



Weekly Market Insight

February 19, 2010

NORTH AMERICAN & INTERNATIONAL ECONOMIC HIGHLIGHTS

Can Investors Read?

By Avery Shenfeld

Judging by the market's reaction to the US Fed's move to raise the discount rate, we wonder whether it's worth putting our thoughts into print. Because on some days at least, market participants can't read. Thursday was such a day, as markets reacted to a Fed hike in the discount rate that had been well telegraphed, and carefully laid out as a minor technical move.

In a speech released on February 10, Bernanke advised that "before long we expect to consider a modest increase in the spread between the discount rate and the target federal funds rate," adding that such a move would not raise interest rates for private sector borrowers, and that it "should NOT be interpreted as signalling ANY change in the outlook for monetary policy (emphasis added)" He then referenced the policy description from the January FOMC, at which time the Fed was pledging to keep rates extremely low for an "extended period."

To underscore that point, the Fed tried to give market the time to digest the news by announcing the hike in the discount rate after regular trading hours. It used the accompanying statement to reiterate that this didn't represent a tightening in monetary policy today, or a signal about a future tightening to come.

Yet despite all that, even after a rare monthly decline in core CPI prices released the following morning, short term yields were still higher, and the US\$ stronger, than just prior to the announcement.

Why raise the discount rate? Simply to restore the discount window to its typical status as penalty-rate credit for banks unable to tap the regular interbank overnight fed funds market. Indeed, we could see a second move in the coming months, as historically the discount rate traded at 100 bps over the funds rate. The penalty for using the discount window is deliberate, and it is therefore intended to be used only rarely. Indeed, even without the typical penalty in place, "primary credit" from the Fed now accounts for only \$14 bn of the \$2.3 trillion in Fed assets (which create currency and reserves for the banking system).

The spread was compressed during the financial crises as a part of a portfolio of measures, including the Term Auction Facility (TAF), to ease a liquidity crisis that had pushed short term bank funding costs well above the Fed's overnight target. It was equally unusual for the Fed to provide term credit at rates nearly on top of the funds rate, so this week's announcement also raised the TAF spread to something closer to the typical term structure difference between overnight and three-month funds.

So what did this past week's moves tell us? Nothing more than what the naked eye can already see in the now nearly-normalized spread between month treasuries and eurodollars. Banks need much less help from the Fed in terms of short term funding, because prevailing market rates are in line with the fed funds target, the true measure of Fed policy. The steps this week say nothing about when the Fed will raise the funds target. Don't take it from me, you can read it in the Fed's statement. Looking at today's CPI figures, and a still chasmal output gap, the "extended" waiting game for that move should take us into 2011.

