



Weekly Market Insight

May 29, 2009

NORTH AMERICAN & INTERNATIONAL ECONOMIC HIGHLIGHTS

What To Do About the Loonie

Normally, we would be waiting with bated breath for the latest missive from the Bank of Canada next week. But with the overnight rate already at its lowest possible setting, and no chance of a hike, what's to discuss? The Bank is trying to avoid the messiness of quantitative easing until it's clear that more conventional tools aren't working, and it would be early in the game to reach that judgement. Longer term yields have headed higher, but not for many corporate borrowers given the coincident narrowing in spreads. So can monetary policy simply stand pat?

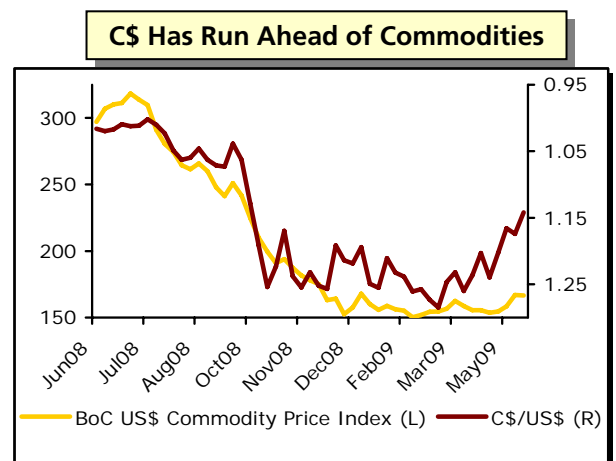
Not if you take it in its broadest definition. While interest rates are highly stimulative, the exchange rate threatens a substantial tightening in overall monetary conditions, taking inflation below the Bank's target band. That wouldn't be true if the Canadian dollar's rally was simply a response to brighter export prospects, as would be the case if commodity prices were staging a commensurate rally.

But in this case, while oil has moved up, the basket of resource prices tracked by the Bank of Canada is still nowhere near where it stood when the loonie was last at these levels (Chart). Much of the C\$ momentum has simply reflected a global flight from the US dollar, as evidenced by similar gains in the euro, where resource prices shouldn't be a factor.

To its credit, the Bank of Canada doesn't lose sleep over where the currency trades for a month or two. We've all learned from several years of volatility that what goes up can come down just as fast. But if the C\$ persists at these levels before commodity prices warrant it, the Bank does have a weapon at its disposal, and shouldn't be shy about using it.

Usually, it would use a rate cut to help steer the currency to weaker levels, but that's not possible here. Instead, it has to reach for a tool that's much less unconventional than quantitative easing, but one that has become rusty with disuse in the past decade: currency intervention. By stepping in, selling the C\$ to buy US dollars, the Bank could send a signal that, until global growth is giving greater support to Canada's trade balance, enough is enough in terms of living with an overvalued loonie.

More likely, the market will reach that conclusion on its own, temporarily taking the C\$ several cents weaker until economic growth in 2010 boosts our export performance. But if not, the Bank of Canada should be willing to give it a push, even if that raises eyebrows in other countries that are concerned about their currency climbs.



