



Weekly Market Insight

February 26, 2010

NORTH AMERICAN & INTERNATIONAL ECONOMIC HIGHLIGHTS

The recent increase in the US Fed Discount Rate means very little in practical terms. The discount rate is the interest rate that the Fed charges banks for emergency loans and it is hardly being used. The rate hike however, signals the first step in a long journey towards removing liquidity from the system.

The move makes sense given that the Fed has closed many of its emergency lending facilities and demand for funding has slowed substantially. In fact, borrowing from this credit facility has totaled only \$20 billion over the past three months. Given that normally the gap between the discount rate and the fed funds rate is 100 basis points and today, it is standing at 50 basis points suggests that we might see an additional increase in this rate in the near future. What counts, however, is the fed funds rate and this rate is unlikely to rise until early 2011.

As for the Bank of Canada, at this point it appears that the Bank is committed to start hiking come June or July. This is a risky move given that both in 1992 and 2002 the Bank moved independently of the Fed, only to reverse the decision a few months later. The most likely scenario is that the Bank will move by 50-75 basis points and then will pause until 2011 and continue to hike alongside the Fed.

The reason for the limited hike in 2010 is that the ongoing recovery in the Canadian economy will not be linear. The first two quarters of the year will be strong, reflecting fiscal stimulus from both sides of the border, a rebounding inventory cycle and strong credit growth in Canada. These factors, however, will fade in the second half of the year, with overall GDP growth expected to average less than 2% vs. more than 3% in the first half.

As for inflation, the Bank of Canada is projecting core inflation to reach its target rate of 2% by mid-2011. But the core rate has already reached 1.9% last month. Is the Bank of Canada wrong? The short answer is no. The 1.9% advance in the core rate reflects a very soft base period (rates are calculated on a year-over-year basis and January of 2009 saw a notable decline in prices). This means that the coming months will see a much lower inflation rate. The reality is that the underlying inflation rate in Canada is well below 1.5%. So we still have a lot of time until we reach the Bank's target.

The recent move by the Ministry of Finance towards more stringent regulation of home loans is targeted to deal with potential problems down the road without derailing the housing market. The following is our estimate of the impact of the new rules on overall mortgage originations:

Increase down payment requirement for refinancing:	7%-8%
Increase down payment requirement for non-primary residence:	2%-3%
Increase qualifying rate on variable mortgages:	5%-6%