Market Snapshot

US	Current*	yesterday*	a week ago*	a month ago*	a year ago
TED SPREAD (bps)	16	16	17	21	96
10Y / 2Y SPREAD (bps)	288	290	286	279	182
2Y SWAP SPREAD (bps)	30	29	29	30	66
3M T-Bill (%)	0.09	0.09	0.08	0.04	0.29
LIBOR 1 MONTH (%)	0.23	0.23	0.23	0.23	0.47
LIBOR 3 MONTH (%)	0.25	0.25	0.25	0.25	1.25
2-YR BOND (%)	0.92	0.83	0.82	0.83	0.97
5-YR BOND (%)	2.47	2.37	2.32	2.36	1.78
10-YR BOND (%)	3.80	3.73	3.68	3.62	2.79
A Rated / 10Y TREASURY (bps)	159	161	162	152	374
B Rated / 10Y TREASURY (bps)	519	514	501	477	1195
BB Rated / 10Y TREASURY (bps)	405	404	399	388	913
CANADA					
PRIME / BA SPREAD (bps)	185	185	185	185	205
CDOR 3 MONTH (%)	0.41	0.41	0.41	0.45	1.48
CDOR 3 MONTH / 3M T-BILL SPREAD (bps)	25	25	24	29	76
10Y / 2Y SPREAD (bps)	212	214	213	221	187
2-YR BOND (%)	1.39	1.36	1.34	1.19	1.22
5-YR BOND (%)	2.59	2.55	2.53	2.50	2.06
10-YR BOND (%)	3.52	3.49	3.47	3.40	3.09
A Rated / 10Y TREASURY (bps)	98	102	103	103	352
BBB Rated / 10Y TREASURY (bps)	162	163	164	166	434
CAN Sovereign Agency / 10Y TREASURY (bps)	34	35	37	35	72
Provincial / 10Y TREASURY (bps)					
ALTA	59	60	62	55	137
BC	76	77	81	75	154
MAN	69	72	80	74	157
NB	72	73	76	70	155
PEI	104	104	108	102	169
NFLD	101	103	106	105	188
ONT	85	88	92	91	178
QUE	92	94	99	99	175
SASK	86	88	91	92	159
NS	79	84	88	84	169
COMMODITIES					
WTI CRUDE FUTURE (US\$ / bbl.)	78.8	77.5	73.4	75.5	38.9
NATURAL GAS (US\$ / MMBtu)	5.1	5.3	5.3	5.8	4.0
SILVER (US\$ / t oz.)	16.0	16.1	15.4	17.1	14.5
GOLD (US\$ / t oz.)	1113.0	1107.7	1085.6	1087.8	1001.8
WHEAT (US¢ / bu.)	482.3	492.0	485.0	495.3	519.3
SOYBEANS (US¢ / bu.)	942.0	951.8	933.3	952.5	862.5
SUGAR (US¢ / lb.)	26.4	26.2	27.1	28.7	12.7
CORN (US¢ / bu.)	356.8	358.5	360.3	367.8	350.3
FX					
C\$ / US\$	1.049	1.043	1.053	1.055	1.252
US\$ / EURO	1.349	1.361	1.364	1.413	1.283
C\$ / EURO	1.414	1.420	1.435	1.491	1.606
YEN / US\$	91.850	90.640	89.980	90.200	93.350
US\$ / BRITISH POUND	1.539	1.561	1.565	1.611	1.443
SWISS FRANCS / US\$	1.086	1.078	1.074	1.041	1.156

* As of 11:00 a.m.

Note: Data is for reference only.