Market Snapshot

US	Current*	yesterday*	a week ago*	a month ago*	a year ago
TED SPREAD (bps)	51	51	50	94	81
10Y / 2Y SPREAD (bps)	265	269	252	206	139
2Y SWAP SPREAD (bps)	40	42	39	56	81
3M T-Bill (%)	0.15	0.16	0.16	0.09	1.87
LIBOR 1 MONTH (%)	0.32	0.32	0.31	0.42	2.46
LIBOR 3 MONTH (%)	0.66	0.67	0.66	1.03	2.68
2-YR BOND (%)	0.95	0.96	0.87	0.92	2.68
5-YR BOND (%)	2.44	2.43	2.17	1.94	3.42
10-YR BOND (%)	3.59	3.65	3.39	2.98	4.08
A Rated / 10Y TREASURY (bps)	318	328	323	365	192
B Rated / 10Y TREASURY (bps)	906	913	909	1056	587
BB Rated / 10Y TREASURY (bps)	696	711	725	813	445
CANADA					
PRIME / BA SPREAD (bps)	186	186	186	184	161
CDOR 3 MONTH (%)	0.70	0.70	0.70	0.84	3.35
CDOR 3 MONTH / 3M T-BILL SPREAD (bps)	51	50	52	62	69
10Y / 2Y SPREAD (bps)	222	225	211	208	61
2-YR BOND (%)	1.26	1.28	1.16	0.98	3.11
5-YR BOND (%)	2.51	2.56	2.29	1.99	3.38
10-YR BOND (%)	3.48	3.52	3.26	3.06	3.72
A Rated / 10Y TREASURY (bps)	250	258	265	285	141
BBB Rated / 10Y TREASURY (bps)	332	341	351	383	257
CAN Sovereign Agency / 10Y TREASURY (bps)	62	67	60	61	56
Provincial / 10Y TREASURY (bps)					
ALTA	114	122	127	133	70
BC	117	126	129	136	69
MAN	115	124	129	142	73
NB	114	125	126	142	74
PEI	149	156	156	166	73
NFLD	159	165	166	179	82
ONT	127	137	140	162	75
QUE	142	152	155	171	78
SASK	128	137	140	154	72
NS	137	145	145	156	74
COMMODITIES					
WTI CRUDE FUTURE (US\$ / bbl.)	65.9	63.8	61.0	50.8	126.6
NATURAL GAS (US\$ / MMBtu)	4.0	3.6	3.6	3.5	11.5
SILVER (US\$ / t oz.)	15.4	15.1	14.7	12.7	16.5
GOLD (US\$ / t oz.)	975.1	956.8	959.9	898.6	877.2
WHEAT (US\$ / bu.)	637.0	627.5	602.5	516.3	743.5
SOYBEANS (US\$ / bu.)	1188.5	1191.3	1180.5	1005.0	1322.8
SUGAR (US\$ / lb.)	15.4	15.6	15.6	13.8	10.0
CORN (US\$ / bu.)	432.5	428.5	428.0	379.8	582.3
FX					
C\$ / US\$	1.096	1.113	1.126	1.203	0.988
US\$ / EURO	1.412	1.394	1.398	1.326	1.552
C\$ / EURO	1.548	1.552	1.574	1.595	1.533
YEN / US\$	95.470	96.710	94.480	96.907	105.500
US\$ / BRITISH POUND	1.611	1.596	1.586	1.477	1.977
SWISS FRANCS / US\$	1.070	1.084	1.086	1.136	1.049

* As of 11:00 a.m.

Note: Data is for reference only.

