industrial Average	8979.26	11059.0	13912.9

INTEREST / FX RATES	Oct 17	a month ago	a year ago
Prime Can (%)	4.25	4.75	6.25
Prime US (%)	4.50	5.00	7.75
30 Day BA Can (%)	3.00857	3.16857	4.84
3 month US T-Bill (%)	0.60	0.08	3.89
3 month Can T-Bill (%)	1.709	1.4	3.889
10yr US Bond (%)	3.972	3.726	4.452
10yr Can Bond (%)	3.73	3.66	4.35
10yr-2yr US Spread (bps)	233.30	162.4	59.70
10yr-2yr Spread Can (bps)	145.00	83	16.00
US\$/Cdn\$	0.8478	1.0642	0.9658
US\$/Euro	1.3472	1.4236	1.4265
Yen/US\$	101.5387	107.5325	115.1400

INTERNATIONAL INTEREST RATES	Oct 17		
	3 mo LIBOR (%)	Spread vs US (bps)	a wk ago (Spread—bps)
United States	4.42	NA	NA
Canada	3.84	-58	-102
Euro-zone	5.02	60	55
Switzerland	3.09	-132.9	-169.2
Japan	1.06	-336	-374
Australia	7.09	267	268
	10 Year Bond (%)	Spread vs US (bps)	a wk ago (Spread—bps)
United States	3.97	NA	NA
Canada	3.73	-24.2	-13.2
Euro-zone	4.60	62.9	75.3
Switzerland	2.97	-100.3	-113.6
Japan	1.58	-239.3	-236.3
Australia	5.35	138.0	125.7

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