International Stock Indexes

Thursday, February 18, 2010

Index (Region/Country)	DAILY					52 WEEK					3-yr % chg
	High	Low	Close	Chg	% Chg - +	YTD % chg	High	Low	% Chg		
Global											
The Global Dow (World)	1907.99	1893.4	1907.88	6.42	0.34	-3.9	2047.33	1139.9	45.8	-5.2	
The Global Dow (Euro) (World)	1319.99	1311.16	1318.46	7.24	0.55	1.2	1337.88	849.42	35.8	-6.4	
DJ Global Index (World)	220.95	219.28	220.93	0.76	0.35	-2.6	234.99	130.29	48.7	-8.5	
DJ Global ex U.S. (World)	192.75	191.13	192.72	0.25	0.13	-4.2	209.06	111.8	52.3	-8.7	
MSCI EAFE* (World)	n.a.	n.a.	1505.76	2.86	0.19	-4.7	1642.2	911.39	43.7	-11.4	
Asia Pacific											
DJ Asia-Pacific (Asia-Pacific)	120.78	120.02	120.35	-0.41	-0.34	-2.2	129.57	73.76	48.9	-7.7	
All Ordinaries (Australia)	4692.6	4655.4	4673.9	-12.92	-0.28	-4.3	4981.2	3111.7	37.5	-7.7	
S & P/ASX 200 (Australia)	4673.1	4633.4	4654.91	-12.95	-0.28	-4.4	4950.7	3145.5	35	-7.9	
DJ CBN China 600 (China)	26855.19	26572.54	26845.32	...	Closed	-7.6	29890.92	17495.25	41.6	8.7	
Dow Jones China 88 (China)	270.91	268.34	270.65	...	Closed	-10.2	327.69	187.07	34.6	4.1	
Shanghai Composite (China)	3018.86	2993.44	3018.13	...	Closed	-7.9	3471.44	2071.43	35.5	0.2	
Hang Seng (Hong Kong)	20569.61	20381.3	20422.15	-111.86	-0.54	-6.6	22943.98	11344.58	56.8	-0.2	
Bombay Sensex (India)	16452.51	16287.17	16327.84	-101.07	-0.62	-6.5	17701.13	8160.4	80.6	4.4	
Jakarta Composite (Indonesia)	2581.44	2550.53	2560.03	-21.31	-0.83	1	2667.27	1256.11	93.4	12.6	
Nikkei 300 (Japan)	185.02	183.89	184.39	-0.08	-0.04	-0.4	197.22	140.76	21.2	-19.7	
Nikkei Stock Avg (Japan)	10340.38	10285.05	10335.69	28.86	0.28	-2	10982.1	7054.98	36.8	-16.7	
Topix Index (Japan)	907.36	902.35	904.73	0.1	0.01	-0.3	975.59	700.93	20.4	-20.1	
Kuala Lumpur Composite (Malaysia)	1262.2	1258.25	1259	-0.07	-0.01	-1.1	1308.36	838.39	40	-0.1	
NZSX-50 (New Zealand)	3115.44	3098.96	3101.77	-9.29	-0.3	-4	3310.23	2417.95	18.5	-9.5	
KSE 100 (Pakistan)	9947.1	9880.28	9889.3	22.21	0.23	5.4	9954.41	5557.92	64.2	-4.6	
Manila Composite (Philippines)	3022.42	2985	2999.94	-18.73	-0.62	-1.7	3121.91	1759.33	57.9	-3.5	
Straits Times (Singapore)	2790.25	2759.07	2769.19	-24.87	-0.89	-4.4	2933.53	1456.95	70	-4.4	
Kospi (South Korea)	1631.71	1618.81	1621.19	-6.24	-0.38	-3.7	1722.01	1018.81	46.4	3.8	
Colombo Stock Exchange (Sri Lanka)	3764.68	3720.74	3732.77	11.65	0.31	10.3	3789.37	1612.33	116.5	7.4	
Weighted (Taiwan)	7496.34	7404.97	7441.84	...	Closed	-9.1	8356.89	4425.83	64.3	-1.6	
SET (Thailand)	701.69	694.79	695.66	-1.83	-0.26	-5.3	751.86	411.27	57.5	0.4	
Europe											
DJ Stoxx 600 (Europe)	249.23	247.03	249.14	1.45	0.59	-1.6	260.26	157.97	35.9	-13.2	
DJ Stoxx 50 (Europe)	2512.24	2486.46	2510.99	16.37	0.66	-2.6	2634.1	1614.75	33.1	-13.1	
DJ Euro Stoxx 50 (Euro zone)	2781.31	2749.43	2778.3	16.05	0.58	-6.3	3017.85	1809.98	31.4	-13.2	
DJ Euro Stoxx (Euro zone)	260.94	258.36	260.79	1.36	0.52	-5.1	281.41	169.38	32.6	-14.2	