International Stock Indexes

Thursday, May 28, 2009

Region/Country	Index	DAILY					52 WEEK				3-yr % chg
		High	Low	Close	Chg	% Chg - +	YTD % chg	High	Low	% Chg	
World											
World	Global Dow	1631.14	1607.83	1627.67	4	0.25	6.6	2704.62	1139.9	-39.3	-3.9
World	Global Dow Euro	1108.94	1088.6	1099.28	1.72	0.16	6.3	1638.73	849.42	-32.4	-6.8
World	DJ World Index	183.4	180.69	183.23	0.6	0.33	6.6	290.85	130.29	-36.7	-9.7
World	DJ World ex U.S.	163.17	160.7	162.33	-0.84	-0.51	10.6	263.54	111.8	-38.1	-9.1
World	MSCI EAFE*	n.a.	n.a.	1293.57	-14.95	-1.14	4.5	2145.47	911.39	-39.4	-11.1
Asia Pacific											
Asia-Pacific	DJ Asia-Pacific	103.54	102.4	102.8	-0.74	-0.71	9.8	156.26	73.76	-32.7	-9.4
Australia	All Ordinaries	3780	3736.7	3753.9	-41.4	-1.09	2.6	5817.2	3111.7	-35.5	-9.2
Australia	S & P/ASX 200	3783.2	3737.3	3755.7	-45.4	-1.19	0.9	5709.4	3145.5	-34.2	-9.4
China	DJ CBN China 600	22544.72	22170.13	22488.39	...	Closed	52.3	28771.93	12886.57	-20.7	25.8
China	Dow Jones China 88	238.6	230.65	237.84	...	Closed	45.4	315.61	149.53	-23.2	25.7
China	Shanghai Composite	2635.31	2592.79	2632.93	...	Closed	44.6	3459.04	1706.7	-22.6	17.7
Hong Kong	Hang Seng	17984.02	17347.89	17885.27	...	Closed	24.3	24831.36	11015.84	-26.7	4
India	Bombay Sensex	14376.34	14080.98	14296.01	186.37	1.32	48.2	16415.57	8160.4	-12.4	9.8
Indonesia	Jakarta Composite	1904.62	1878.47	1902.88	10.03	0.53	40.4	2446.95	1111.39	-22.2	12.9
Malaysia	Kuala Lumpur Composite	1044.39	1037.09	1041.24	-6.44	-0.61	18.8	1276.1	829.41	-17.5	3.8
New Zealand	NZSX-50	2769.51	2720.03	2721.98	-47.81	-1.73	0.2	3624.23	2417.95	-23.6	-8.9
Pakistan	KSE 100	7303.07	7225.07	7288.13	99.29	1.38	24.3	13134.56	4815.34	-40.4	-11.9
Philippines	Manila Composite	2360.06	2340.46	2354.37	-2.01	-0.09	25.7	2827.44	1704.41	-16	0.8
Singapore	Straits Times	2301.06	2257.44	2292.97	-13.11	-0.57	30.2	3192.62	1456.95	-27.5	-1.4
South Korea	Kospi	1392.17	1345.1	1392.17	30.15	2.21	23.8	1852.02	938.75	-24.4	1.7
Sri Lanka	Colombo Stock Exchange	2218.13	2156.04	2210.79	54.75	2.54	47.1	2538.36	1484.53	-11.8	unch.
Taiwan	Weighted	6930.59	6743.39	6890.44	...	Closed	50.1	8745.35	4089.93	-20.7	0.1
Thailand	SET	557.94	552.14	555.43	0.02	0.004	23.4	833.65	384.15	-33.1	-8.2
Japan	Nikkei Stock Avg	9492.66	9353.33	9451.39	12.62	0.13	6.7	14489.44	7054.98	-33.1	-16
Japan	Nikkei 300	181.67	179.2	181.04	0.42	0.23	3.5	290.48	140.76	-35.6	-16.8
Europe											
Europe	DJ Stoxx 600	209.31	206.21	207.93	-2.48	-1.18	5.6	322.12	157.97	-35.2	-13.7
Europe	DJ Stoxx 50	2131.09	2097.89	2117.79	-20.68	-0.97	2.5	3182.53	1614.75	-33.4	-14.6
Euro zone	DJ Euro Stoxx 50	2475.64	2429.51	2453.15	-26.33	-1.06	0.1	3777.85	1809.98	-34.6	-12.8
Euro zone	DJ Euro Stoxx	229.46	225.6	227.52	-2.52	-1.1	2.1	364.68	169.38	-37.1	-13.1
Austria	ATX	2041.34	1995.53	2028.58	-13.94	-0.68	15.9	4394.71	1411.95	-53.8	-18.9
