



Weekly Market Insight

February 6, 2009

NORTH AMERICAN & INTERNATIONAL ECONOMIC HIGHLIGHTS

After being an island of stability for most of 2008, the Canadian labour market is now softening rapidly. Overall employment declined by a dazzling 129,000 jobs in January, More than three times of market expectations. Note that this drop in employment exceeds any monthly decline during the previous economic downturns of the 1980s and 1990s and brings the amount of job losses for the last three months to 213,000 — the worst performance on record. At the same time, the unemployment rate surged to 7.2% from 6.6%. Most of the job losses came from the goods-producing industries and the three largest provinces accounted for the entire employment decrease.

The employment numbers from the US are not much better. Payrolls fell by 598,000 in January, the largest loss since December 1974. Losses for the previous two months were revised upward, to 577,000 and 597,000. To put things in perspective, the economy lost 1.8 million jobs in the past three months — the worst three-months loss since 1945.

Note that employment is a lagging indicator, so what we are seeing now is a lagged reaction to an already significant softening in economic activity in the fourth quarter of 2008. Given that overall GDP is projected to fall at least until June, the news from the labour market during the course of 2009 will not be good.

Note, however, that equity markets in both countries shook off the employment reports. The potential suspension of mark-to-market accounting rules and the possibility of a stimulus bill passing that the US Senate are working help to bolster market sentiment. It also reflects the fact that current valuation discounts a significant slowdown and today's numbers are consistent with such expectations.

In this context, the concept of a "bad bank" is now seen as a real possibility. This bank will buy the toxic assets from commercial banks and by doing so, it will free their books to increase lending activity. There are many uncertainties about this concept — mainly regarding the price at which these assets will be purchased — but the move is clearly in the right direction.

In Canada, the market is already discounting a full 50 basis points rate cut by the Bank of Canada in early March. And in all likelihood the market will get what it's hoping for. But there are already early indications that the downward potential in bond yields is very minimal since such a move is already priced in. As well, in both US and Canada, we are starting to see some signs that the markets are expecting some inflation due to the massive fiscal and monetary stimulus. And the market is probably right. While the theme in the coming six or even twelve months will be deflation, the theme for 2010 will be inflation. The reality is that the Fed is monetizing the fiscal deficit and the buying of bad assets from banks by simply printing money. At one point, this excess liquidity will lead to inflation.