ATX (Austria)	2562	2528.49	2562	26.02	1.03	2.7	2752.39	1411.95	69.3	-17.3	
Bel-20 (Belgium)	2518.41	2497.58	2518.41	5.57	0.22	0.3	2606.93	1527.27	41.2	-17.8	
PX 50 (Czech Republic)	1150.4	1137.1	1141.5	-11	-0.95	2.2	1220.3	631	73.7	-12.5	
OMX Copenhagen (Denmark)	336.44	334.03	336.44	1.13	0.34	6.6	338.47	193.26	43.5	-10.1	
OMX Helsinki (Finland)	6661.43	6602.84	6659.46	42.69	0.65	3.1	6801.35	4110.31	39.6	-13.8	
CAC 40 (France)	3752.05	3711.31	3747.83	22.62	0.61	-4.8	4045.14	2519.29	30.5	-13.1	
DAX (Germany)	5691.6	5626.08	5680.41	32.07	0.57	-4.6	6048.3	3666.41	34.8	-6.5	
BUX (Hungary)	21548.08	21338.22	21374.66	-279.33	-1.29	0.7	22981.48	9461.29	100.7	-4.1	
FTSE MIB (Italy)	21748.84	21541.45	21686.12	35.31	0.16	-6.7	24425.98	12621	31.4	-20.3	
AEX (Netherlands)	324.53	321.28	324.3	1.17	0.36	-3.3	343.03	199.25	36.4	-13.8	
All-Shares (Norway)	399.31	393.78	399.29	3.11	0.78	-5	434.23	239.48	49.2	-8.5	
WIG (Poland)	38838.68	38530.41	38586.52	-304.19	-0.78	-3.5	41617.21	21422.92	73.8	-10.5	
PSI 20 (Portugal)	7671.03	7555.09	7653	70.36	0.93	-9.6	8882.69	5743.09	24.3	-14.2	
DJ Russia Titans 10 (Russia)	5360.04	5271.4	5341.17	-34.37	-0.64	-4.2	5929.42	2721.57	91	-6.9	
RTS Index (Russia)	1418.38	1396.85	1410.85	-11.12	-0.78	-1.1	1581.09	517.22	156.9	-9.4	
IBEX 35 (Spain)	10574.2	10417.9	10574.2	75.6	0.72	-11.4	12222.5	6817.4	34.3	-10.7	
SX All Share (Sweden)	299.36	297.26	299.33	1.1	0.37	-0.1	309.79	186.58	46.6	-8.9	
Swiss Market (Switzerland)	6638.22	6572.67	6637.29	69.69	1.06	1.4	6637.29	4307.67	33	-10.8	
Istanbul National 100 (Turkey)	52951.07	52085.1	52449.8	-823.5	-1.55	-0.7	55526.01	23035.95	114.6	6.3	
FTSE 100 (U.K.)	5326.4	5261.7	5325.09	48.45	0.92	-1.6	5538.1	3512.1	32.5	-6	
FTSE 250 (U.K.)	9385.27	9305.15	9385.27	55.35	0.59	0.8	9726.44	5769.79	50.9	-6.7	
Americas											
DJ Americas (Americas)	295.05	292.21	294.73	2.08	0.71	-0.6	305.67	172.41	49.1	-6.8	
Merval (Argentina)	2334.44	2311.16	2334.44	13.77	0.59	0.6	2401.75	930.12	119.1	2.9	
Sao Paulo Bovespa (Brazil)	67836.08	66550.09	67836.08	551.52	0.82	-1.1	70729.34	36234.69	70.7	14	
S & P/TSX Comp (Canada)	11712.3	11618.59	11694.84	59.35	0.51	-0.4	11953.83	7566.94	42.9	-4.2	
Santiago IPSA (Chile)	3868.09	3847.21	3859.96	-0.75	-0.02	7.8	3860.71	2360	46.8	7.5	
IPC All-Share (Mexico)	32216.94	31695.63	32170.79	278.67	0.87	0.2	33064.57	16929.8	72.2	4.1	
Caracas General (Venezuela)	58283.66	56631.05	56632.59	-588.26	-1.03	2.8	60299.4	36838.44	49	5	
Other Countries											
CASE 30 (Egypt)	6953.47	6860.7	6860.7	-113.03	-1.62	10.5	7249.55	3473.53	91.3	-1.6	
Tel Aviv (Israel)	1169.57	1162.4	1165.96	-2.25	-0.19	1.8	1179.12	637.5	69.3	n.a.	
Johannesburg All Share (South Africa)	27280.58	26916.22	27280.58	88	0.32	-1.4	28346.78	18120.69	36	1	

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

Three year percent change is annualized.

Sources: Reuters; WSJ.com

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