



# Weekly Market Insight

**April 16, 2010**

## **NORTH AMERICAN & INTERNATIONAL ECONOMIC HIGHLIGHTS**

### **Bracing for Rate Hikes**

In all likelihood, the Bank of Canada will start raising rates come June or July. In fact, the market is starting to toy with the idea that the first move by the Bank will be of 50 basis points. And as is almost the case, the closer we get to the first move by the Bank, the more aggressive the market is in discounting future hikes. However there are many reasons for a gradualist approach by the Bank that will leave overnight at 1.25% at year end, and a still-low 2.5% by the end of 2011.

The main reason is the fact that in diverging too far from the Fed, the Bank risks an even stronger Canadian dollar. Hiking 100 bps likely won't mean more than a few cents on the loonie, but carrying on beyond that without matching moves from Bernanke could send the C\$ into record territory. While factories are recovering in Canada alongside a global industrial revival, output remains nearly 20% below the pre-recession peak, and wages are now substantially above those stateside without the productivity gains to match. There's only so much of a competitive challenge that non-resource exporters can take in short order.

Another reason is the fact that fiscal policy will soon start to act as a negative for overall economic growth. Fiscal 2011/12 will entail serious belt tightening, with tax hikes and an abrupt swing from spending largesse to restraint. If so, overnight rates might have to remain relatively simulative.

Furthermore, the start of the tightening cycle will find a highly leveraged consumer with a debt-to-income ratio approaching a record-high 150%. This is 40% above the ratio seen the last time the Bank of Canada started to hike. This means that monetary policy will be very effective in slowing the consumer. While most of the recent focus of the potential impact of higher interest rates has been on the risk that this move will trigger a new wave of debt defaults, our analysis suggests that the focus should be on the overall impact of these rate hikes on consumer spending. And given the vulnerable starting point of the consumer, the Bank of Canada will soon find that even a moderate monetary squeeze will be sufficient to drive a material deceleration in consumer spending.

**Benjamin Tal**  
Senior Economist

## Market Snapshot

US	Current*	yesterday*	a week ago*	a month ago*	a year ago
TED SPREAD (bps)	16	15	14	13	97
10Y / 2Y SPREAD (bps)	281	283	283	271	195
2Y SWAP SPREAD (bps)	15	15	14	19	59
3M T-Bill (%)	0.15	0.15	0.16	0.15	0.13
LIBOR 1 MONTH (%)	0.26	0.26	0.25	0.25	0.45
LIBOR 3 MONTH (%)	0.31	0.30	0.30	0.28	1.10
2-YR BOND (%)	0.99	1.04	1.09	0.96	0.92
5-YR BOND (%)	2.52	2.59	2.67	2.41	1.82
10-YR BOND (%)	3.81	3.87	3.92	3.67	2.87
A Rated / 10Y TREASURY (bps)	147	145	144	154	369
B Rated / 10Y TREASURY (bps)	481	482	479	501	1089
BB Rated / 10Y TREASURY (bps)	362	362	360	384	857
<b>CANADA</b>					
PRIME / BA SPREAD (bps)	179	179	180	183	186
CDOR 3 MONTH (%)	0.43	0.42	0.42	0.40	1.00
CDOR 3 MONTH / 3M T-BILL SPREAD (bps)	18	13	14	18	60
10Y / 2Y SPREAD (bps)	178	179	182	183	183
2-YR BOND (%)	1.92	1.94	1.85	1.62	1.12
5-YR BOND (%)	3.13	3.14	3.05	2.79	1.91
10-YR BOND (%)	3.70	3.73	3.67	3.45	2.96
A Rated / 10Y TREASURY (bps)	97	93	99	98	304
BBB Rated / 10Y TREASURY (bps)	163	160	160	158	398
CAN Sovereign Agency / 10Y TREASURY (bps)	38	37	37	35	63
Provincial / 10Y TREASURY (bps)					
ALTA	65	61	60	57	150
BC	76	71	77	74	154
MAN	74	71	72	70	167
NB	80	77	77	72	166
PEI	110	106	107	104	180
NFLD	100	95	97	99	199
ONT	88	83	85	85	183
QUE	93	91	91	93	189
SASK	83	78	85	84	172
NS	86	83	83	77	165
<b>COMMODITIES</b>					
WTI CRUDE FUTURE (US\$ / bbl.)	84.1	86.0	85.9	81.0	50.9
NATURAL GAS (US\$ / MMBtu)	4.0	4.2	4.0	4.1	3.6
SILVER (US\$ / t oz.)	18.2	18.4	18.4	17.3	11.9
GOLD (US\$ / t oz.)	1148.8	1155.7	1154.1	1121.2	866.0
WHEAT (US¢ / bu.)	480.0	473.0	472.3	487.5	527.8
SOYBEANS (US¢ / bu.)	986.0	969.8	949.0	960.5	1065.0
SUGAR (US¢ / lb.)	16.8	17.2	16.0	18.4	13.2
CORN (US¢ / bu.)	361.5	357.0	350.8	373.8	383.5
<b>FX</b>					
C\$ / US\$	1.005	0.999	1.004	1.014	1.216
US\$ / EURO	1.352	1.356	1.346	1.352	1.304
C\$ / EURO	1.358	1.354	1.352	1.372	1.586
YEN / US\$	92.540	93.320	93.390	90.460	98.860
US\$ / BRITISH POUND	1.542	1.548	1.535	1.507	1.481
SWISS FRANCS / US\$	1.060	1.058	1.067	1.063	1.165

\* As of 11:00 a.m.