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Market Snapshot

US	Current*	yesterday*	a week ago*	a month ago*	a year ago
TED SPREAD (bps)	14	14	16	19	97
10Y / 2Y SPREAD (bps)	280	281	288	278	204
2Y SWAP SPREAD (bps)	24	24	30	27	69
3M T-Bill (%)	0.11	0.11	0.09	0.06	0.30
LIBOR 1 MONTH (%)	0.23	0.23	0.23	0.23	0.50
LIBOR 3 MONTH (%)	0.25	0.25	0.25	0.25	1.26
2-YR BOND (%)	0.82	0.83	0.92	0.89	0.97
5-YR BOND (%)	2.32	2.33	2.47	2.42	1.99
10-YR BOND (%)	3.62	3.64	3.80	3.67	3.02
A Rated / 10Y TREASURY (bps)	158	162	159	153	365
B Rated / 10Y TREASURY (bps)	505	514	519	475	1234
BB Rated / 10Y TREASURY (bps)	401	405	405	386	917
CANADA					
PRIME / BA SPREAD (bps)	185	185	185	185	215
CDOR 3 MONTH (%)	0.40	0.40	0.41	0.44	1.35
CDOR 3 MONTH / 3M T-BILL SPREAD (bps)	24	24	25	28	74
10Y / 2Y SPREAD (bps)	211	211	212	215	198
2-YR BOND (%)	1.29	1.30	1.39	1.22	1.15
5-YR BOND (%)	2.49	2.50	2.59	2.49	2.05
10-YR BOND (%)	3.40	3.41	3.52	3.37	3.13
A Rated / 10Y TREASURY (bps)	106	108	98	97	335
BBB Rated / 10Y TREASURY (bps)	166	168	162	164	422
CAN Sovereign Agency / 10Y TREASURY (bps)	36	39	34	32	55
Provincial / 10Y TREASURY (bps)					
ALTA	61	63	59	57	135
BC	76	78	76	77	151
MAN	71	73	69	74	162
NB	75	77	72	73	160
PEI	107	110	104	103	169
NFLD	104	106	101	105	189
ONT	87	89	85	89	176
QUE	95	97	92	96	178
SASK	86	88	86	92	163
NS	81	83	79	86	162
COMMODITIES					
WTI CRUDE FUTURE (US\$ / bbl.)	79.0	77.7	78.8	74.4	44.8
NATURAL GAS (US\$ / MMBtu)	4.8	4.8	5.1	5.3	4.2
SILVER (US\$ / t oz.)	16.2	15.7	16.0	16.2	13.1
GOLD (US\$ / t oz.)	1111.4	1090.8	1113.0	1080.3	942.5
WHEAT (US¢ / bu.)	492.5	494.5	482.3	485.0	510.5
SOYBEANS (US¢ / bu.)	941.5	949.3	942.0	930.3	874.5
SUGAR (US¢ / lb.)	24.0	24.3	26.4	29.7	13.5
CORN (US¢ / bu.)	375.8	373.8	356.8	360.3	350.8
FX					
C\$ / US\$	1.058	1.066	1.049	1.065	1.267
US\$ / EURO	1.359	1.349	1.349	1.392	1.267
C\$ / EURO	1.438	1.438	1.414	1.482	1.616
YEN / US\$	88.940	89.100	91.850	90.810	97.570
US\$ / BRITISH POUND	1.519	1.529	1.539	1.605	1.432
SWISS FRANCS / US\$	1.077	1.084	1.086	1.054	1.169

* As of 11:00 a.m.

Note: Data is for reference only.