Belgium	Bel-20	2075.86	2053.76	2063.65	-20.87	-1	8.1	3755.04	1527.27	-44.6	-18.1
Czech Republic	PX 50	912	897	901.5	-8.8	-0.97	5	1685.1	628.5	-46.2	-13.5
Denmark	OMX Copenhagen	277.2	268.63	271.4	-5.95	-2.15	20	430.83	193.26	-35.9	-8.5
Finland	OMX Helsinki	5867.61	5755.24	5836.29	-19.64	-0.34	8	9783.65	4110.31	-39.6	-13.1
France	CAC 40	3293.61	3231.61	3263.7	-31.16	-0.95	1.4	5014.28	2519.29	-34.4	-13.5
Germany	DAX	4986.96	4884.92	4932.88	-67.89	-1.36	2.6	7096.79	3666.41	-30.1	-5.2
Hungary	BUX	15767.03	15439.89	15644.73	-61.96	-0.39	27.8	22717.38	9461.29	-31.1	-10.8
Italy	S & P/MIB	20329	19967	20150	-162	-0.8	3.5	33225	12621	-38.5	-18.1
Netherlands	AEX	262.98	258.11	260.9	-3.3	-1.25	6.1	485.52	199.25	-46.1	-16.4
Norway	All-Shares	336.66	330.37	336.14	1.43	0.43	24.4	576.23	232.29	-40.5	-8.6
Poland	WIG	29807.98	29431.51	29454.42	-320.94	-1.08	8.2	46692.35	21274.28	-36.7	-10
Portugal	PSI 20	7288.67	7223.73	7240.72	-50.23	-0.69	14.2	10597.88	5743.09	-31.6	-8.9
Russia	DJ Russia Titans 10	4628.83	4353.23	4548.78	42.49	0.94	68.5	7831.38	2216.22	-41.1	-5.1
Russia	RTS Index	1053.73	1020.37	1053.73	22.94	2.23	66.8	2459.88	498.2	-56.8	-11
Spain	IBEX 35	9496	9368.5	9435.5	-75.3	-0.79	2.6	13600.9	6817.4	-30.3	-6.2
Sweden	SX All Share	241.8	238.59	241.26	-0.57	-0.24	18.1	324.71	176.54	-25.5	-8.3
Switzerland	Swiss Market	5386.21	5311.77	5350.59	-68.83	-1.27	-3.3	7590.44	4307.67	-29.1	-11.4
Turkey	Istanbul National 100	35229.27	34704.94	35021.01	-147.72	-0.42	30.4	43259.37	21228.27	-10.4	-3.2
U.K.	FTSE 100	4416.2	4341.1	4387.54	-28.69	-0.65	-1.1	6068.1	3512.1	-27.7	-8.8
U.K.	FTSE 250	7588.16	7476.89	7518.27	-69.78	-0.92	18.2	10098.2	5491.46	-25.5	-7.5
Americas											
Americas	DJ Americas	238.78	233.12	238.28	3.67	1.56	5.4	370.66	172.41	-35.4	-9.2
Argentina	Merval	1590.7	1556.98	1560.41	-6.95	-0.44	44.5	2223.89	828.99	-29.8	-2.4
Brazil	Sao Paulo Bovespa	53040.74	51795.15	53040.74	1249.13	2.41	41.3	72592.5	29435.11	-26.1	11.3
Canada	S & P/TSX Comp	10413.94	10142.16	10392.37	250.21	2.47	15.6	15073.13	7566.94	-28.7	-4
Chile	Santiago IPSA	3104.27	3048.66	3102.26	47.35	1.55	30.5	3131.14	2101.1	0.2	12.9
Mexico	IPC All-Share	24685.5	24286.62	24659.24	151.43	0.62	10.2	31975.47	16868.66	-22.5	8
Venezuela	Caracas General	44088.3	43548.95	43548.95	-113.31	-0.26	24.7	44669.07	33894.41	25.6	13
Other Countries											
Egypt	CASE 30	5804.13	5664.46	5665.32	-204.05	-3.48	23.3	11071.93	3389.31	-48.8	n.a.
Israel	Tel Aviv	872.32	865.08	866.15	...	Closed	32.6	1133.97	592.07	-22.3	n.a.
South Africa	Johannesburg All Share	22521.68	22138.04	22315.32	-206.36	-0.92	3.7	31894.2	17814.42	-30	2.5

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

Three year percent change is annualized.

Sources: Reuters; WSJ.com

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