Note: Data is for reference only.

## International Stock Indexes

Thursday, April 15, 2010

Index (Regiona/Country)	DAILY				% Chg		YTD	52 WEEK			3-yr	
	High	Low	Close	Chg	-	+	% chg	High	Low	% Chg	% chg	
<b>Global</b>												
The Global Dow (World)	2091.32	2076.92	2087.12	5.95			0.29	5.2	2087.12	1441.66	40.9	-3.1
The Global Dow (Euro) (World)	1450.58	1435.47	1448.65	10.55			0.73	11.2	1448.65	1050.11	37	-3.2
DJ Global Index (World)	242.65	241.42	242.2	0.47			0.19	6.7	242.2	161.73	45.4	-6.1
DJ Global ex U.S. (World)	211.33	209.88	210.96	0.61			0.29	4.9	210.96	138.66	48.2	-6.7
MSCI EAFE* (World)	n.a.	n.a.	1636.19	5.87			0.36	3.5	1642.2	1120.13	42.4	-9.5
<b>Asia Pacific</b>												
DJ Asia-Pacific (Asia-Pacific)	132.48	131.46	132.22	0.76			0.58	7.5	132.22	89.82	44.5	-4.8
All Ordinaries (Australia)	5048.6	5023.6	5024.1	6.28			0.13	2.9	5024.1	3627.2	34.9	-6.4
S & P/ASX 200 (Australia)	5025.1	5000.8	5001.93	7.27			0.15	2.7	5001.9	3668.2	32.5	-6.6
DJ CBN China 600 (China)	28564.74	28130.26	28363.2	-144.13	-0.51			-2.4	29890.92	20565.47	28.7	3.9
Dow Jones China 88 (China)	279.93	276.31	278.88	-0.22	-0.08			-7.5	327.69	218.57	19.9	0.6
Shanghai Composite (China)	3181.66	3135.99	3164.97	-1.22	-0.04			-3.4	3471.44	2401.44	24.9	-3.5
Hang Seng (Hong Kong)	22337.89	22113.21	22157.82	36.39			0.16	1.3	22943.98	14555.11	42.2	2.9
Bombay Sensex (India)	17975.57	17619.02	17639.26	-182.7	-1.03			1	17970.02	10817.54	61.1	9.6
Jakarta Composite (Indonesia)	2913.72	2885.12	2900.53	15.52			0.54	14.4	2900.53	1576.08	78.5	14.3
Nikkei 300 (Japan)	203.45	202.46	202.75	1.41			0.7	9.6	202.75	164.24	20.3	-1.6
Nikkei Stock Avg (Japan)	11316.66	11255.8	11273.79	68.89			0.61	6.9	11339.3	8493.77	28.8	-13.4
Topix Index (Japan)	1001.77	996.97	998.9	7.8			0.79	10.1	998.9	811.01	20.1	-16.3
Kuala Lumpur Composite (Malaysia)	1342.06	1334.14	1338.83	2.94			0.22	5.2	1345.09	961.28	39.3	0.8
NZSX-50 (New Zealand)	3348.72	3321.12	3321.12	-14.39	-0.43			2.8	3335.51	2656.39	24.7	-7.3
KSE 100 (Pakistan)	10688.76	10574.99	10677.47	106.59			1.01	13.7	10677.47	6872.96	39.2	-3.8
Manila Composite (Philippines)	3322.9	3266.46	3278.84	-20.85	-0.63			7.4	3299.9	2049.4	58.8	0.6
Straits Times (Singapore)	3037.97	3016.07	3016.94	-2.8	-0.09			4.1	3019.74	1808.41	59.5	-2.9
Kospi (South Korea)	1747.38	1729.59	1743.91	8.58			0.49	3.6	1743.91	1300.24	30.5	4.7
Colombo Stock Exchange (Sri Lanka)	3967.19	3948.78	3955.83	-2.95	-0.07			16.8	3958.78	1691.98	133.8	11.9
Weighted (Taiwan)	8190.01	8136.32	8171.94	74.81			0.92	-0.2	8356.89	5596.73	36.3	0.7
SET (Thailand)	763.86	742.9	760.9	...			Closed	3.6	812.63	452.97	68	3.2
<b>Europe</b>												
Stoxx Europe 600 (Europe)	272.62	269.82	272.14	1.7			0.63	7.5	272.14	189.93	40.4	-10.8
Stoxx Europe 50 (Europe)	2717.52	2685.24	2711.84	20.67			0.77	5.2	2711.84	1931.76	37.5	-10.7
Euro Stoxx 50 (Euro zone)	3023.1	2987.84	3012.65	4.62			0.15	1.6	3017.85	2243.63	31	-11.3
Euro Stoxx (Euro zone)	285.75	282.74	284.91	0.46			0.16	3.7	284.91	208.86	33.5	-12.2