International Stock Indexes

Thursday, February 25, 2010

Index (Regiona/Country)	DAILY					52 WEEK				3-yr % chg
	High	Low	Close	Chg	% Chg - +	YTD % chg	High	Low	% Chg	
Global										
The Global Dow (World)	1888.39	1854.63	1872.28	-15.84	-0.84	-5.7	2047.33	1139.9	49.2	-5.9
The Global Dow (Euro) (World)	1306.62	1297.84	1303.66	-2.91	-0.22	0.1	1337.88	849.42	40.6	-6.8
DJ Global Index (World)	219.72	215.86	217.88	-1.79	-0.81	-4	234.99	130.29	51.9	-9
DJ Global ex U.S. (World)	191.18	187.74	188.66	-2.45	-1.28	-6.2	209.06	111.8	54.6	-9.5
MSCI EAFE* (World)	n.a.	n.a.	1473.84	-23.04	-1.54	-6.8	1642.2	911.39	46.3	-12.1
Asia Pacific										
DJ Asia-Pacific (Asia-Pacific)	120.47	119.1	119.61	-0.59	-0.49	-2.8	129.57	73.76	54.6	-8.3
All Ordinaries (Australia)	4706.1	4612	4614.9	-51.09	-1.09	-5.5	4981.2	3111.7	40	-8.4
S & P/ASX 200 (Australia)	4689.9	4589.9	4594.07	-54.45	-1.17	-5.7	4950.7	3145.5	37.3	-8.7
DJ CBN China 600 (China)	27386.74	26961.83	27369.9	409.58	1.52	-5.8	29890.92	17495.25	52	9.4
Dow Jones China 88 (China)	271.58	267.5	271.35	3.88	1.45	-10	327.69	187.07	41.9	4.2
Shanghai Composite (China)	3063	3022.37	3060.62	38.44	1.27	-6.6	3471.44	2071.43	44.3	0.7
Hang Seng (Hong Kong)	20644.27	20261.98	20399.57	-68.17	-0.33	-6.7	22943.98	11344.58	58.2	-0.5
Bombay Sensex (India)	16329.33	16167.13	16254.2	-1.77	-0.01	-6.9	17701.13	8160.4	81.5	6
Jakarta Composite (Indonesia)	2583.16	2536.09	2549.03	-30.38	-1.18	0.6	2667.27	1256.11	97.6	12.5
Nikkei 300 (Japan)	183.36	180.9	181.33	-1.03	-0.56	-2	197.22	140.76	20.5	-20.6
Nikkei Stock Avg (Japan)	10267.43	10087.21	10101.96	-96.87	-0.95	-4.2	10982.1	7054.98	35.5	-17.8
Topix Index (Japan)	900.84	889.26	891.41	-4.28	-0.48	-1.8	975.59	700.93	20.1	-21.1
Kuala Lumpur Composite (Malaysia)	1277.66	1270.03	1270.78	...	unch.	-0.2	1308.36	838.39	42.2	-0.3
NZSX-50 (New Zealand)	3152.87	3130.88	3151.69	20.8	0.66	-2.4	3310.23	2417.95	26.2	-8.6
KSE 100 (Pakistan)	9741.23	9575.13	9667.17	-19.01	-0.2	3	9954.41	5557.92	71.1	-5.9
Manila Composite (Philippines)	3031.26	2985.09	3031.26	50.12	1.68	-0.7	3121.91	1759.33	61.2	-3.7
Straits Times (Singapore)	2774.09	2743.03	2749.15	-12.99	-0.47	-5.1	2933.53	1456.95	70	-5.3
Kospi (South Korea)	1621.84	1582.22	1587.51	-25.32	-1.57	-5.7	1722.01	1018.81	50.5	2.6
Colombo Stock Exchange (Sri Lanka)	3796.18	3775.5	3782.25	6.74	0.18	11.7	3789.37	1612.33	122.7	8.2
Weighted (Taiwan)	7568.42	7400.42	7426.96	-102.71	-1.36	-9.3	8356.89	4425.83	64.4	-1.7
SET (Thailand)	721.97	712.88	717.1	1.92	0.27	-2.4	751.86	411.27	66	1.3
Europe										
DJ Stoxx 600 (Europe)	248.01	242.83	243.29	-3.93	-1.59	-3.9	260.26	157.97	38.1	-13.9
DJ Stoxx 50 (Europe)	2493.31	2439.16	2444.53	-41.63	-1.67	-5.2	2634.1	1614.75	35	-13.8
DJ Euro Stoxx 50 (Euro zone)	2743.81	2677.21	2684.42	-50.53	-1.85	-9.5	3017.85	1809.98	32.8	-14.2
DJ Euro Stoxx (Euro zone)	258.26	252.39	252.91	-4.53	-1.76	-8	281.41	169.38	35	-15.1