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International Stock Indexes

Thursday, February 05, 2009

Region/Country	Index	DAILY					52 WEEK				3-yr % chg
		High	Low	Close	Chg	% Chg - +	YTD % chg	High	Low	% Chg	
World											
World	Global Dow	1412.76	1378.82	1410.66	8.94	0.64	-7.6	2774.34	1264.68	-41.8	-7
World	Global Dow Euro	1037.35	1014.98	1034.61	10.03	0.98	0.1	1683.79	950.87	-34.2	-9
World	DJ World Index	160.17	156.42	159.86	0.83	0.52	-7	297.12	143.63	-40.5	-13
World	DJ World ex U.S.	135.89	133.26	135.2	-0.57	-0.42	-7.9	270.51	123.87	-43.5	-13.4
World	MSCI EAFE*	n.a.	n.a.	1122.76	-7.72	-0.68	-9.3	2206.72	1044.24	-42.8	-13.9
Asia Pacific											
Asia-Pacific	DJ Asia-Pacific	87.66	85.03	86.04	-0.88	-1.01	-8.1	157.77	79.11	-40.2	-14.2
Australia	All Ordinaries	3403.6	3361.6	3372.6	-9.7	-0.29	-7.8	6035	3300.3	-40.5	-11.3
Australia	S & P/ASX 200	3460.9	3414.5	3428.6	-9.3	-0.27	-7.9	5949.4	3342.7	-38.7	-11.1
China	DJ CBN China 600	18055.57	17467.5	17593.82	-159.72	-0.9	19.2	39636.83	12886.57	-54.4	24.2
China	Dow Jones China 88	197.81	190.92	192.26	-0.82	-0.42	17.5	433.03	149.53	-55.1	23.4
China	Shanghai Composite	2149.48	2082.6	2098.02	-9.7	-0.46	15.2	4664.3	1706.7	-54.4	n.a.
Hong Kong	Hang Seng	13492.53	13018.64	13178.9	115	0.88	-8.4	26262.13	11015.84	-43.8	-5.1
India	Bombay Sensex	9247.09	9017.08	9090.88	-111	-1.21	-5.8	18115.25	8451.01	-48.1	-2.3
Indonesia	Jakarta Composite	1331.51	1318.79	1328.08	7.71	0.58	-2	2756.31	1111.39	-49.7	2.2
Malaysia	Kuala Lumpur Composite	880.16	874.74	879.95	3.15	0.36	0.4	1436.1	829.41	-37.9	-1.8
New Zealand	NZSX-50	2773.5	2754.82	2773.5	4.88	0.18	2.1	3680.52	2575.48	-23.7	-6.4
Pakistan	KSE 100	5543.47	5403.83	5534.25	...	Closed	-5.6	15676.34	4815.34	-60.5	-19.8
Philippines	Manila Composite	1894	1849.19	1892.07	44.52	2.41	1	3241.13	1704.41	-41.3	-4
Singapore	Straits Times	1720.37	1697.28	1704.6	-2.79	-0.16	-3.2	3248.75	1600.28	-41.9	-10.3
South Korea	Kospi	1206.73	1177.88	1177.88	-17.49	-1.46	4.7	1888.88	938.75	-30.6	-4.1
Sri Lanka	Colombo Stock Exchange	1807.58	1751.95	1755.47	-46.12	-2.56	16.8	2681.27	1484.53	-28.5	-6.2
Taiwan	Weighted	4422.41	4363.25	4363.25	-26.72	-0.61	-5	9295.2	4089.93	-43.1	-12.9
Thailand	SET	438.02	433.44	433.44	0.4	0.09	-3.7	884.19	384.15	-45.4	-16.6
Japan	Nikkei Stock Avg	8093.96	7901.04	7949.65	-89.29	-1.11	-10.3	14489.44	7162.9	-39.8	-21.9
Japan	Nikkei 300	161.94	158.59	159.27	-1.17	-0.73	-9	290.48	152.8	-40.1	-21.2
Europe											
Europe	DJ Stoxx 600	194.54	190.28	194.5	-0.17	-0.09	-1.2	332.87	182.13	-38.1	-15.5
Europe	DJ Stoxx 50	2013.21	1965.64	2012.71	-5.5	-0.27	-2.6	3308.61	1894.31	-36.2	-16.3
Euro zone	DJ Euro Stoxx 50	2296.98	2226.6	2293.23	-4.5	-0.2	-6.5	3882.28	2147.87	-38	-14.6
Euro zone	DJ Euro Stoxx	211.31	205.84	211.1	-0.45	-0.21	-5.3	375.21	198.78	-40	-14.9
Austria	ATX	1737.96	1667.17	1691.38	-46.6	-2.68	-3.4	4532.1	1516.09	-55.1	-24.7
Belgium	Bel-20	1910.43	1872.81	1907.22	0.73	0.04	-0.1	3946.34	1783.7	-47.8	-20.3
Czech Republic	PX 50	748.9	728.6	729.1	-20.3	-2.71	-15	1710.8	699.8	-51.4	-21.7
Denmark	OMX Copenhagen	243.38	236.48	238.76	-4.32	-1.78	5.6	439.09	215.4	-39.3	-14.1
Finland	OMX Helsinki	5214.55	5116.4	5214.5	-15.14	-0.29	-3.5	11055.19	4943.63	-49.5	-15.1
France	CAC 40	3069.11	2976.59	3066.29	-2.7	-0.09	-4.7	5142.1	2849.14	-35.1	-14.7
Germany	DAX	4519.44	4387.78	4510.49	17.7	0.39	-6.2	7225.94	4127.41	-33	-7.3
Hungary	BUX	11925.98	11691.28	11691.28	-199.43	-1.68	-4.5	24545.51	10751.23	-48.1	-19.3
Italy	S & P/MIB	18056	17579	18013	-2	-0.01	-7.4	34547	17283	-45.8	-20.9
Netherlands	AEX	253.15	246.19	252.51	-2.28	-0.89	2.7	496.12	222.93	-41.6	-17.6
Norway	All-Shares	274.17	268.62	270.26	-3.15	-1.15	...	603.98	232.29	-41.7	-12.9
Poland	WIG	23597.33	22997.3	23319.22	83.1	0.36	-14.4	50193.53	23009.76	-50.7	-14.4
Portugal	PSI 20	6392.76	6302.29	6350.7	-68.28	-1.06	0.1	11368.37	5801.76	-43	-10.3
Russia	DJ Russia Titans 10	2717.84	2612.75	2631.38	-68.98	-2.55	-2.5	7900.67	2216.22	-58.5	-16.5
Russia	RTS Index	522.23	513.12	513.12	-1.77	-0.34	-18.8	2487.92	498.2	-72.8	-26.8
Spain	IBEX 35	8452.9	8209.2	8440.2	-55.2	-0.65	-8.2	14247.6	7905.4	-34.5	-8.9
Sweden	SX All Share	199.05	194.36	198.35	-0.74	-0.37	-2.9	334.77	176.54	-34.5	-13.6
Switzerland	Swiss Market	5141.14	5005.24	5106.85	-118.61	-2.27	-7.7	7782.55	5106.85	-31.2	-13.3
Turkey	Istanbul National 100	26037.99	25669.31	25774.21	-366.85	-1.4	-4.1	46446.64	21228.27	-38.4	-16.5
U.K.	FTSE 100	4235.3	4133.5	4228.93	0.33	0.01	-4.6	6376.5	3781	-26.1	-9.8
U.K.	FTSE 250	6391.15	6240.96	6391.15	69.34	1.1	0.5	10557.3	5491.46	-34.5	-11.6
Americas											
Americas	DJ Americas	215.65	207.88	214.36	3.47	1.65	-5.2	375.06	186.51	-37.7	-12.1
Argentina	Merval	1114.82	1084.63	1110.72	31.68	2.94	2.9	2248.63	828.99	-44.8	-13.3
Brazil	Sao Paulo Bovespa	41373.47	39790.86	41108.65	979.61	2.44	9.5	73516.8	29435.11	-30.3	3.3
Canada	S & P/TSX Comp	8860.98	8607.45	8860.98	167.89	1.93	-1.4	15073.13	7724.76	-31.4	-9.5
Chile	Santiago IPSA	2633.84	2583.34	2627.08	35.85	1.38	10.5	3096.11	2101.1	-3.8	7.5
Mexico	IPC All-Share	19771.86	19328.74	19736.96	114.36	0.58	-11.8	32095.04	16868.66	-29.7	1.5
Venezuela	Caracas General	35697.94	34903.35	35109.25	-588.69	-1.65	0.5	41450.77	33894.41	-0.1	9.3
Other Countries											
Egypt	CASE 30	3548.44	3380.33	3389.31	-159.13	-4.48	-26.3	11935.67	3389.31	-66.8	n.a.
Israel	Tel Aviv	684.73	669.72	682.46	4.17	0.61	4.2	1133.97	592.07	-35.5	-5.9
South Africa	Johannesburg All Share	21077.65	20437.2	20437.2	-201.87	-0.98	-5	33232.89	17814.42	-26.4	1.6