ATX (Austria)	2801.4	2772.73	2790.54	-4.78	-0.17			11.8	2795.32	1787.66	50	-16.1
Bel-20 (Belgium)	2720.6	2690.51	2715.16	-1.54	-0.06			8.1	2716.7	1856.69	44.9	-1.6
PX 50 (Czech Republic)	1314.8	1288.6	1304.2	10.6			0.82	16.7	1304.2	811.6	53.5	-10
OMX Copenhagen (Denmark)	378.35	375.12	378.35	4.13			1.1	19.8	378.35	232.3	62.4	-5.8
OMX Helsinki (Finland)	7423.73	7355.15	7387.23	14.65			0.2	14.4	7452.62	5251.05	39.9	-11.1
CAC 40 (France)	4084.69	4036.9	4065.65	7.95			0.2	3.3	4065.65	2969.4	33.8	-11.1
DAX (Germany)	6310.76	6249.74	6291.45	13.05			0.21	5.6	6291.45	4486.3	36.5	-4.5
BUX (Hungary)	25300.77	24735.69	24913.72	-147.43	-0.59			17.4	25322.96	12059.59	97.8	0.2
FTSE MIB (Italy)	23593.1	23369.08	23539.24	58.82			0.25	1.3	24425.98	17688	29.7	-18.2
AEX (Netherlands)	356.76	353.18	355.57	-1.1	-0.31			6	356.67	233.77	49.1	-12.1
All-Shares (Norway)	442.28	437.76	441.9	3.34			0.76	5.2	441.9	277.88	57	-5.7
WIG (Poland)	44302.53	43794.69	44060.26	-18.39	-0.04			10.2	44078.65	26700.15	56.6	-9.2
PSI 20 (Portugal)	8349.16	8248.2	8306.76	-37.53	-0.45			-1.9	8882.69	6532.91	24.6	-11.3
DJ Russia Titans 10 (Russia)	6259.83	5989.93	6071.02	27.27			0.45	8.9	6071.02	3573.62	59	-4.7
RTS Index (Russia)	1685.6	1665.18	1676.27	2.86			0.17	17.5	1676.27	775.24	104.5	-5.7
IBEX 35 (Spain)	11543.9	11372	11523.5	19.8			0.17	-3.5	12222.5	8615.8	29.8	-8.3
SX All Share (Sweden)	334.3	331.86	334.24	0.31			0.09	11.6	334.24	225.58	45.6	-6.7
Swiss Market (Switzerland)	6990.7	6921.13	6967.56	50.97			0.74	6.4	6967.56	5023.9	34.9	-8.8
Istanbul National 100 (Turkey)	59771.82	58623.85	59055.09	-275.25	-0.46			11.8	59330.34	28548.43	100	8.7
FTSE 100 (U.K.)	5832.3	5778.4	5825.01	28.76			0.5	7.6	5825	3987.5	43.7	-3.4
FTSE 250 (U.K.)	10548.22	10495.58	10539.15	43.51			0.41	13.2	10539.15	6987.25	45.9	-4
<b>Americas</b>												
DJ Americas (Americas)	324.06	322.47	323.28	0.07			0.02	9	323.28	213.85	45.1	-4
Merval (Argentina)	2463.5	2432.69	2438.23	-20.29	-0.83			5.1	2487.76	1193.03	94.3	3.3
Sao Paulo Bovespa (Brazil)	71065.5	70429.28	70524.35	-510.5	-0.72			2.8	71784.77	44433.15	53.2	13.7
S & P/TSX Comp (Canada)	12249.54	12168.71	12211.52	7.11			0.06	4	12211.52	9126.15	30.7	-3.5
Santiago IPSA (Chile)	3851.89	3828.59	3828.59	-9.79	-0.26			6.9	3860.71	2636.25	42.5	7.5
IPC All-Share (Mexico)	34223.87	34003.96	34134.23	20.3			0.06	6.3	34134.23	21216.94	53.8	4.7
Caracas General (Venezuela)	61696.01	60633.96	61518.63	848.79			1.4	11.7	61518.63	42786.19	38.8	8.2
<b>Other Countries</b>												
CASE 30 (Egypt)	7693.46	7573.61	7573.61	-17.76	-0.23			22	7591.37	4926.84	52.4	0.7
Tel Aviv (Israel)	1232.65	1212.67	1215.01	-16.17	-1.31			6.1	1237.85	751.63	53.1	5
Johannesburg All Share (South Africa)	29565.1	29307.87	29565.1	65.4			0.22	6.9	29565.1	19798.43	41.2	1.7

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

Three year percent change is annualized.

Sources: Reuters; WSJ.com

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