ATX (Austria)	2498.47	2425.25	2440.58	-57.61	-2.31	-2.2	2752.39	1411.95	64.6	-18.9
Bel-20 (Belgium)	2512.5	2474.39	2480.65	-34.29	-1.36	-1.2	2606.93	1527.27	46.9	-18
PX 50 (Czech Republic)	1142.1	1125.8	1126	-12	-1.05	0.8	1220.3	631	75.2	-12.9
OMX Copenhagen (Denmark)	336.07	331.33	332.3	-3.72	-1.11	5.3	338.47	193.26	47.6	-9.9
OMX Helsinki (Finland)	6702.97	6596.38	6606.14	-83.85	-1.25	2.3	6801.35	4110.31	48.6	-14.2
CAC 40 (France)	3724.69	3633.81	3640.77	-74.91	-2.02	-7.5	4045.14	2519.29	32.6	-14
DAX (Germany)	5655.75	5518.27	5532.33	-83.18	-1.48	-7.1	6048.3	3666.41	40.3	-7.5
BUX (Hungary)	20798.03	20414.16	20621.53	-2.14	-0.01	-2.9	22981.48	9461.29	98.5	-5.1
FTSE MIB (Italy)	21347.67	20780.5	20843.23	-503.08	-2.36	-10.3	24425.98	12621	33.1	-21.1
AEX (Netherlands)	321.41	314.55	314.85	-6.07	-1.89	-6.1	343.03	199.25	40.8	-14.9
All-Shares (Norway)	399.67	391.04	391.15	-8.52	-2.13	-6.9	434.23	239.48	48.1	-9.1
WIG (Poland)	38554.17	37796.34	37949.49	-497.66	-1.29	-5.1	41617.21	21690.75	73.1	-12
PSI 20 (Portugal)	7569.83	7428.18	7445.76	-123.49	-1.63	-12	8882.69	5743.09	24.6	-14.9
DJ Russia Titans 10 (Russia)	5308.93	5179.45	5179.45	-141.85	-2.67	-7.1	5929.42	2851.77	75.5	-8.5
RTS Index (Russia)	1399.63	1363.96	1373.11	-28.37	-2.02	-3.8	1581.09	539.37	150.8	-10.8
IBEX 35 (Spain)	10312.4	10047.2	10126.2	-127.8	-1.25	-15.2	12222.5	6817.4	29.6	-11.8
SX All Share (Sweden)	300.78	296.51	297.37	-1.76	-0.59	-0.7	309.79	186.58	49.9	-9.2
Swiss Market (Switzerland)	6701.06	6614.64	6643.96	-43.99	-0.66	1.5	6709.68	4307.67	39.3	-10.5
Istanbul National 100 (Turkey)	50645.46	48080.16	48739.43	-920.13	-1.85	-7.7	55526.01	23035.95	101.7	3.8
FTSE 100 (U.K.)	5370.4	5259.7	5278.22	-64.7	-1.21	-2.5	5538.1	3512.1	34.8	-6.2
FTSE 250 (U.K.)	9365.06	9223.56	9226.94	-132.24	-1.41	-0.9	9726.44	5769.79	50.7	-7.4
Americas										
DJ Americas (Americas)	293.1	287.76	292.49	-0.57	-0.19	-1.3	305.67	172.41	52.6	-7
Merval (Argentina)	2237.22	2188.46	2211.7	-80.52	-3.51	-4.7	2401.75	930.12	117.3	0.1
Sao Paulo Bovespa (Brazil)	66324.75	64428.97	66121.04	326.27	0.5	-3.6	70729.34	36234.69	73.2	12.8
S & P/TSX Comp (Canada)	11637.44	11420.96	11631.44	109.61	0.95	-1	11953.83	7566.94	42.1	-4.5
Santiago IPSA (Chile)	3814.92	3777.97	3787.71	-27.21	-0.71	5.8	3860.71	2360	50.5	9.1
IPC All-Share (Mexico)	31777.38	31396.78	31649.1	-139.44	-0.44	-1.5	33064.57	16929.8	75.4	3.6
Caracas General (Venezuela)	57005.91	56257.35	56613.09	-392.82	-0.69	2.8	60299.4	36838.44	53	4.5
Other Countries										
CASE 30 (Egypt)	6719.99	6668.72	6719.35	111.15	1.68	8.2	7249.55	3517.33	86.8	-3
Tel Aviv (Israel)	1178.54	1159.61	1159.61	-12.73	-1.09	1.3	1179.12	637.5	74.1	5.2
Johannesburg All Share (South Africa)	26968.69	26616.45	26731.85	-201.23	-0.75	-3.4	28346.78	18120.69	40.7	-0.1

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

Three year percent change is annualized.

Sources: Reuters; WSJ.com

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