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

Three year percent change is annualized.

Sources: Reuters; WSJ.com

MARKET INDICES	Feb 5	a month ago	a year ago
S&P/TSX Composite	8860.98	9285.51	13778.6
S&P 500	845.85	927.45	1411.63
Dow Jones Industrial Average	8063.07	8952.89	12800.2

INTEREST / FX RATES	Feb 6	a month ago	a year ago
Prime Can (%)	3.00	3.50	5.75
Prime US (%)	3.25	3.25	6.00
30 Day BA Can (%)	1.14	1.42857	4.02
3 month US T-Bill (%)	0.28	0.07	2.19
3 month Can T-Bill (%)	0.777	0.849	3.383
10yr US Bond (%)	2.977	2.425	3.684
10yr Can Bond (%)	2.99	2.85	3.86
10yr-2yr US Spread (bps)	199.00	165.4	172.20
10yr-2yr Spread Can (bps)	185.0	173.0	74.00
US\$/Cdn\$	0.8057	0.8368	1.0001
US\$/Euro	1.2912	1.3525	1.4492
Yen/US\$	91.656	90.765	107.31

INTERNATIONAL INTEREST RATES	Feb 6		
	3 mo LIBOR (%)	Spread vs US (bps)	a wk ago (Spread—bps)
United States	1.24	NA	NA
Canada	1.50	26	44
Euro-zone	2.02	78	91
Switzerland	0.51	-73.1	-65.8
Japan	0.66	-58	-51
Australia	3.96	272	269
	10 Year Bond (%)	Spread vs US (bps)	a wk ago (Spread—bps)
United States	2.98	NA	NA
Canada	2.99	1.3	19.3
Euro-zone	3.78	80.7	89.0
Switzerland	2.15	-82.6	-64.6
Japan	1.33	-164.6	-153.0
Australia	4.44	146.6	128.2

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